THE ECONOMICS OF THE U.S. MOTION PICTURE INDUSTRY

by

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The final version has been prepared after the Conference and it incoporates the conclusions which emerged from it.

Thus, the provisional version was a contribution to the Conference, which in turn brought its a contribution to this, the final version.

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I would like to acknowledge the particular assistance in the preparation of this preliminary report of David Gordon and Thomas Guback who gratiously shared both their wide knowledge and their files.

In particular Thomas Gubaok's reoently oompleted long essay on "Theatrical Film" in Who Owns the Media? ed. Ben Compaine and published by Knowledge Industry Publications, White Plains, New York 1979 is the best available and most authoritative overview of the structure of the U.S. Motion Picture Industry to-day.

I would also like to stress the value of Christopher Sterling and Timothy Haight ed Mass Media: Aspen Institute Guide to Communication Industry Trends, both as a source of collected data and for its discussion of the problems that the available data or lack of such data presents to researchers.

I would also like to thank Simon Hartog for his general assistance and in particular for drawing my attention to the article by William Victor Strauss on "Foreign Distribution of American Motion Pictures" in the Harvard Business Review No. 8, April 1930.

SECTION 1. THE STRUCTURE OF THE U.S. MARKET AND ITS POSITION IN THE WORLD MARKET

The film industry in the United States is dominated by a small group of Production/Distribution Companies, the so-called Majors; Columbia, 20th Century Fox, MGM, United Artists, Warner Bros., Paramount and Universal, all of whom are members of the Motion Picture Association of America (MPAA). In addition there are four so-called mini-Majors; Allied Artists and Avco Embassy, who are members of the MPAA and Disney (whose distribution arm is called Buena Vista) and American International Pictures (AIP) who are not.

The extent of their domination of both the US domestio market, but also of the world market is illustrated in Table 1 and Table 1a.

The concentration of the control is even greater than these figures show since MGM films are distributed in the US market by United Artists and internationally by Cinema International Corporation, which is a company that combines the international distribution business of Paramount and Universal, while outside the US Columbia-Warner operates as a joint company and in several territories distributes with Fox, eg Australia. The result is that internationally the market is dominated by four distribution companies [redacted].

When we talk of the US film industry we must hink not only of feature films for oinema exhibition, but of the production and distribution of filmed entertainment. All the majors are now heavily involved in production for TV. See Table 2.

TABLE 1

MAJOR COMPANY PERCENTAGE OF U.S.-CANADIAN MARKET RECEIPTS FOR FILMS EARNING RENTALS OF $1 MILLION OR MORE 1970 - 78

	1970	1971	1972	1973	1974	1975	1976	1977	1978
	%	%	%	%	%	%	%	%	%
Columbia	14.1	10.2	9.1	7.0	7.0	13.1	8.3	11.5	11.6
M.G.M.	3.4	9.3	6.0	4.6	a	a	a	a	a
Paramount	11.8	17.0	21.6	8.6	10.0	11.3	9.6	10.0	23.8
20th Century Fox	19.4	11.5	9.1	18.8	10.9	14.0	13.4	19.5	13.4
United Artists	8.7	7.4	15.0	10.7	8.5	10.7	16.2	17.8	10.3
Universal	13.1	5.2	5.0	10.0	18.6	25.1	13.0	11.5	16.8
Warner Bros.	5.3	9.3	17.6	16.4	23.2	9.1	18.0	13.7	13.2
TOTAL TOP 7	75.8	69.9	83.4	76.1	78.2	83.3	78.5	84.0	89.1
Buena Vista	9.1	8.0	5.0	6.5	7.0	6.0	6.7	5.6	4.8
American Int..					3.8	3.4	3.8	3.4	1.4
TOTAL TOP 9	84.9	77.9	88.4	82.6	89.0	92.7	89.0	93.0	95.3

* a Distributed by United Artists since 1974

Source: Guback 1979 based on Variety editions - January 15 1975, February 11 1976, January 18 1978, January 10 1979.

TABLE 1a

MAJOR COMPANY PERCENTAGE SHARE OF FOREIGN RENTALS EARNED BY MPAA COMPANIES

	1972	1973	1974
	%	%	%
Columbia	12.0	10.5	14.0
M.G.M.	14.0	14.0	8.5
Paramount	14.5	14.0	10.0
20th Century Fox	16.5	16.0	12.0
United Artists	21.0	22.5	16.0
Universal	9.0	10.5	17.0
Warner Bros	13.0	12.5	22.5
TOTAL	100.0	100.0	100.0

TABLE 2

PROPORTION OF EARNINGS FROM FILM AND TV
FOR THE 10 MAJOR COMPANIES 1970-76

(in millions of dollars except last column)

Financial Year Ending		Receipts			TV Receipts as a percentage		Proportion of TV Receipts to each dollar of Theatre Receip
		Theatre Distribution	TV Distribution	Total	of TV and Theatre	of total Revenue	
ALLIED ARTISTS							
2 April	1976	$ 11.3	$ 5.3	$16.5	32.1%	32.1%	$ .47
	1975	10.5	.5	11.1	4.5	4.3	.05
30 June	1974	22.4	.6	23.4	2.7	2.6	.03
	1973	13.5	1.1	15.3	7.3	6.9	.08
	1972	7.3	.6	8.3	7.6	7.3	.08
	1971	1.9	.6	2.7	22.5	20.5	.29
	1970	5.9	.7	6.8	10.9	10.5	.12
AMERICAN INT.							
26 Feb.	1977	$ 41.8	$ 7.4	$51.1	15.0%	14.5%	$ .18
	1976	44.5	5.5	51.0	11.0	10.8	.12
	1975	40.4	5.5	46.9	12.0	11.7	.14
	1974	28.7	2.8	32.2	9.0	8.8	.10
	1973	21.8	2.5	25.3	10.0	9.7	.11
	1972	18.9	1.9	21.8	9.0	8.7	.10
	1971	17.6	3.4	22.4	10.0	15.3	.19
COLUMBIA							
26 June	1976	$152.2	$87.1	$332.1	36.4%	26.2%	$ .57
	1975	170.3	84.3	325.9	33.1	25.9	.50
	1974	111.3	80.6	256.6	42.0	31.4	.72
	1973	101.5	44.6	211.5	30.5	21.1	.44
	1972	110.0	72.2	242.2	39.6	29.8	.66
	1971	113.0	63.1	222.6	35.8	28.3	.56
	1970	137.9	58.7	242.1	29.9	24.3	.43
DISNEY							
30 Sept.	1976	$100.3	$18.8	$583.9	15.8%	3.2%	$ .19
	1975	98.8	13.7	520.0	12.2	2.6	.14
	1974	78.5	11.9	429.9	13.2	2.8	.15
	1973	66.5	9.6	385.1	12.7	2.5	.15
	1972	61.7	9.1	329.4	12.8	2.8	.15
	1971	57.1	8.0	175.6	12.3	4.6	.14
	1970	55.9	7.4	167.1	11.7	4.4	.13

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Financial Year Ending	Receipts			TV Receipts as a percentage		Proportion of TV Receipts to each dollar of Theatre Receipts
	Theatre Distribution	TV Distribution	Total	of TV and Theatre	of total Revenue	
MGM						
31 August 1976	$ 47.6	$ 57.4	$266.0	54.7%	21.6%	$ 1.21
1975	51.5	49.2	255.0	48.9	19.3	.96
1974	66.1	65.7	234.2	49.8	28.1	.99
1973	85.0	53.9	152.8	63.4	35.3	.63
1972	91.1	43.0	148.2	47.2	29.0	.52
1971	111.1	38.3	155.6	25.7	22.6	.35
1970	98.5	50.9	170.7	34.1	29.8	.52
PARAMOUNT						
31 July 1976	$152.0	$65.0	$451.4	30.0%	14.4%	$ .43
1975	175.0	52.0	368.3	22.9	14.1	.30
1974	103.0	63.0	298.1	38.0	21.1	.61
1973	120.0	50.0	277.5	29.4	18.0	.42
1972	142.0	43.0	291.0	23.2	14.8	.30
1971	139.0	44.0	278.7	24.0	15.8	.32
1970	101.0	54.0	240.9	34.8	22.4	.53
20TH CENTURY FOX						
25 Dec. 1976	$205.7	$ 49.2	$355.0	19.3%	13.9%	$ .24
1975	188.7	53.4	342.7	22.1	15.6	.28
1974	144.5	42.2	281.9	22.6	15.0	.29
1973	144.3	35.7	250.4	19.9	14.3	.25
1972	99.6	45.1	198.7	31.2	22.7	.45
1971	120.7	49.5	222.5	29.1	28.0	.41
1970	155.7	39.3	246.5	20.2	19.4	.25
UNITED ARTISTS						
31 Dec. 1976	$229.5	$ 55.5	$377.7	19.5%	14.7%	$ .24
1975	187.4	29.6	319.7	13.6	9.3	.16
1974	142.7	40.6	289.4	22.2	14.0	.29
1973	163.8	51.7	327.5	24.0	15.8	.32
1972	152.7	50.6	317.2	24.9	16.0	.33
1971	97.2	19.1	205.1	16.5	9.3	.20
1970	118.0	18.4	211.0	13.5	8.7	.16
UNIVERSAL						
31 Dec. 1976	$213.4	$249.7	$802.9	53.9%	31.1%	$1.17
1975	289.1	189.6	811.5	39.6	23.4	.65
1974	205.1	158.5	641.9	43.6	24.7	.77
1973	87.5	119.9	417.8	57.8	28.7	1.37
1972	61.9	127.3	345.9	67.3	36.8	2.06
1971	57.8	124.2	333.7	68.2	37.2	2.15
1970	96.7	110.0	333.5	53.2	33.0	1.14

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Financial Year Ending	Reoeipts			TV Receipts as a percentage		Proportion of TV Receipts tc each dollar of Theatre Receipts
	Theatre Distribution	TV Distribution	Total	of TV and Theatre	of total Revenue	
WARNER						
31 Dec. 1976	$221.6	$ 63.5	$826.8	22.3%	7.7%	$ .29
1975	202.3	53.6	669.8	26.5	8.0	.26
1974	275.5	43.5	720.1	13.6	6.0	.16
1973	152.7	56.7	549.6	27.1	10.3	.37
1972	144.3	49.0	498.6	25.4	9.8	.34
1971	86.3	38.0	377.1	30.6	10.1	.44
1970	64.2	50.7	295.1	44.1	17.2	.79

Source: Guback in Film Exchange No. 2 Spring 1978.

The Structure of the World Market

At this point it is necessary to present in broad outline the structure of the world market for filmed entertainment and to attempt to quantify the position of the US industry and of the Majors in particular within it. In so doing I shall at the same time outline the general problems relating to economic data in the international movie industry which must be taken into account when reading this study.

The difficulty of obtaining accurate financial data is notorious among those who have studied the US film industry. As David Gordon has put it "Facts are scarce; the absence of government assistance to the American film industry means that there is no government agency that collects figures on it and the trade association, the MPAA, is secretive". As Thomas Guback has remarked "The industry exercises a monopoly of knowledge and therefore is in a position to impose selective ignorance. The federal government collects and publishes data, but that is done less to give an investigator a view of the industry's structure and operation, and more to show how the industry fits in the general economy on the national, state and local levels. Furthermore, the privacy of private enterprise is preserved because no single company data are published by the government and no companies are identified by name".

We can illustrate the very real problems this raises if we attempt to examine the major sources of income from filmed entertainment of the Major US companies and also to work out the US share of the total world market. The figures available are difficult to interpret and are often incompatible even when they are from the same source because:

a) Different methods of accounting in different oompanies means that one can never be sure when TV revenue includes both sales of feature films to TV as well as material specially made for TV or oonversely when film rental revenue in fact includes sales to TV.

b) When foreign earnings are in question one does not know whether the earnings referred to are only repatriated earnings or the total earnings abroad of foreign subsidiaries nor is it clear whether foreign revenue is earnings on exports, ie. films made in the US or earnings on material produced abroad by US companies.

If we look at the way in which world income of the Majors is divided between film and TV and its total dimension, it is convenient to take 1976 because for that year we have a variety of different sources that we can compare. As can be seen from Table 2, Guback on the basis of company reports, computes total MPAA world revenue from TV at 632.7 million dollars for 1976.

In evidence to a Senate Committee in 1977, Jack Valenti, head of the MPAA, gave the following figures for MPAA members earnings:

> "700 million dollars for total export receipts of which more than two-thirds came from cinema exhibition. Thus foreign cinema market produces 49.5% of the total cinema rental income. The foreign TV market represents 23.4% of the hotal TV market".

Thus on the basis of Guback's figures, 23.4% of the total TV market would give us 146 million dollars for foreign TV receipts and 485 million dollars for US TV sales. Since the figures reported by the MPEAA to the US government for the same year and published in US Industrial Outlook give 152 million dollars for foreign TV receipts, we can assume that MPAA foreign TV receipts were in the order of 150 million dollars.

In the same MPEAA report total foreign earnings are given as 531 million dollars compared with Valenti's figure of 700 million dollars, while foreign cinema rental receipts are given as 399 million which added to their figure of 152 million for TV, does not add up to their total of 531 million dollars.

Let us therefore approach the figures for cinema receipts from another direction. Variety reported MPAA figures for 1976 film rental as 1,147 worldwide split between US 576 million dollars and foreign 571 million dollars. So far as one can tell this refers only to cinema receipts and since the proportions roughly tally with those given by Valenti, and further more if we add 150 million for foreign TV to 571 million we arrive at a figure of 720 million dollars, which is near enough to Valenti's total figure for foreign earnings, we can arrive at the following overall breakdown as the best available educated guess.

Table 3

World-Wide Earnings of MPAA Companies in 1976
(millions of dollars)

	Film	TV	Total
US	576	485	1061
Foreign	571	150	721
Total	1147	635	1782

What proportion is this of the world market? Once again we can only make an educated guess and this time the guess must be based on even less firm foundations. In 1969 the Film Daily Year Book estimated the world box-office at 3.75 billion dollars and the share of US films at 2 billion dollars. Although they did not say so this almost certainly refers to the non-socialist world.

Another source in 1973 in the ACTT Nationalization Report estimated world theatrical rental receipts at 1.28 billion dollars of which US films received 763 million, ie. roughly 60% and in the same year Valenti claimed in an MPAA publication over 50% of world screen time for US films.

Since we know that in Europe, which outside Canada is the major US market, in recent years US films have been taking an increasing proportion of the box-office receipts, this proportion is likely to have increased. At any rate for 1979 we have the following figures for the top ten foreign markets from whioh the US Majors receive 65% of their foreign earnings.

Table 4

US Earnings in Top Ten Markets in 1979
(millions of dollars)

	US Earnings	Total Distributors Gross
Canada	64	
Germany	52	81
Japan	49	
France	46	137
Italy	40	138
UK	36	58
Spain	29	80 (1976 figure)
Australia	26	
Brazil	21	
Mexico	17	

As can be seen where we have figures to compare, the US earnings represent a proportion ranging from 66% in Germany to 29% in Italy. However, if we take the Canadian market first, which represents the largest foreign market, since in the joint figures for the US/Canadian market the Majors plus Disney receive 94% of the film rental income, we can assume that the figure for Canada alone is in the region of 90%. Similarly, while the table above gives US earnings in Britain as 62% of the total, in fact in 1977 foreign films, mostly US, took 87% of the box-office and as the US majors also now distribute most British films as well, so the quoted earnings figure almost certainly only represents repatriated earnings. Similarly, for France, as Degrand has shown, while US films only take around 40% of the box-office, US distributors take around 60%. Thus it would seem to be a safe assumption that the US majors and mini-majors account for over 70% at a conservative estimate of non-socialist world gross film rentals from the cinema

It is also important to note that the production and distribution of filmed entertainment now only represents a part of the business of the dominant companies. Either the major film companies were taken over or merged with larger industrial and financial groups in the late 1960's (for reasons and with consequences that we will examine later) or they have themselves and are increasingly diversifying in order to lessen their dependency on the film and TV sector.

Warner was taken over by Kinney in 1969 and the resulting conglomerate changed its name to Warners Communications Inc. in 1971. Filmed entertainment now only represents about 32% of Warner's turnover. Paramount merged into Gulf and Western in 1966 and is now part of the Leisure Time Division of that conglomerate along with book and music publishing, race-tracks, Canadian cinemas, an electronic games manufacturing company and Madison Square Gardens. The entire division contributed only 22% of Gulf and Western's operating income in 1978.

United Artists was merged into the Transamerica Corporation in 1968, an insurance and financial giant. Over the last decade MGM has rapidly shifted its financial base from films to hotels and casinos so that in 1978 revenue from filmed entertainment represented less than 50% of total revenue. At the same time three companies which still remain predominantly filmed entertainment companies MCA (Universal), Columbia and 20th Century Fox, have been using their high cash flow from the recent film boon to finance rapid diversification. (See Table 5 and Appendix 1).

Thus control of the production and distribution of filmed entertainment is now closely integrated, often as only a minority and dominated partner, into a wider and deeper pattern of concentration, not only within the media and leisure industries in general, but within the wider financial and industrial sectors of a world economy increasingly dominated by large, multi-national enterprises. (See especially A. Mattelart "Multi-national Corporations and the Control of Cultures" and Guback 1979).

The film industry is commonly regarded as a risky business, a reputation that is not entirely unwarranted. The main purpose of this paper is to establish how, in such a business, a small group of companies established an oligo polistic dominance, not only over their US market, but also in the world market and have retained that position for over half a century, during which they have not only withstood the slings and arrows of both the US Anti-trust laws and the rise of TV, but have survived to experience in the last two or three years greater prosperity than ever. As a New York journalist said of the major film financiers "Gamblers they may be, fools they are not".

The continuity of the Majors' dominance is graphically illustrated by Table 6 and the fluctuations of their profitability by Table 7.

TABLE 5

FILM INCOME AS A PERCENTAGE OF SALES AND
NET OPERATING PROFIT OF THE EIGHT
MAJOR MOTION PICTURE PRODUCTION COMPANIES IN U.S.
1972 - 1976

S = Sales
P = Profit

	1972		1973		1974		1975		1976	
Company	S	P	S	P	S	P	S	P	S	P
	%	%	%	%	%	%	%	%	%	%
Columbia	75	N/A	68	N/A	61	N/A	52	N/A	52	N/A
Disney	24	60	22	37	21	41	22	40	20	36
M.C.A.	59	64	54	48	60	57	63	68	63	67
M.G.M.	94	80	95	80	61	43	46	34	46	30
Paramount	64	N/A	66	N/A	56	N/A	89	N/A	87	N/A
20th Century Fox	70	35	60	N/A	66	50	71	73	72	64
United Artists	64	94	65	98	N/A	N/A	N/A	N/A	N/A	N/A
Warner Bros.	38	32	38	43	44	62	38	46	34	33

Source: Sterling and Haight based upon Standard and Poor Industry Survey: Leisure Time, Basic Analysis for the relevant year

TABLE 6

MARKET CONCENTRATION AMONG THE
MAJOR FILM DISTRIBUTORS IN U.S. 1948 - 67

Year	Estimated Total U.S. Film Rentals from Theatres (in $ millions)	Estimated Share of Seven "Majors"	
		Amount (in $ millions)	Percentage
1948	378	288	76
1954	371	317	85
1958	415	272	66
1963	412	236	57
1967	503	354	74

Source: Sterling and Haight from Grandall (1975) p. 60 using data from Census of Business.

TABLE 7

MOTION PICTURE INDUSTRY CORPORATE PROFITS
AND DIVIDENT PAYMENTS
SELECTED YEARS 1930 - 77

Year	Corporate Profits: Pre-Tax ($ millions)	Corporate Profits: Post-Tax ($ millions)	Net Divident Payments ($ millions)
1930	51	42	33
1931	2	(2)	26
1932	(82)	(86)	10
1933	(40)	(43)	5
1934	2	(2)	7
1935	13	8	6
1940	51	37	18
1945	238	99	35
1950	112	60	38
1955	124	61	26
1960	49	1	22
1965	104	39	3
1970	93	8	10
1971	15	(29)	24
1972	1	(50)	17
1973	94	46	13
1974	190	116	31
1975	226	131	30
1976	426	311	53
1977	514	377	57

Source: Encyclopaedia of Exhibition 1978 reprinted in Guback (1979)

TABLE 7a

NET PROFITS AND LOSSES OF THE EIGHT MAJOR MOTION PICTURE PRODUCTION COMPANIES IN US 1932 - 1976

Note: All figures in millions of dollars. Losses in parentheses. After taxes and write-offs, before special credits.

Year	Columbia	Loew's/ MGM	Paramount[a]	20th Century Fox	United Artists[b]	Universal	Warner Bros.	Disney
1932	0.6	8.0	-	N/A[c]	N/A[c]	N/A[c]	(14.1)	N/A[c]
1933	0.7	4.3	-	1.7	N/A	(1.0)	(6.3)	N/A
1934	1.0	8.6	-	1.3	N/A	(0.2)	(2.5)	N/A
1935	1.8	7.5	-	3.1	N/A	(0.7)	0.7	N/A
1936	1.6	10.6	4.0	7.7	N/A	(1.8)	3.2	N/A
1937	1.3	14.3	6.0	8.6	N/A	(1.1)	5.9	N/A
1938	0.2	9.9	2.8	7.2	N/A	(0.5)	1.9	N/A
1939	0.0	9.5	2.8	4.2	N/A	1.2	1.7	N/A
1940	0.5	8.7	6.4	(0.5)	N/A	2.4	2.7	N/A
1941	0.6	11.0	9.2	4.9	N/A	2.7	5.5	(0.8)
1942	1.6	11.8	13.1	10.6	N/A	3.0	8.6	(0.2)
1943	1.8	13.4	14.6	10.9	N/A	3.8	8.3	0.4
1944	2.0	14.5	14.7	12.5	N/A	3.4	6.9	0.5
1945	1.9	12.9	15.4	12.7	N/A	4.0	9.9	0.4
1946	3.5	17.9	39.2	22.6	N/A	4.6	19.4	0.2
1947	3.7	10.5	28.2	14.0	N/A	3.2	22.0	0.3
1948	0.5	4.2[d]	22.6	12.5	N/A	(3.2)	11.8	(0.1)
1949	1.0	6.0	20.8[e]	12.4	N/A	(1.1)	10.5	(0.1)
1950	1.9	7.6	6.6	9.5	N/A	1.4	10.3	0.7
1951	1.5	7.8	5.5	4.3[f]	0.3	2.3	9.4	0.4
1952	0.8	4.6	5.9	4.7	0.4	2.3	7.2	0.5
1953	0.9	4.5	6.7	4.8	0.6	2.6	2.9[g]	0.5
1954	3.6	6.3	8.1	8.0	0.9	3.8	3.9	0.7
1955	4.9	5.0	9.4	6.0	2.7	4.0	4.0	1.4
1956	2.6	4.6	4.3	6.2	3.1	4.0	2.1	2.6
1957	2.3	(0.5)	5.4	6.5	3.3	2.8	3.4	3.6

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Year	Columbia	Loew's/ MGM	Paramount	20th Century Fox	United Artists	Universal	Warner Bros.	Disney
1958	(5.0)	0.8	4.6	7.6	3.7	(2.0)	(1.0)	3.9
1959	(2.4)	7.7	4.4	2.3	4.1	4.7	9.4	3.4
1960	1.9	9.6	7.0	(2.9)	4.3	6.3	7.1	(1.3)
1961	(1.4)	12.7	5.9	(22.5)	4.0	7.5	7.2	4.2
1962	2.3	2.6	3.4	(39.8)	3.8	12.7	7.6	6.6
1963	2.6	(17.5)	5.9	9.1	(0.8)	13.6	5.7	7.0
1964	3.2	7.4	6.6	10.6	9.3	14.8	(3.9)	7.0
1965	2.0	7.8	6.3	11.7	12.8	16.2	4.7	11.0
1966	2.0	10.2	N/A[h]	12.5	13.6	13.6	6.5	12.4
1967	6.0	14.0	N/A	15.4	15.5	16.5	3.0	11.3
1968	10.0	8.5	N/A	13.7	19.5	13.5	10.0	13.1
1969	6.0	(35.0)	N/A	(36.8)	16.2	2.5	(52.0)[j]	15.8
1970	6.0	(8.2)	(2.0)[k]	(77.4)	(45.0)	13.3	33.5	22.0
1971	(29.0)	7.8	(22.0)[k]	6.5	1.0	16.7	41.6	21.7
1972	(4.0)	9.2	31.2[k]	6.7	10.8	20.8	50.1	40.3
1973	(50.0)	2.1	38.7	10.7	14.0	25.6	47.4	N/A
1974	(2.3)	26.8	18.7	10.9	9.9	59.2	48.5[m]	48.5
1975	10.5[h]	31.8	29.9	22.7	11.5	95.5	9.1[o]	61.7
1976	11.5	31.9	49.6	10.7	16.0	90.2	61.2	74.6

Source: Sterling and Haight. Based for 1932 - 72 data on Jowett (1976) pp 483 - 484 using data from company reports and Moody's Industrial Manual. 1973 - 76 data: Moody's Industrial Manual and for United Artists Moody's Bank and Finance Manual.

Notes:

a) In reorganisation until 1936.

b) Not a listed oorporation until 1950.

c) Editorial insertion; does not appear in the original table.

d) Divorcement: Loew's Theatres hived off.

e) Divorcement:United Paramount theatres hived off, with profits of 16.7 million in 1948 and 17.6 million in 1949.

f) Divorcement: National Theatres hived off.

g) Divorcement: Stanley Warner hived off.

h) Bought by Gulf and Western; financial figures burned.

i) Bought by Transamerica Corporation.

j) Warner Bros. bought by Kinney Services, which changed its name to Warner Communications in 1971.

k) Operating loss profits.

l) Breakdown of Profits: records and music - 23.8 million; films - 15.8 million; publishing - 2 million; cable TV - 1.8 million.

m) Percentage breakdown of profits; 38% from theatrical films and 6% from TV films.

n) 5.2 million gain on exchange of debentures; total is net with deferred income tax.

o) Includes reduction in carrying value of investment in National Kinney Corporation.

Before recounting the historical development of that dominance and of its defence in order to see what lessons can be learnt from it, we need to look at the overall structure of the US domestic film industry today. As is the case in other sectors of the culture industry, the dominant firms maintain a dominating, but necessary and valuable relationship, with a large number of fragmented so-called 'independents' in both production and distribution. Not only do these myriad 'pilot fish' give the industry an appearance of diversity and competition, thus helping to at least mitigate public concern and pressure against oligopolistic control, but they also fulfill a valuable economic function by attracting risk capital and creative talent which the Majors can then exploit through their control of distribution. The independant but dependant sector fulfills the vital function of research and development, the overheads of which the Majors thus do not have to bear. (For the general importance of this function within the cultural industries see Miege et al. For the theory of oligopolistic control see Syklos-Labini).

Thus the 1972 US Government Census of Selected Service Industries gives the following breakdown of the total receipts and expenditures of the US Motion Picture Industry.

Table 8

Total Receipts and Expenditures of the US Motion Picture Industry

(in 000's of dollars)

	No. of Establishments	Total Receipts	Total Expenditure
Production			
Theatrical	1392	238517	N/A
TV	1138	464471	N/A
Distribution			
Theatrical	877	1381491	509045
TV	151	319648	190136
Services	855	389419	318957

Similarly if one looks at the number of films released each year in the US, the Majors have been consistently responsible themselves for less than 50% and in recent years nearer 40%. (See Tables 9 and 9a).

However to understand the position of the Majors within the US market, a number of factors need to be taken into account.

a) The Majors as production companies themselves produce and wholly finance a very small number of films each year, eg. Columbia's inventories for 1978 show 17 million dollars tied up in current releases and approximately the same amount in current production, while they released 25 films in 1977/78 and planned to release 23 in 1978/79. If one takes Columbia's own figures of an average of 5 million dollars per picture, they themselves could only be fully financing a maximum of 7 pictures.

b) In addition they wholly or largely finance a range of 'independent' productions which they then distribute. This financing is done by means of debt guarantees in return for which they receive the first share in any profits while not having to bear any excess overheads and while taking their 30% or more distribution fee off the top. Thus the independence of this independent production should not be exaggerated. As Variety has put it:

> "The latter day independent producer is typically dependent in the financial sense, receiving full financing from a distributor. Tax concepts and vanity combined in approximately equal measure to create the myths of the 'independent' producer".
>
> February 21 1973

TABLE 9

MOTION PICTURES RELEASED BY
NATIONAL DISTRIBUTORS 1930-1977

Year	New	Reissues	Total
1930			355
1935	388	3	391
1940	472	3	475
1941	497	7	504
1942	484	8	492
1943	426	6	432
1944	409	6	415
1945	367	8	375
1946	383	17	400
1947	371	55	426
1948	398	50	448
1949	406	85	491
Average 1940-49	421	25	446
1950	425	48	473
1951	411	28	439
1952	353	33	386
1953	378	36	414
1954	294	75	369
1955	281	38	319
1956	311	35	346
1957	363	19	382
1958	327	25	352
1959	236	18	254
Average 1950-59	338	36	374

/Cont'd........

Year	New	Reissues	Total
1960	233	15	248
1961	225	15	240
1962	213	24	237
1963	203	20	223
1964	227	15	242
1965	257	22	274
1966	231	26	257
1967	229	35	264
1968	241	17	258
1969	241	10	251
Average 1960-69	230	20	250
1970	267	39	306
1971	281	32	313
1972	279	39	318
1973	237	38	275
1974	229	45	274
1975	190	40	230
1976	187	30	217
1977	154	32	186
Average 1970-77	228	37	265

Source: MPAA as reprinted in Guback 1979.

TABLE 9a

MOTION PICTURES RATED BY THE
CLASSIFICATION AND RATING ADMINISTRATION 1965-1977

Year	Total	MPAA Companies
1965	191	175
1966	168	149
1967	215	206
1968	230	201
1969	325	171
1970	431	181
1971	513	177
1972	540	208
1973	584	185
1974	523	151
1975	459	123
1976	486	119
1977	378	95

Source: MPAA as reprinted in Gubaok 1979.

o) There is then a further sector of independent production that gets picked up by the major distributors after completion or at least after production finance has been raised and while production is in progress, for distribution either within the US for for distribution abroad having been distributed independently in the US market.

d) There is a further complication as regards imported films. Not only are the statistios inconsistent owing to the different reporting methods used, but we need to distinguish, which no available statistics do, between so-called "runaway" production, i.e. US financed films made abroad, and films produced abroad by foreign companies and subsequently imported into the US. Within the "runaway" production we need to distinguish between those films financed abroad by the Majors and those made by the independents. (see Tables 10 and 11).

e) Then there is a further sector of independent production for specialised markets which owing to the size and competitiveness of the US exhibition sector is truly independent of the Majors, eg. Nature films, soft-porn, etc.

When all these factors are taken into account, Variety estimated in 1976 that the independent production/distribution sector, ie. excluding the Majors and Mini-majors involved a production investment of 100 million dollars, produced 300 films, but was struggling for 10 - 15% of the box office.

TABLE 10

MAJOR/MINOR SHARE OF FEATURE PRODUCTIONS 1968-72
US MADE AND IMPORTED

	1968	1969	1970	1971	1972
Major/Minor:					
US Made	90	87	73	66	74
Foreign Made	110	84	62	42	52
Independent:					
US Made	20	31	64	77	107
Foreign Made	13	24	37	71	63
Total US	169	118	137	143	181
Total Foreign	123	108	99	113	115

Source: Variety January 1973

TABLE 11

NUMBER, PERCENTAGE AND DISTRIBUTION SOURCE OF IMPORTED FEATURE FILMS RELEASED IN THE US MARKET 1927-1972

Year	No. of Films Imported	Percentage of all Releases in US	Source of Imported Films: Major US Distributors	Independent US Distributors
		%		
1927	65	8.7	9	56
1928	193	21.8	83	160
1929	145	20.5	14	181
1930	86	14.5	6	86
1931	121	19.5	17	104
1932	196	28.6	18	178
1933	137	21.3	21	116
1934	182	27.5	11	171
1935	241	31.5	16	225
1936	213	29.0	14	199
1937	240	30.8	15	225
1938	314	40.8	16	298
1939	278	37.0	21	297
1940	196	29.1	15	181
1941	106	17.7	11	95
1942	45	8.4	12	33
1943	30	7.0	10	20
1944	41	9.3	8	33
1945	27	7.2	6	21
1946	89	19.1	13	76
1947	118	24.3	10	108
1948	93	20.3	23	70
1949	123	25.7	10	113

/Cont'd.........

Year	No. of Films Imported	Percentage of all Releases in US	Source of Imported Films: Major US Distributors	Source of Imported Films: Independent US Distributors
		%		
1950	239	38.1	21	218
1951	263	40.2	43	220
1952	137	34.5	26	113
1953	190	35.6	16	174
1954	174	40.7	28	146
1955	138	35.2	26	112
1956	207	43.2	27	180
1957	233	43.7	48	185
1958	266	52.5	63	203
1959	252	57.4	41	211
1960	233	60.2	65	168
1961	331	71.6	64	267
1962	280	65.6	60	220
1963	299	71.2	56	243
1964	295	71.9	58	303
1965	284	61.2	69	230
1966	295	65.4	56	239
1967	284	61.5	70	214
1968	274	60.4	74	195
1968a	123	-	-	-
1969	108	43.0	-	-
1970	99	32.4	-	-
1971	111	35.5	-	-
1972	103	33.0	-	-

Source: Sterling/Haight drawn from 1927 - 68 data: Film Daily Yearbook 1969
1968 (second) - 1972 data: Variety estimates, quoted in Office of Telecommunications Policy, Analysis of the Cause and Effects of Increase in Same - Year Programming and Related Issues in Prime-Time Network Television (1973), table 15.

*a The different sources for pre and post 1968 date are the probable explanation for the marked drop in import totals beginning with the second set of 1968 figures.

SECTION 2. WHY THE MAJORS DOMINATE? A Historical and Economic Analysis

The Movie Industry as an Economic System

The reason for the dominanoe of the Majors lies in the nature of the movie business and in the strategio position in that business occupied by distribution. It is easy to overlook and misunderstand the nature of distribution beoause to ordinary members of the public (as well as to many specialist writers on film who should know better), film is mainly associated either with the experience of watching films in a cinema (or increasingly on TV) or with all that the word Hollywood represents in popular mythology, the glamour of the stars, big-name directors, flamboyant producers eto. that surrounds produotion, while distribution appears to be a mundane and meohanioal funotion of linkage. Nothing oould be further from the truth. If we want to examine 'the real relations' of the movie business rather than 'its phenomenal form' it is upon distribution that it is necessary to focus.

Although competition is one of the essential mechanisms of capitalist reproduction, that very mechanism, preoisely because it is in the interest of each individual capital to suppress competition, produces, as is well known, a tendency to monopoly. This tendency is exaggerated in the movie business beoause of its specific characteristics. In order to understand those characteristics it is first useful to examine schematically the circuit of capital specific to the cinema industry (ie excluding for the moment TV) upon which historically the existing structure of the international film business is based.

The problem in this circuit is how to establish a viable linkage between Production on the one hand and Exchange (ie. exhibition) on the other. Production involves high levels of investment (relative to the cost to the ultimate consumer, the ticket price) in a heterogenious, highly perishable product, for which demand (for each individual unti of production) is uncertain. Exhibition involves the projection of that product to relatively small numbers of people in geographically scattered locales paying individually small sums that bear no neoessary relationship to either the cost or the quality of the film. Beyond a oertain point economies of scale and increases in productivity could not be attained in production. Moreover, historically they could only be maximised within these limits, as they were in the heyday of the Studios in the 1930s and 1940s, when oontrol over exhibition ensured a steady and predictable FLOW of product and thus allowed the utilization of the techniques of classic, mass, factory production.

However, because of this limit on productivity in production, there was and is always a premium on both expanding the audience to the maximum possible for each unit of production and in making the flow of money from the widely scattered box-offices back into production as efficient (in terms of the overhead costs of the distribution/ exhibition system) and as rapid as possible (thus acoelerating the turnover time of capital). This explains both the very early oligopolistic control over the world market established by the US industry and, also the tendency also established earlier, to amortize production investment over a very short release period.

As Strauss put it in the Harvard Business Revue in 1930:

> "Once the original expenditures connected with the production of the picture have been incurred, no further costs other than those of distribution and exploitation must be met, whether the picture is exhibited in ten, or ten thousand playhouses.....

When a producer of motion pictures, therefore, increases his customers for any given film from two thousand theatres to four thousand theatres of the same grade, he may increase his net revenue a dozen times or more; for there is a reduction of 50% in the costs of production that must be charged against the revenue from each of the theatres in which the picture is shown.

It follows that in the motion picture industry, more perhaps than in any other, there is no factor so important as wide distribution .... This is not only true within the domestic market but holds with equal force in considering the advisability of attempting to obtain world-wide distribution for the pictures produced by any company, whatever the nationality of the producing company itself..... In the absence of legislative restrictions on the importation of motion pictures, therefore, or of differences in civilizations and customs which would make a film unsuitable for certain markets, the natural tendency in the industry is to obtain world-wide distribution for all pictures produced".

The result of this tendency allied to the natural advantages of the US industry lead, as Strauss himself pointed out, to the US industry capturing between 75% and 85% of the European market in the 1920s.

As to the second point Howard Lewis stated in his study of The Motion Picture Industry published in 1933 that:

"It is claimed that 40% of the total revenue of all pictures is secured from the first run showing in 100 key centres and that about 50% of the total revenue of a picture is obtained within the first 90 days".

Thus the characteristics of the contemporary industry that we shall be examining are deeply rooted historically in the specific nature of the movie business.

We can present the resulting capital flow in the following way, based upon a presentation made by A.H. Howe when he retired as Vice President of the Bank of America in Los Angeles, after a career as one of the leading bankers to the US movie industry. This presentation was in 1971 (see "A Banker Looks at the Picture Business" Journal of the Screen Producers Guild, June 1971)

		(1979)
Annual World-Wide Box-Office	2 billion dollars	(6.3 billion)
Film Rental Share 30%	600 million dollars	(1.9 billion)
Distribution Fee deducted 30%	180 million dollars	(570 million)
Amount left to cover Distribution costs (eg. Prints and Advertising) and Negative Costs	420 million dollars	(1.3 billion)
Distribution Costs (30% of film rentals)	180 million dollars	(570 million)
To cover Negative Costs	240 million dollars	(730 million)

While the growing importance of TV revenue and revenue from spin-offs such as books, records and merchandising complicates this picture increasingly, as we shall see, the unsentimental bankers view of the industry clarifies the nature of the problem, especially because it is not concerned with the type or quality of the films produced; a subject that occupies understandably, a great deal of attention, but is of marginal relevance to the operation of the movie business as an economic system and to concentrate on which can actually obstruct our understanding of the modalities of the present system and thus of the ways in which one might intervene with the aim of affecting the type or quality of film produced.

The problem for the system is to match production investment to box-office revenue for any given state of the costs of collection. The problem for individual firms is to exert sufficient control over the total capital flow to ensure:

a) that investment and revenue are in profitable balance, and

b) if possible to extend that control so that excess profits can be extracted by them from other parts of the total system.

The lessons of the history of the movie industry are:

a) that in a competitive system it takes the participants time to work out the optimum means for achieving these ends, and

b) that as the characteristics of the system are changed by exogenous pressures (eg the intervention of the US Justice Department or the rise of TV), so the optimum means will themselves change.

The Historical Rise of the Majors

The first attempt to control the movie business was based upon production and upon control over patents in the technology needed for production and for projection. The reign of the Motion Picture Patents Company, as this cartel was called, lasted from 1908 - 1917 when it was finally dissolved by a Supreme Court decision that the licensing procedures upon which its powers were based were illegal.

But even prior to 1917, a rapidly expanding market and the possibility of importing equipment from abroad had led to the development of an aggressive independent industry outside MPPC control. It was out of this independent sector that the present Majors developed during a battle for control of the nascent industry in the 1920s during which the essential structure and modes of operation of the movie business as a mature economic form were discovered and put into operation by individual competitive entrepreneurs in the neat of commercial battle. This form, which it retains to this day, included feature length films, licensed to exhibitors on a variable scale linked to box-office receipts rather than outright sale, the star system as the preferred mode of product differentiation with its linked publicity machine, and the distribution/exhibition practices of zoning, block booking and blind booking, road shows, etc.

Whether starting from a base in production and moving into distribution and exhibition like Zukor with Paramount or Warner Bros. with Vitagraph and First National or from a base in exhibition and distribution and moving into production like Fox and Loew's (MGM) or whether on the basis of its control of sound patents and the backing of Rockefeller banking finance building such a combine from outside the industry, like RKO, all those involved discovered that in the competitive conditions then reigning, the only way to run a profitable film business was to control all parts of the capital circuit.

Thus by 1930 the US industry was controlled by five vertically integrated combines - Warners, Paramount, Fox, Loew's and RKO. Alongside were three mini-majors - Universal and Columbia who owned studio and distribution facilities and United Artists which uniquely was solely a distribution company for independent producers.

This oligopolistic structure not only controlled the US industry, it also already dominated the world industry and drew a significant proportion of its revenue and profits from the non-Us market. One contemporary analyst reckoned that in 1930 "American distributors received about 200 million dollars in gross revenue annually out of the total annual world gross revenue of approximately 275 million dollars and that between 75% and 85% of the pictures shown throughout the world in recent years have been films of American origin". Although European opposition to this dominance led between 1925 and 1928 to some small reduction in the proportion of American films showin in world markets, a growing total box-office meant that foreign revenue going to US producers and distributors rose from 50 million dollars in 1925 to 70 million in 1928. This dominance was based upon the dominant position of the US domestic market which produced over 60% of world revenue, thus enabling US producers and distributors to undercut foreign competition with product of superior quality. Although the balance within the world market somewhat shifted away from the US domestic market in the 1950s and 1960s, because the US experienced the impact of TV upon cinema attendances earlier than the rest of the world, the situation has now reverted to the position of the 1920s. It is interesting to note that contemporary analysts of the US industry, such as Strauss and Lewis, could not believe that European interests would allow such a situation to continue and Strauss himself argued that it was "folly to believe that, no matter what developments take place in the industry, the American producers and distributors will be able to maintain as a mere matter of course, the commanding position which they at present possess".

And he envisaged the creation of a European production/distribution cartel based upon the ability, backed by the State on the model of German law in the 1920s, to exclude the Americans from the European market and thus to bargain a guaranteed access to the US market against a limited US access to Europe. It is also interesting and relevant to note that he considered it "probable that production throughout the world could in this way be cut nearly 35% and such a development as this would tend considerably to increase the net revenue obtained both by American and by European companies". As we shall see the US Majors have used their oligopolistic position to impose such a situation in recent years to their undoubted revenue advantage.

Anti-Trust in the Movie Industry

Thus it was against an industry controlled by five major vertically integrated combines that the US Justice Department launched its anti-trust actions. The battle between the Anti-Trust division of the Justice Department and the US Majors is long saga beginning with the first case against Paramount in 1922 and continuing at present with aotion, for example, to restrain Kerkorian of MGM gaining oontrol of Columbia. Since 1976 there have been Federal suits against Fox on blook booking and against Warners on 'four walling'. In addition, numerous private suits have been brought by exhibitors against distributors alleging restraint of trade and the infringement of the consent decrees. Even the Majors themselves have, as we shall see, joined in the act and are now involved in anti-trust suits against the US TV networks.

However, for our purposes we are concerned with a process that effectively began in 1938 with the anti-trust case, US v Paramount Pictures Inc et al and oulminated in consent decrees with Loew's in 1948, Paramount in 1949, 20th Century Fox in 1951 and Warners in 1953, by which the Majors agreed to divorce themselves of their holdings in exhibition and to refrain from distribution practices in restraint of trade, such as block booking. (For details see Conant). While, as I have indicated, there is evidence that, especially in the recent boon period and for reasons which I shall explain, the Major distributors have resorted to some of these outlawed practices, I think one oan assert for the purposes of this paper that the exhibition market in the United States is as competitive as it reasonably could be, given the specific nature of film as a marketable commodity. Or at least for our purposes what we have to explain is how the Majors have maintained their dominance and profitability without control over exhibition.

Initially divorcement created severe problems for the Majors for two reasons:

a) As Heutig showed, the financial structure of the Majors was based upon theatre ownership, upon the high fixed capital investment involved and upon the need to service the long term debts incurred in the acquisition of theatre chains. The Majors were fundamentally real estate companies.

As Heutig put it "The production of films, essentially fluid and experimental as a process, is harnessed to a form of organisation which can rarely afford to be either experimental or speculative because of the regularity with which heavy debt charges must be met".

This meant that since accounting between divisions of the vertically integrated combines was a purely internal matter arranged to present the best picture to bankers and investment analysts, film rental charges were so arranged as to take the profits in the exhibition division, while investment capital for production could at the same time be raised against the security of the fixed assets of the theatres. (See Tables 12 and 13)

There are some industry analysts today who would argue that as a result the share of box-office revenue going to film rental was too low in the period following divorcement and that the rise in this share that the Majors as distributors have been able to squeeze out of the exhibitors in recent years by using their oligopoly powers merely restores a proper balance (however questionable under the terms of the consent decrees the methods used to do this).

TABLE 12

INVESTMENT IN THE US FILM INDUSTRY PRIOR TO DIVORCEMENT

Sector	Amount ($ millions)	Percentage
Production	125	6.1
Distribution	25	1.2
Exhibition	1,900	92.7
Total	2,050	100.0

Source: Conant

TABLE 13

INCOME FROM DOMESTIC FILM RENTALS AS A PERCENTAGE OF TOTAL VOLUME OF BUSINESS: FIVE MAJOR MOTION PICTURE COMPANIES 1939

Company	Domestic Film Rental	Volume of Business	Film Rental as Percentage of Volume of Business
	$	$	%
Loew's	43,227,000	112,489,000	38.4
20th Century Fox[(a)]	33,150,000	53,752,000	61.0
Warner Bros.	28,917,000	102,083,000	28.3
Paramount	28,227,000	96,183,000	29.3
R.K.O.	18,190,000	51,451,000	35.3
	151,711,000	415,958,000	36.4

Source: Heutig

(a): The case of 20th Century Fox differs somewhat from that of other majors. During a complicated reorganisation in 1933, control of Fox Theatres changed hands, ending up eventually in General Theatres Equipment Corporation. This company, in turn, was controlled by Chase National Bank. Fox emerged with 20th Century in 1935, possessed a 42% stock interest in General Theatres Equipment Corporation. The company's income from theatres takes the form of dividends on the stock interest and is therefore not comparable to the amounts listed as income from theatres for the other majors.

What is undoubtedly true is that this shift in the balance between the share of revenue going to exhibitors and that going to film rental has made a contribution to the renewed prosperity of the Majors after a prolonged period of slump.

The divorcement of the exhibition divisions left production divisions that had often been running at break even or even at a loss, in accountancy terms, with a problem of how to raise funds for investment in production without the security of theatres. This problem was only finally solved satisfactorily by the absorbtion of the film companies into larger conglomerates or their own diversification to form more widely based conglomerates.

b) The second problem caused by divorcement was in part economic and in part psychological. That is to say the production arms of the Majors has high fixed investments in studios with high overheads in the form of permanent staff and contract stars, which depended for their economic viability on a large and steady production throughput. Moreover, the men running these studios had become habituated to a form of production behaviour and associated expectations about both the product and the audience that derived from the economics of the vertically integrated combine. It was not until the profound crisis of the late 1960s and 1970s that this generation was finally removed and the Majors learnt not only to live with but to actually enjoy the new situation in which they found themselves.

The extent of their basic strength can be guaged by the fact that they survived between 15 and 20 years of delusion. Until the almost terminal crisis struck, the Majors continued as though their problems stemmed not from a fundamental shift in the economic structure of the industry, but from the loss of their audience to TV. They oontinued to believe any any minor upsurge within the steady downward trend or any single smash hit (The Sound of Music being the straw that nearly broke the camel's back) confirmed them in that belief; that bigger and better and more expensive films involving new processes such as Cinemascope or Cinerama would bring the audience back and restore their prosperity.
(See Tables 14 and 14a).

However, hindsight shows us that divorcement was in fact a blessing in disguise and that the growth of TV, far from threatening the production/distribution Majors, has been a key element in their renewed strength. Why is this the case?

Divorcement took place at precisely the moment when cinemas were becoming a declining asset. They represented a large fixed investment in an inflexible form (cinemas were not easy to convert to other uses and as a result to sell at their value as cinemas) attracting a rapidly declining revenue. Moreover, the initial move by the Majors into exhibition was only necessary for producer/distributors in a competitive situation in order to stop rivals freezing them out of the market. Onoe access to the key US domestic cinema market was policed by the Justice Department, this motive was removed and a concentrated production/distribution oligopoly faced a fragmented exhibition sector within which no single exhibition chain was strong enough to exert real competitive pressure.

TABLE 14

TOTAL ADMISSIONS INCOME OF US MOTION PICTURE THEATRES, WITH ADMISSIONS EXPENDITURES AS A PERCENTAGE OF SELECTED CONSUMER EXPENDITURES
1921 - 1975

Year	Admissions to Film Theatres ($ millions)	Constant 1972 Dollars ($ millions)	Admissions as Percentage of: Personal Consumption Expenditure %	Recreational Expenditure %	Spectator Amusement Expenditure %
1921	301	703	-	-	-
1923	336	824	-	-	-
1925	367	876	-	-	-
1927	526	1267	-	-	-
1929	720	1760	.9	16.6	78.9
1930	732	1816	1.1	18.4	82.1
1931	719	1975	1.2	21.8	84.2
1932	527	1617	1.1	21.6	83.5
1933	482	1555	1.1	21.9	84.1
1934	518	1619	1.0	21.2	82.9
1935	556	1695	1.0	21.1	82.7
1936	626	1891	1.0	20.7	82.5
1937	676	1971	1.0	20.0	82.6
1938	663	1967	1.0	20.5	81.3
1939	659	1985	1.0	19.1	80.3
1940	735	2194	1.0	19.5	81.3
1941	809	2298	1.0	19.1	81.3
1942	1022	2627	1.2	21.6	84.9
1943	1175	3087	1.3	25.7	87.6
1944	1341	3185	1.2	24.7	85.8
1945	1450	3372	1.2	23.6	84.6
1946	1692	3623	1.2	19.8	81.9
1947	1594	2985	1.0	17.2	79.6
1948	1506	2619	.9	15.5	78.5
1949	1451	2546	.8	14.5	77.5

/Cont'd...........

Year	Admissions to Film Theatres ($ millions)	Constant 1972 Dollars ($ millions)	Admissions as Percentage of: Personal Consumption Expenditure %	Recreational Expenditure %	Spectator Amusement Expenditure %
1950	1376	2893	.7	12.3	77.3
1951	1310	2110	.6	11.3	76.3
1952	1246	1965	.6	10.3	75.3
1953	1187	1858	.5	9.3	73.9
1954	1228	1913	.5	9.4	73.4
1955	1326	2072	.5	9.4	73.6
1956	1394	2145	.5	9.3	73.4
1957	1126	1673	.4	7.3	68.0
1958	992	1436	.3	6.3	64.5
1959	954	1369	.3	5.6	60.7
1960	956	1350	.3	5.4	57.9
1961	955	1336	.3	5.1	56.7
1962	945	1307	.3	4.7	53.8
1963	942	1287	.3	4.4	51.8
1964	951	1283	.2	4.0	49.5
1965	1067	1434	.3	4.1	50.3
1966	1119	1442	.2	4.0	48.4
1967	1128	1414	.2	3.5	46.9
1968	1294	1555	.2	3.7	48.8
1969	1400	1598	.2	3.7	48.2
1970	1521	1639	.3	3.7	48.4
1971	1626	1680	.2	3.7	48.4
1972	1644	1644	.2	3.4	47.2
1973	1965	1850	.2	3.6	50.8
1974	2264	1920	.3	3.7	52.2
1975	2274	1767	.2	3.5	49.5

Source: Sterling and Haight. Based upon US Department of Commerce data.

TABLE 14a

AVERAGE WEEKLY MOTION PICTURE ATTENDANCE IN US
1922 - 1965

Note: Weekly attendance figures are in thousands. Index figures calculated on a base of 100 for the years 1946 - 48.

Year	Average Weekly Attendance	Attendance Index
1922	40,000	44
1923	43,000	48
1924	46,000	51
1925	46,000	51
1926	50,000	56
1927	57,000	63
1928	65,000	72
1929	80,000	89
1930	90,000	100
1931	75,000	83
1932	60,000	67
1933	60,000	67
1934	70,000	78
1935	80,000	89
1936	88,000	98
1937	88,000	98
1938	85,000	94
1939	85,000	94
1940	80,000	89
1941	85,000	94
1942	85,000	94
1943	85,000	94
1944	85,000	94
1945	85,000	94
1946	90,000	100
1947	90,000	100
1948	90,000	100
1949	70,000	78

/Cont'd........

Year	Average Weekly Attendance	Attendance Index
1950	60,000	67
1951	54,000	60
1952	51,000	57
1953	46,000	51
1954	49,000	54
1955	46,000	51
1956	47,000	52
1957	45,000	50
1958	40,000	44
1959	42,000	57
1960	40,000	44
1961	42,000	47
1962	43,000	47
1963	42,000	47
1964	44,000	49
1965	44,000	49

Source: Historical Statistics (1975), Series H-873, p 400, as reprinted in Sterling and Haight.

Moreover, although it took, for the psychological reasons already outlined, a considerable time for the industry to realise this, exhibitors needed them more than they needed the exhibitors. The reason for this, especially once the Majors had rationalised their production arms and cut the fixed investments in studios and studio staff to the bone, was that the exhibitors were running a business with high fixed investment and continuous overheads which they needed to operate all the year round, while the producer/distributors, once they no longer needed to keep their own cinemas full of product on a year round basis were in a position to create a seller's market by cutting back the number of their releases and, as we shall see, to match their release pattern to the box-office peaks. Thus hardly was divorcement complete than the very exhibitors who shortly before had been calling for the creation of a competitive market were back asking the Government to allow the Majors back into exhibition. (See Senate Hearings, Select Committee on Small Business, U.S. Senate, 83rd Congress, 1st Session 1953 and 84th Congress, 2nd Session, 1956)

The Strategic Position of Distribution

Secondly, divorcement revealed the truly strategic position occupied by distribution, a function which, within a vertically integrated combine can appear as though it is merely a matter of physically distributing film prints and of book-keeping. But once exhibition was fragmented, not only by divorcement, but by the creation of a new exhibition market in TV and at the same time, the economic rationale of the major production studios having been removed, the rise, mainly for tax reasons, of the so-called independent produoer, had fragmented the production sector as well, distribution was left as the key linkage between Production and Exhibition, a narrow funnel through which the capital circuit of the movie industry had to pass.

Why was the funnel narrow? Why was distribution too not fragmented? Here we see the cruoial importance of the control of world-wide distribution networks, a control which the US Government, while fighting anti-trust within the US, actually encouraged by its support for the external cartel of the MPEAA. The maintenance of a world-wide distribution network is expensive (approximately 20 million dollars per year currently), thus barriers to entry are high. After divorcement the Majors retained control over these networks which they had built up in parallel with the development and operation of vertically integrated combines in the US market. It was control of these networks that alone allowed access to the world-wide market, a market which, as the US market declined, represented in the 1950s around 50% of total film rental revenue to the US industry.

Thus the Major distributors alone controlled access to enough of the market to spread their investment risk in production over a large enough programme of films to return a regular and reasonable profit. Only they are in a position to ensure the necessary match between production investment and box-office revenue upon which the economic viability of the total system rests. (This does not mean they always did so. The crisis of the late 1960s was caused by their massive over-investment in production). As Howe put it "Pictures are not bankable risks. No sane banker can make loans for the production of a picture where the sole source of payment is revenue from that picture. Producers agree, they won't risk their funds in such a project. So for twenty years it has been the major American motion picture companies who have taken the risk". As a study by Kobi Jaeger based upon the analysis of 300 US features showed in 1973 (See Variety 16.1.1974) 'Out of 9 pictures, one is a hit, 3 break even and five are "ambivalent"'. Thus the Major distributors are also, indeed primarily, film financiers. Their distribution charge is a charge that covers not just the cost of physically distributing that film but the risk of distributing the majority of films that do not even make enough to cover the actual cost of distribution. At the same time, since without the access to the world market that these Majors control there is little hope of a viable return on any single production investment, the Majors are in a position to invest in a range of productions on the most favourable terms to themselves, terms which in general include the valuable right to amortize their investment out of the first slice of revenue before capital repayment or profits (if any) are paid to the other participants. Moreover, the distributors necessary book-keeping function puts them alone in a position to monitor costs efficiently and control production investment in relation to those costs, while at the same time giving them the opportunity for those 'metaphysical' accounting practices so often commented upon, which lead occasionally to the courts, and which undoubtedly give them the opportunity of allocating to themselves the favour of every accounting doubt.

The Majors and TV

This control over world-wide distribution would have given the Majors dominance in the role of distributor/financiers even if cinemas had remained the only form of cinema exhibition. The rise of TV, while initially seen as a threat, merely reinforced this dominance. As I have pointed out already the aim of distribution is to make the oollection of box-office revenue as efficient, in overhead cost terms, and as rapid (for reasons of capital turnover time) as possible. From this point of view network TV presents significant advantages, namely access to a major share of the domestic US market instantly by means of a single transaction. The disadvantage from the Majors' point of view was that access to this market was controlled by even larger and more powerful monopolies than themselves.

Hollywood initially came to terms with TV in two ways:

a) The sale of its film libraries to TV. This represented a significant contribution during the 1950s and early 1960s to staving off the moment of reckoning for the Majors since it provided a source of funds for current production investment against assets that had already been amortized in the cinemas and written down in the books.

b) The production of TV series. Universal moved earliest and with most vigour into this field and their rise from the seoond rank can in part at least be attributed to this fact. Their annual accounts continue to show, alone of the Majors, a higher annual revenue from TV than from film. Such production was a means of continuing factory studio production, originally designed to supply block-booked oinemas, in order to supply a new exhibition outlet with an even more voracious need for a continuous flow of product.

However, the relationship with TV has evolved significantly in recent years and is both one of the key elements accounting for the prosperity of the Majors and also an illustration of the continuing strategic importanoe of control over a world distribution network. Because of the monopoly control that they exeroised over acoess to the major TV audienoe, the Networks were able to drive a very hard bargain so that in general the production of series for the networks was not profitable on its own, since the networks, operating in a buyers' market, could keep prices low. Thus profits depended upon exploiting the publicity gained from a network showing through US domestic TV syndication, foreign TV sales and (in the case of made-for-TV movies), even subsequent cinema exhibition. Thus profitable operation in this field required both the financial muscle to sustain the original production investment and access to an efficient international distribution network.

On the other hand, so far as films were concerned, while you could not make enough from a network sale to cover production costs you could make enough to represent a significant extra profit on a production already amortized in the cinema worldwide. Moreover, success at the oinema box-office, acoess to which, for reasons we shall see, was increasingly controlled by the Majors, in its turn raised the price that would be paid by TV.

In the case of TV series and made-for-TV movies the position of the Majors has recently been significantly assisted by the Justice Department and the FCC. Becuase a network sale was so important to the subsidiary marketing possibilities of such product, the networks had been exploiting their oligopolistic position in order to insist upon a share of all subsequent non-networks receipts. This practice has now been outlawed, thus putting the Majors in a stronger position vis-a-vis the networks.

The case of the sale of oinema films to TV illustrates graphically the power that the Majors draw from their control of distribution. Until the mid 1960s the Majors had sold their old films to the networks in packages for comparatively low sums, sums that represented apparent windfall profits to the sellers who still remained primarily concerned with production and distribution for cinemas. In the mid 1960s this changed dramatically. In September 1966 the TV showing of Bridge on the River Kwai demonstrated the immense TV ratings potential of major feature films. The result was that shortly afterwards ABC paid 2 million dollars for two showings of a film and the Ford Motor Company 1,800,000 dollars for one showing. The rush was on. Within days MGM announced a 53 million dollar deal with CBS for 51 films, Paramount sold ABC 32 films for 20 million dollars and ABC paid 20th Century Fox 19½ million dollars for 17 films.

This situation produced two results:

a) The film companies suddenly became very vulnerable to take-over because the sudden rise in the inventory value of their film libraries meant that their assets were significantly undervalued in their books. As a result United Artists executed a defensive merger with Transamerica and Paramount with Gulf and Western. This started the rapid trend towards conglomeration and diversification which, as I have outlined, is now the economic form that the Majors have assumed.

b) More importantly for our present purposes the sudden dramatic rise in the cost to the networks of feature films inspired an attempt by two of them to use their control of TV exhibition as a base for a move into film production and distribution. The fact that the film Majors were able to decisively defeat this challenge to their dominance on the part of among the most powerful corporations in the United States clearly illustrates the continuing strength that they draw from their control of world distribution. (As a safety measure the Majors also lodged a suit in 1970 under the Anti-trust laws and under the terms of their own consent decrees claiming that the networks, as exhibitors, should not be allowed to participate in production or distribution. They were joined in this action by the Justice Department in 1972. In 1977 NBC agreed an out of court settlement. CBS and ABC are still fighting).

Thus in 1967 ABC started ABC Picture Holdings and CBS started Cinema Centre Films distributed through National General. By 1970 they had between them succeeded in gaining 10% of the US film rental market. When ABC pulled out of film production in 1974, however, it announced accumulated losses of 47 million dollars. CBS also announced losses of tens of millions of dollars when it too pulled out at around the same time.

SECTION 3. THE MAJORS TO-DAY: STRATEGIES OF DOMINATION

Let us turn to look now in more detail at the ways in which the existing Majors use their dominant position. A new breed of managers entered the industry with the conglomerates in the late 1960s and early 1970s. Their great advantage is their rational approach to the business free from the hype and mythology associated with Hollywood. The business philosophy that guides them and which has brough the Majors from the brink of bankruptcy to their present prosperity is well expressed in the Gulf and Western Handbook for 1971.

> "At the time of its late 1966 merger with Gulf and Western, Paramount Pictures Corporation was a declining force in the motion picture business. Like most big movie companies Paramount was suffering losses on its feature productions. With Gulf and Western encouragement and capital support, Paramount moved seriously into TV production, becoming the second largest supplier of prime-time network TV shows, such as 'Mannix'. Paramount also stepped up leasing of its feature films to TV. And as the new economics of the movie business began to exert itself at the end of the 1960s, Paramount led the industry into a much needed revitalization. It trimmed production schedules to meet the realistic conditions of the market place, moved a major portion of its film production off the Hollywood studio lot and onto location and streamlined its world wide distribution network".

The effect of reducing the oosts of distribution has been, as we have seen, mergers between the Majors in both US domestic and foreign distribution. A further effect we will examine when we look at the role of advertising.

The effect of 'trimming produotion schedules to meet the realistic conditions of the market place' has meant a steady decline in the number of pictures released annually by the Majors. (See Table 9a.)

The 'stepping up leasing' of feature films to TV has meant that, having driven off the competition from the networks themselves, the Majors have been in a position to accelerate the turn over time of their production investment capital by planning network sales from the start as an integral part of their investment and marketing strategy, often receiving payment from the network before production starts (and also thus able to shoot special or extra footage for the TV showing).

For example in early 1978 Alan Hirschfield, at the time President of Columbia Pictures Industries, in a talk to Wall Street security analysts gave the figures for a typical Columbia project:

	(in million dollars)
Cash negative cost	5.6
Less: outside finance	2.0
	3.6
Plus: initial release costs	3.0
Cash break even point	6.6
Network TV	2.3
Syndication	0.6
Pay TV and other	0.6
	3.5
Net to be cleared from cinemas	3.1
Minimum sales target	6.6

From these figures it can be seen that TV revenue is higher than, and is regarded as more certain than, cinema revenue.

Nonetheless, cinema revenue, both in the US and world-wide, still represents the largest proportion of the Majors' income from filmed entertainment and, as we have seen, it is also success in the cinema that keeps up the price of TV sales. It is crucial therefore, in order to understand the way in which the Majors operate and in particular in order to understand recent trends towards the reinforcement of the Majors' dominanoe and their associated prosperity, to understand how the Majors use the strategic position they have won as distributor/financiers to manipulate the relationship between production and cinema exhibition to their continuing advantage. This involves managing the relationship, as distribution alone can, between two functional hierarchies, one in Production and the other in Exhibition.

The Hierarchy of Production

A distributor has to balance out two factors. The higher return to be obtained from a production in which he is the sole investor against the need to spread the investment risk over a range of product wide enough to ensure an average profit and to keep the distribution network fully occupied and in which total investment does not exceed total potential revenue.

The Majors achieve this end by involving themselves in Production at a number of levels; levels arranged in a descending hierarchy of importance when it comes to the effort made to sell them to the public.

a) Production fully financed and produced by themselves upon which they must therefore bear all the risks and for which they must incur all expenditures prior to any returns from the box-office.

b) So-called independent productions which are in fact fully financed by the distributor in the sense that all immediate production costs are paid for by the distributor, in general against the first slice of future revenue after his own distribution fee has been deducted, but where risks are spread because other production participants defer fees against future profits.

c) Films independently financed for which the distributor guarantees loan repayment against a share of the profits and upon whose distribution guraantee further risk capital can be raised by the immediate producers. Here the distributor has lower risks but also a lower share of the profits.

d) Films fully indpeendently financed which the distributor picks up for distribution either for a flat percentage fee for for a fee plus profit participation.

It is crucial here to remember that in all cases except a) the distributor is charging a distribution fee of at least 30% which is taken off gross rentals before profits are calculated. In addition the distributor charges the independent producers for the cost of prints and publicity which is, as we shall see, an increasingly important item. Thus control over distribution ensures the ability both to spread the risk and to minimise that risk by extracting at least the cost of maintaining the distribution network from gross receipts prior to the contribution to the amortization of any production investment. Moreover, where the distributors' capital is at risk in production, it is in general amortized before that of other participants. Thus distributors make profits out of loss making movies.

The Hierarchy of Exhibition

The aim of the distributor is to extract for his product the highest possible proportion of the available box-office revenue.

There is a heirarchy of access to that revenue.

a) A film is a highly perishable commodity. It earns a high proportion of its cinema receipts in the first few weeks of its release in any market. This concentration of the earning period of a film is being reinforced, both by the profits to be gained by accelerating the turnover time of capital invested in production, especially when interest rates are high, and, by the rise in advertising costs.
(See AIP amortization breakdown in Guback 1979 ff 74)

b) The US and Canadian markets, figures for which are usually lumped together as the US domestic box-office, represents for the largest single market and so a high proportion of a film's earnings is drawn from its first few weeks of release in the US market.

c) Within the US market a high proportion of total box-office receipts is collected in a small number of key urban first run cinemas in three short periods of peak cinema attendance - Christmas, Easter and the summer months. MGM, for instance, has declared that 17 weeks provide 40 - 50% of its theatrical rentals (MGM preliminary prospectus September 25 1973). One third of US admissions comes from nine major metropolitan areas and territories served by film exchanges in four cities typically generate a third of all revenue.

The top five cinema chains in the US oontrol 16.% of screens and these major groups do the most business with the major distributors. "Thus in the 5 years up to 1978 General Cinema was the largest customer for each of the five major distributors except United Artists. In fiscal 1978, for example, General Cinema contributed about 12 million dollars in film rental to Columbia or about 8.5% of the distributors' total domestic rentals. Probably in second and third places were United Artists Theatre Circuit and ABC Theatres, each contributing about 6 million dollars in rentals. Thus 3 chains provided about 17% of Columbia's domestic theatrioal revenue". On the other hand the effect of one smash hit on a chain's revenue not only from ticket sales, but from concession stand receipts (.20 for each box-office dollar) can be oonsiderable. "Jaws" grossed over 20 million dollars in General Cinema's houses and represented 13 million dollars in extra business for the company. (See Guback 1979)

Their ability profitably to exploit the world cinema market thus depends first upon controlling access to a temporarily and geographically restricted market segment (a few key US first run cinemas during about 20 weeks per year).

This control is achieved by concentrating both production and more importantly marketing investment on these key markets, a concentration reinforced by imposing within the seller's market created by strictly limiting production, blind bidding and splitting, by long runs thus excluding rivals from these key periods, by extracting advances from exhibitors, by four-walling etc. Although many of these practices have been challenged by exhibitors as violations of the consent decrees, there is, as we showed before, an element of mutual interest ensuring collusion between the major chains and the major distributors since the cinemas also earn the major proportion of their revenue from the same periods and from the kind of block busters backed by the kind of publicity expenditure that only the Majors can ensure on a regular basis.

PROMOTION

Advertising expenditure has always played an important role in the oligopolistic control of markets both to stimulate demand and maintain market shares where price competition is mutually disadvantageous to the firms involved. It further serves to defend the market against new entrants by raising the price of entry. It is increasingly playing this role in the movie industry and is at the same time reinforcing tendencies to concentration of control.

Data on advertising and promotion expenditure is patchy but all of it points to its rapid escalation in relation to the costs of production. In 1977 Standard and Poor reported the entire industry as spending 200 million dollars. Norman Levy, President of distribution for Columbia Pictures, claimed that it cost a minimum of 2 million dollars to market a film domestically and estimated that Columbia would spend about 70 million dollars to push 20 releases in 1979. Variety, on February 5 1975, reported TV Bureau of Advertising figures showing a 100% increase in expenditure on film advertising in the first 9 months of 1974 compared with the same period in 1973, from 27,931,900 dollars to 56,324,900 dollars. In 1974 the "Trial of Billy Jack" was blanket released to 1,000 theatres in one week supported by a 3 million dollar advertising campaign ; 50% spent on TV resulting in a 11 million dollars box-office gross. Broadcasting Advertising Reports Inc. reported in 1973 an increase of TV advertising for film by 33% from 32.3 million dollars in 1972 to 43.1 million dollars in 1973.

In 1977 Barry Diller, Chairman of Paramount, was quoted by Variety as saying "In the last three years the cost of producing the negative has risen by 50%. The cost of marketing may have risen by 100%".

Moreover, this increased advertising expenditure is concentrated on fewer and fewer pictures, in particular upon the films wholly financed by the Majors themselves. The reasons for this are (see Variety November 29 1972):

a) Shrinkage of media outlets and the rising cost of advertising.

b) Reduction in the advertising staff employed by distributors as part of their cost cutting. These reduced staff can thus devote themselves effectively to fewer pictures.

c) The fact that the film rental terms are often renegotiated weekly depending upon box-office returns and so in a falling market distributors don't want to send good money after bad.

d) The Majors derive one third of their product from independents and do not spend so much pushing those films, with the result that in 1971, for instance, 1 out of 12 of the top box-office grosses was a 'pick-up', while 16 out of the bottom 54 grosses were.

However, the role of advertising and publicity, in the reinforcement of the Majors' control, has entered a radically new phase, with the development of thse companies into multi-media conglomerates. For once these companies control under one corporate umbrella music publishing, record production, book publishing, theme parks, toy and electronic game manufacturing etc., so that the spin-off effect can be exploited across a range of media, it becomes increasingly difficult to tell what is promotion for what.

That is to say a film becomes only one ingredient in a multi-media package in which each element is not only profit earning in its own right, but serves as publicity for every other part of the package. Thus a film may only need to break even or worse in cinemas if its mere exhibition and associated publicity can generate sufficient book, record and merchandising sales, while at the same time the distribution of books, records, T-shirts and toys can create an atmosphere of 'want-to-see' for the film. In Italy, for instance, in 1978 one quarter of the toy market was captured by film and TV spin-offs. "Star Wars" produced 100 million dollars in merchandising sales in one year. Over the years Disney has been both the pioneer and the most successful exponent of this general strategy.

This new phase represents, of course, a massive rise in the barriers to entry since it is now necessary to be a conglomerate large enough to have a significant simultaneous stake across a whole range of leisure markets.

Because of the hierarchy of the Majors' production involvement they will, as we have seen, concentrate their marketing strength behind their own product as first priority, since it is from those films that they stand to make the highest return. However, the Majors cannot ensure success for their most favoured films, so that the US market is in a sense used as a test market, the Majors ruthlessly pulling films out of release at the first sign of lack of box-office success, while from their range of independently financed pick-ups they are able, at the first sign of box office appeal, to send in replacements to fill the gaps in the favoured market segments with the necessary promotional support. Furthermore, using the pre-publicity and the 'want-to-see' bandwagon effect of US box-office success, the Majors then select for international distribution only the most successful pictures. Thus in 1979 Columbia planned to release 23 films in all, 13 world-wide, 3 only in the US and Canada, and 7 only outside the US and Canada. The results of all these strategies of control are graphically illustrated in Table 15 and in Tables 1, 1a, 4 and 6.

TABLE 15

MARKET DOMINATION BY SIX LEADING DISTRIBUTORS OF THEATRICAL FILMS

	1978	1979
Number of:		
Top 10 grossing films handled	10	a
Rental Revenue ($ millions)	434.5	344.8
Films with $10 million or more in North American rentals	25 of 27	23 of 28
Rental Revenue ($ millions)	642.9	622.6
Films with $2 million or more in North American rentals	66 of 82	53 of 78

*a Columbia, Paramount, 20th Century Fox, United Artists, Universal, Warner Bros.

Source: Guback 1979 based on Variety, January 4 1978, January 3 1979, January 10 1979. Does not include reissues.

CONCLUSION

The power and prosperity of the Majors is based upon control of world-wide distribution networks which give them alone the possibility to balance, on a world scale production, investment with box-office revenue. From that base they alone, helped by the limits placed upon the US TV networks by the Feceral Government, have been able to expand with maximum efficiency into the new markets for filmed entertainment, broadcast TV and now increasingly Pay TV, and into associated spin-off markets such as records, books and toys.

This market control has been rapidly strengthened in recent years through raising barriers to market entry involving interrelated modes of publicity and merchandising.

Michael Conant in his classic study of the effects of anti-trust action on the US movie industry published in 1960 raised the following question:

> "Should distribution and production departments also have been divorced from one another? On the basis of the available evidence on the cost structure of the industry, the answer to this question must be no. Indications are that a least-cost distribution system with full market penetration throughout the United States would have to distribute many more than the 25 to 40 pictures distributed by each of the leading distributors today. For this reason if distribution departments were divorced from production, there is a great probability that these separate distribution firms would merge and consolidate in order to lower costs. This would make for monopolies on the distribution level able to exploit their input markets in dealing with producers and their output markets in dealing with exhibitors. Such firms, able to bottleneck the flow of films into the market would increase monopoly in the industry not decrease it".

As we have seen, this was in fact a remarkable prophecy of what has in fact happened without benefit of Government intervention.

What lessons can we learn from all this for European film policy?

a) To compete in the world market would now require the control of one of the international distributors and their associated entertainment interests. At a price this could presumably be purchased. Columbia, for instance, would seem vulnerable to take over. However, since the prosperity of such a company depends in the end on satisfying the taste of the US cinema going and TV watching public, control of such a company might produce money for Europe, but it would do little to foster indigenous European production unless of course the profits were channeled into subsidising such production.

b) The alternative is to create a seige economy for filmed entertainment in Europe, denying entry to the product of the Majors to the European market and building a rationalized production/distribution system to service European cinemas and TV networks, a system that would have the power with Europe similar to that given to the Majors in the world market by the historical play of market forces, to match production investment to revenue from whatever source that revenue might come.

POST-SCRIPT 1980

The economic structure described in the fore-going report is currently entering a period of turbulence comparable to that which it experienced on the introduction of broadcast TV in the United States. The cause of this turbulence is the rapid development of Pay TV and the development of audio-visual home entertainment systems based upon the video-cassette and video-disc.

The growth of Pay TV as an exhibition outlet for motion pictures stems from the use of satellites to distribute programmes to local cable TV systems a development made possible by the reduced cost of satellite ground receiving stations (the first satellite Pay TV service was opened by Home Box Office in September 1975), and from the removal of control from Pay TV content by a decision of the Supreme Court in March 1977. These factors produced rapid growth. In 1976 15.5% of TV homes were on the cable of whom 24% subscribed to Pay TV. In 1980 20% of TV homes were on the cable but 60-70% subscribed to Pay TV. By the end of 1985 present estimates are that 40% of TV homes will be on the cable representing 35.6 million subscribers of whom 19 million will be suscribing to Pay TV.

This market is at present dominated by Home Bow Office, a subsidiary of Time-Life. In 1978 they had 66% of all Pay TV subscribers. Their major rival is Showtime, jointly owned by Viacom and Teleprompter which had 7% of the market in 1978. Home Box Office currently claims 4 million subscribers and Showtime 1 million. Since current estimates put total Pay TV subscribers at around 10 million, this would currently give HBO 40% and Showtime 10%. Other potentially powerful rivals have entered or are entering this market. In December 1979 American Express acquired 50% of Warner Cable, a subsidiary of Warner Communications. The new company, renamed Warner Amex, has a subsidiary Warner Amex Satellite Corporation which now offers two Pay TV services, The Movie Channel with 24 hr filmed entertainment and Nickelodeon specially programmed for children and young adults. The significance of Warners entry into Pay TV is that they are already the third largest cable system operator in the US.

In addition Sears, Roebuck, the major mail order firm announced in January 1980 a joint plan with COMSAT to start a direct satellite broadcast Pay TV service. But from the point of view of this report the most significant response was the launching of Premiere, a company jointly owned by Getty Oil, Columbia, M.C.A., Paramount and 20th Century Fox. This group announced that one of the terms of their joint agreement was that these four movie companies would grant Premiere exclusive Pay TV rights to their feature films. This was immediately challenged by the other Pay TV righte to their feature films. This was immediately challenged by the other Pay TV operatore, especially Time-Life, as a restraint of trade and, when the Justice Department took Premiere to court under the anti-trust laws the court found in the Justice Department's favour. The case is at present being appealed. But it is the motives behind the formation of Premiere and this attempt by four majors to freeze their rivals out of the Pay TV market that is important. As we have seen, especially with reference to the attempts of the US TV networks to break into film production and distribution, it ie control over international distribution that has up to now allowed the US majors to maintain their control over a relatively competitive US exhibition market. The development of an additional exhibition outlet in the US through Pay TV wouldn't appear to threaten that control. It merely represents an additional source of income, as with network and syndicated TV. After all even in 1985 total gross cable revenues are only projected as 6-7 billion dollare against 1979 MPAA world rentals of 1.977 billion dollars. However the real threat represented by satellite delivered Pay TV is the poseibility of business rivale breaking the hold of the US majors over international distribution. Ae an HBO executive was recently reported as saying, "although there are no current plans to expand its services into Europe HBO does have world-wide capabilities today through satellite technology". Meanwhile Time-Life are ueing their Pay TV baee to challenge the majors directly in the cinema market. They have announced plans to release 12 theatrical features this year through 20th Century Fox.

The second source of disturbance to the economic structure of the US motion picture industry is the development of a home video-cassette market and the potential development of a video-disc market. The formation by Warners of a separate devision, Home Video, in 1979 is indicative of this trend. This is a development that, unlike satellite distributed Pay TV, would seem to reinforce the position of the US majors because of the need for an attractive catalogue of software in order to persuade consumers to purchase or rent the new hardware. In this context it is the US majors who possess

a) valuable libraries of old films for reissue in this new format at minimal cost to themselves
b) the expertise in feature film finance and production with which to exploit this new medium of distribution world-wide as they were able to do with TV
c) so long as they dominate theatrical film production and distribution the ability to deliver films whose popularity has already been established and thus with enhanced saleability in the new format.

The major intervention in this field, so far as film companies are concerned, has been made by MCA who are involved in hardware as well as software. They have formed a company jointly with IBM and Philips to exploit the laser video disc system on both the institutional and home entertainment markets. Their major rival is an RCA/CBS consortium that plans to launch the RCA stylus system. In November 1979 this group signed a non-exclusive deal with Paramount for the use of 75 feature films. This non-exclusive deal seems to be the pattern for film industry involvement (of course with the exception of MCA) with the majors knowing they possess an asset in their film libraries that the video-disc cannot do without, so they can afford to wait and see which hardware system wins the battle for consumer acceptance and thus for the international standard.

Meanwhile 20th Century Fox at present directly dominate the videocassette market through their Magnetic Video subsidiary. Here the main clash of interest is with cinema exhibitors who protested loudly when Fox recently announced that they intended in future to release their films simultaneously to cinemas and for home video on the grounds that this was the only way to defeat the video pirates and that the two markets did not significantly overlap. Such a policy will also bring Fox a significant saving in promotion expenses since the selling of the films and the cassettes can be coordinated.

Thus the over-all situation is potentially unstable with the major companies across the electronic hardware and leisure sectors jockeying for position. In the immediate future this competitive struggle will be concentrated on the US domestic market. But when the satellite TV battle spills over into Europe we may well find the US majors lobbying European governments to support restrictions on the import of satellite signals while the US government in pursuit of its stated policy of internation deregulation, supports the free-flow of satellite direct broadcasting services as part of a wider strategy in the developing trade war over the international communication technology business.

REFERENCES

1. See Screen International March 29-April 15 1980 and "Cable and Pay TV" by Christopher Sterling in BM. Compaine ed Who Owns the Media.
2. Screen International August 30 1980
3. For the best recent account of the current video-disc situation see Michel Aribart, "Le Videodisque a nos portes: premier bilan". Film Exchange No 9
4. See papers and proceedings of the conference "World Communication: Decisions for the Eighties" held at the Annenberg School of Communication, University of Pennsylvania 12-14 May 1980 (publication forthcoming)

APPENDIX 1

REVENUE AND INCOME OF SELECTED PUBLICLY

OWNED COMPANIES IN THE MOTION PICTURE INDUSTRY

(Dollars in millions)

Source: Guback 1979. Based on company annual reports, Form 10-K reports, prospectus for stock and bonds. Updated from most recent 10-Ks

TABLE A

COLUMBIA PICTURES INDUSTRIES INC. (in dollars)

			Filmed Entertainment		Feature Films		TV	Records and music		Broadcasting	
Year Ending June 30	Revenue	Net Income	Revenue	Operating Income	Theatre Revenue	TV Revenue	Programme Revenue	Revenue	Operating Income	Revenue	Operating Income
1979	613.3	39.0	458.0	59.0	263.1	37.1	103.2	76.7	0.4	10.8	3.1
1978	574.6	68.8	437.0	80.1	269.0	23.3	95.0	73.5	3.6	12.2	3.3
1977	390.5	34.6	298.3	30.8	153.5	24.8	79.8	42.1	1.4	17.9	5.4
1976	332.1	11.5	272.1	28.3	152.2	19.3	67.8	35.4	1.1	24.6	5.5
1975	325.9	16.5	278.0	33.2	170.3	30.8	53.5	24.1	.9	23.8	4.2
1974	250.1	(2.3)	211.7	24.9	111.3	28.8	51.9	16.3	(.5)	22.1	4.4
1973	205.4	(50.0)	164.5	(61.5)	101.5	11.5	33.1	20.2	3.3	20.7	4.0
1972	223.5	(3.4)	182.2		110.0	34.4	37.8	17.8		15.7	1.9
1971	222.6	(28.8)	176.0		113.0	16.6	46.4	18.0		12.9	1.3
1970	242.1	(10.9)	196.6		137.9	20.5	38.2	45.4(a)			

(a) includes records, music, broadcasting and others

TABLE 8

M.C.A. INC. (in Dollars)

Filmed Entertainment [a]

Year	Revenue	Net Income	Revenue	Operating Income	Theatres	TV	Records and Music Publishing
1978	1266.1	178.7	781.5	174.2	305.0	450.9	163.9
1978	1120.6	128.4	724.4	159.8	318.7	348.1	131.4
1977	877.6	95.1	561.4	107.4	222.8	289.4	99.8
1976	802.9	90.2	506.9	100.6	213.4	249.7	112.4
1975	811.5	95.5	509.9	124.0	289.1	189.6	137.9
1974	613.2	59.2	387.5	68.0	205.1	158.5	126.7
1973	437.4	27.1	227.7	20.2	87.5	119.9	86.8
1972	345.9	20.9	204.6	19.9	61.9	127.3	61.4
1971	333.7	16.7	194.6	15.1	57.8	124.2	45.8
1970	333.5	13.3	220.0	32.4	96.7	110.0	36.0

(a) Includes Studio Tours, Amphitheatres and others, as well as Universal.

TABLE C

METRO GOLDWYN MAYER INC.

Year ending August 31	Revenue	Net Income	Filmed Entertainment [a] Revenue	Operating Income	Feature Films	TV Programmes
1979	491.3	61.6	193.0	59.8	159.2	33.7
1978	401.4	49.3	182.6	39.0	138.8	43.8
1977	288.5	33.2	134.7	22.1	110.7	28.4
1976	266.6	35.6	123.3	19.7	96.1	27.8
1975	255.5	31.9	117.6	23.0	100.7	17.5
1974	234.4	26.8	145.8	17.9	111.1	20.7
1973	152.8	9.3	152.8	8.7	124.9	14.0
1972	148.2	10.7	148.2	15.3	120.4	13.7
1971	149.5	15.6	149.5 [b]	19.0	136.1 [a b]	13.4
1970	149.4	(13.6)	149.3 [b]	(7.8)	130.3 [a b]	19.0

(a) Includes film processing

(b) Presumably includes foreign theatre operations

NB: In 1980 M G M split into two seperate companies - one for the hotel/gaming operations, and another for filmed entertainment

TABLE D

TWENTIETH CENTURY FOX FILM CORPORATION

Year	Revenue	Net Income	Filmed Entertainment Revenue	Operating Income	Feature Films	TV Programmes	Theatre Operations	Film Processing	Broadcasting	Record & Music Publishing
1979	678.4	57.3	405.4	63.8	316.4	89.0	60.2	17.8	34.7	8.5
1978	625.9	58.4	407.9	41.1	346.5	61.4	52.0	21.0	31.8	13.8
1977	506.8	50.8	369.4	69.7	321.5	48.0	37.9	30.7	25.7	22.7
1976	355.0	10.7	254.8	17.1	217.2	37.7	34.3	29.7	22.6	9.9
1975	342.7	22.7	242.1	28.4	210.8	31.3	44.3	26.3	9.9	17.9
1974	280.1	11.0	186.7	12.9	159.7	27.0	43.1	23.9	7.0	16.1
1973	250.4	10.7	180.0	12.1	152.6	27.4	34.6	20.0	6.6	7.7
1972	198.7	7.8	144.7	8.1	118.8	25.9	25.4	20.2	5.8	2.1
1971	222.5	9.7	171.5	12.4	143.2	28.3	20.8	23.2	5.0	2.0
1970	246.5	(80.4)	195.0	(77.2)	159.3	35.7	19.2	24.1	5.1	2.1

TABLE [illegible]

WALT DISNEY PRODUCTIONS

Year Ending Sept 30	Revenue	Net Income	Motion Picture and TV Distribution: Revenue	Operating Income	Domestic	Foreign	TV	Records and Music	Publishing	Educational Media
1979	796.7	113,788	134.8	40.2	49.6	57.3	27.9	16.1	19.0	[illegible]9.[illegible]
1978	741.1	98.4	152.1	54.1	69.0	57.9	25.2	17.2	15.0	24.8
1977	629.8	81.9	118.1	50.4	58.7	36.6	22.7	13.9	12.9	20.7
1976	583.9	74.6	119.1	57.9	60.5	39.8	18.8	12.2	11.1	17.7
1975	520.0	61.7	112.5	56.6	61.2	37.6	13.7	16.2	9.9	15.8
1974	429.9	48.5	90.4	45.8	48.6	29.9	11.9	15.2	8.5	12.5
1973	385.1	48.0	76.2	36.0	40.2	26.3	9.6	13.7	8.4	8.6
1972	329.4	40.3	70.8	35.7	35.5	26.2	9.1	10.8	5.0	7.5
1971	174.6	26.9	65.1	26.8	35.4	21.6	7.0	8.5	5.2	6.5
1970	167.1	21.8	63.3		33.9	22.0	7.4	7.0	4.0	5.4

TRANSAMERICA CORPORATION

	Revenue	Net Income	Enterteinment Services Revenue	Enterteinment Services Operetion Income
1979	4044.6	240.2	468.9	68.4
1978	3526.5	209.7	416.7	70.0
1977	3212.8	170.5	474.0	67.7
1976	2732.2	114.2	377.7	47.5
1975	2405.6	74.0	319.7	36.2

GULF AND WESTERN

	Revenue	Opereting Income	Net Revenue	Leisure Time Revenue	Leisure Time Operating Income
1979	6507	564	227.4	967	116.4
1978	5306	432.8	180.5	802	84.1
1977	4419	349.6		440	35.6
1976	4041	407.7		427	44.9
1975	3192	325.1		344	21.2

TABLE F

WARNER COMMUNICATIONS INC.

					Filmed Entertainment		Feature Films						
Year	Revenue (a)		Net Income		Revenue	Operating Income	Theatre Revenue	TV Revenue	TV Series	Recorded Music & Music Publishing	Publishing	(a) CATV	Toys & Electronic Games
1979	1648.0		200.7		609.6	117.6	435.7	62.6	113.3	725.3	75.0	81.2	238.0
1978	1243.1		87.4		393.0	80.0	261.3	59.5	72.2	617.1	55.1	66.0	178.0
1977	1143.8	(1088.0)	66.0	(71.1)	353.0	58.0	253.6	39.6	60.0	532.4	52.2	55.7	180.3
1976	826.8	(775.2)	57.5	(61.6)	285.2	42.2	221.6	42.5	21.0	406.1	48.4	51.6	35.5
1975	669.8	(631.7)	46.6	(8.3)[b]	255.9	41.7	202.3	27.3	26.3	313.8	62.0	38.1	-
1974	720.1	(684.3)	42.9	(46.7)	319.0	57.7	275.5	18.9	24.6	291.7	78.7	30.8	-
1973	549.6	(522.1)	43.1	(46.3)	209.5	31.1	152.7	24.9	31.9	236.0	76.7	27.5	-
1972	498.6	(474.3)	43.1	(46.5)	193.4	22.7	144.3	17.7	31.4	214.5	66.5	24.3	-
1971	377.1	(356.3)	34.2	(39.1)	124.3	14.8	86.3	20.2	17.8	170.9	61.2	20.7	-
1970	304.2	(279.3)	33.6	(32.1)	114.9	6.8	64.2		50.7[a]	115.8	48.6	15.8	-

a) On 27 December 1979 American Express bought 50% of the Warner cable operation. A new joint company was formed, Warner Amex Cable Communication. Accounting of these operations changed to the equity method in Warner Communication Inc's accounts. The figures for Revenue and Net Income for 1978 and 1979 reflect the consequent adjustment and equivalent figure for 1970–77 are in brackets

b) After writedown of investment in National Kinney Corp of $41,000 after taxes.