New Cinematographic Market: tendencies and possibilities of the digital environment

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Abstract
Macroeconomic tendencies are causing deep changes into cinematographic industry, with the aggravating factor that the internationalization of the communicative phenomenon has been joined both to the metropolis and to the periphery. Approximations have been made often on this dichotomy that now includes the problem on the unique stage from the technological and digital revolution.
One of the challenges that must be confronted is the audiovisual payment consumption. The digital distribution is affecting deeply the business models and the way to recover investments and profits that are obtained by the movies.
The second challenge will be the investment, this is very important in cinema´s case. The cinematographic industry has less money than needs and mostly depends on public supports. The investment is focused in national movies, whereas the market is international. The banks show reticence to betting for the cinema and to investing in, like happens with diffusion networks and telecommunications operators, who are not prepared yet.
A last challenge is distribution and international exchanges with third countries. European Union, the major world´s commercial associate, foments the cooperation with third countries. How is it possible to associate the cinema with European Union´s cooperation policies?
The world economy evolution is propitiating deep changes into the audiovisual industry and especially in the cinematographic sector, with the aggravating factor that the communicative phenomenon globalization is affecting both the big cities and the small populations. On this way, this study belongs to a work series of FONTA (Training in Audiovisual New Technologies) researching group of the Complutense University of Madrid, in order to study new information and communication technologies development; society stimulates the emergence of a new social organization –in network– and the birth of a new information economy, global and articulated on networks and flows, because of this situation it must be fomented the cinematographic sector companies productivity, appearing then a sort of challenges that will change the way in which we understand this market.

The cinematographic industry crisis

Though in the last years we are demonstrating the beginning of a still incipient crisis, every time more public money is destined and deprived to finance the cinematographic production, in spite of the widespread fall of premieres so much national as foreigners, also of viewers and box office, and of the gradual closing of theatres –fundamentally small exhibitors–. If we take as an example our country, Spain, in 2007 the number of exhibited films has been the lowest in the last five years, both in the national titles (a fall of 7'2%, that is, 25 titles less), as in the foreigners was 0‘4%, whereas the number of produced films has come to 172 (37 documentaries and 5 animated films). The market share of the Spanish cinema has fallen in 2007, 1'9%, placing in 13'5%. Likewise, the decrease of the viewers number is more pressing in case of the Spanish movies that in foreigner ones: while the foreign cinema has a box office results of 20 millions Euros more than the previous year, the Spanish cinema has lost almost 12 millions Euros: 86,7 millions Euros in 2007 opposite to the 98,4 obtained the previous year: the lowest numbers in the last six years, in which the cinematographic Spanish market has lost 30 millions viewers, though the box office results have increased in 33 millions Euros.[1]

United States continues being the country that dominates in all the sectors the European cinematographic panorama and, certainly, in Spain. In 2007 numbers:

- exhibited films: 667 titles
- viewers: 78.9 millions
- box office results: 435.2 millions Euros.

Nevertheless the Spanish cinema just achieved 15.7 million viewers and a box office result of 86.7 million Euros in 386 exhibited films, whereas United Kingdom, France and Germany are the European countries with major number of played titles, more viewers and with the best box office results on the cinematographic Spanish market:

- United Kingdom: 134 films, 14.6 millions viewers, 81.1 millions Euros.
- France: 140 films, 2 millions viewers, 11.4 millions Euros.
- Germany: 136 films, 1.8 millions viewers, 9.8 millions Euros.[2]

By the other hand, from its birth in the middle of the nineties, the cinematographic digital technology has been seen as a revolution in the industry cost structure, with the quality nearest to the analogical one, a versatile utilization in the postproduction, an efficient distribution and with new possibilities for exhibitors than can show in their screens other kind of events. Nevertheless, great part of the industry is reticent to adopt this new technology by the moment.

The digital production system wins progressively followers in the international panorama because of its advantages opposite to the negative film. The simple integration of the productive process with postproduction saves costs and allows producing audiovisual contents directly for its commercial distribution, especially for streaming with broadcast quality. «Future integration with the rest of

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peripherals will be such a pressing need for the audio-visual production that is difficultly imaginable a scanty implantation of the digital technology opposite to the negative film; the new digital cameras allow a surprising increase of quality that can be used in the professional area with big possibilities, modifying the production systems and the ways of work organization» (Álvarez; López, 2006).

Besides this advantages, digitalization has allowed the integration of terminals, promotes the obtaining of products derived to look for new profitability on the emergent markets. Nevertheless, disadvantages can do that technological restructuring come late: on the one hand, it would be necessary to rely on new technical skills that demand investments in educational formation; but on the other one, it would be necessary to change work organization models, trying to increase the productivity.

Derivative challenges of the cinematographic sector crisis: production, distribution and exhibition

One of the challenges that must be confronted for solving the cinematographic sector problem is the payment's audiovisual consumption. Digital distribution is affecting deeply the business models and the way in which the investment recovers. We know what is happening in the musical industry, and it is not desirable that produces the same in the cinema´s world. This challenge must suppose an opportunity to increase the international traffic of European movies, but are we prepared to use this opportunity and to rethink radically the form in which they do the business? Is it possible to influence the market development in our benefit? What is it possible to do to assure that European movies will be in the digital distribution platforms or in the digital cinema screens in the future market?

Digitalization is generating important changes in the distribution and in exhibition of the movies. Fundamentally, these can come across the d-cinema to the theatres or from the e-cinema to the new leisure systems at home (as video on demand, that might be distributed by different channels: Internet, cable or satellite). E-cinema and d-cinema both suppose the incorporation of new ways of distribution that allow to reach a biggest audience, that is farther from the emission source every day –what can open new markets for the weakest cinematography–, and at the same time this allow to reduce distribution costs and allow to offer alternative or specific contents for groups and individuals.

Beforehand, the big advantages of digital distribution are the following ones:

- Elimination of costs of the copies duplicate, which in the analogical system it can suppose between 10% and 15% of the whole cost of the movie.

- Costs significant reduction of physical distribution copies.
- Equalization of costs of distribution for all kinds of movies, at the moment the most commercial movies achieve a better average cost in its copies because they obtain discounts in the duplicate of the negative.
- Elimination of the problems caused in the copies by the mechanical exhibition systems.
- Possibility of centralized world distribution by means of the same copy with different audio tracks, which would allow doing world premieres in real time.
- Fast adapting from the offer to the demand. (Álvarez, J.M.; López, J., 2006).

Though the digital distribution also must possess problems related to managerial concentration, the piracy and the intellectual property:

- Problems with the bandwidth, because of the slowness in the information download or because of not assuring a universal service to the geographically less accessible zones.
- Risk of major concentration in distribution.
- Piracy, absence of remuneration to the authors or system incompatibility.
- Break of the current exploitation windows, which might cause conflicts between different media due to the existing periods between them. (Álvarez, J.M.; López, J., 2006).

Regarding the exhibition, the arrival of the digital cinema raises a great question: who does pay the step of the analogical system to the digital one? The cost of digital projectors approaches today 80,000 Euros, a price that has come after several years from its launch to the market, but that continues being difficultly attainable for the majority of the exhibitors. Distributors might carry out this disbursement, though it does not seem that for the present time they are ready to run with all the expenses, in spite of being the biggest beneficiaries; or for the equipments manufacturers, which might grant soft credits in order to purchase their equipments or to take a percentage of the box office results until the finish of the payment of the same ones, this already happens in United States with companies as *Technicolor Digital Cinema*, which already has implanted funding mechanisms for the purchase of its projectors.

On the other hand, digital transfer also can carry undoubted advantages for the exhibitors, since the decrease of the distribution costs is going to allow them a major percentage of box office results, which will allow them being less dependents of the atypical incomes. Secondly, it can give them the possibility of offering other audiovisual shows in their theatres (sports events or concerts), especially in the days of minor audience, which supposes a deep change in the business model of the theatres. As a clear example, in Spain, on September 8th 2008 five cinemas belonging to the chain Yelmo Cineplex broadcasted directly Mozart's opera "Don Giovanni" that was being represented in the prestigious theatre Covent Garden of London. With this projection begins an initiative that carry to seventeen of their theatres, distributed by Spain, different opera representations that take place in some of the Europe's best theatres. The retransfers are realized directly, in high definition, with digital sound and their quality allows to live, according to the organizers of the initiative, a cultural experience of first order.

Finally, it can allow them a major flexibility in its programming, with a better adequacy from the offer to the demand, the trends of exploitation that lead to a major number of premieres during less time can be reinforced by the digitalization of the theatres.

Another challenge to studying would be the investment that is very important in the case of the cinema. European cinematographic industry is undercapitalized and depends, mostly, on public supports. The investment is focused in national movies, whereas the market is international. The banks shows objections by the moment to invest in cinematographic production, the same that happens with the diffusion networks, except when they are forced by law, and the telecommunication operators, who are not prepared yet. Networks digitalization and production processes, and the new ways of commercial distribution "one to one" are modifying the consumption, the funding and amortization structure, and the whole audiovisual sector.

Digital Television allows offering nowadays multitude of television channels, constructed across more operators who will increase notably the competition and will stimulate a biggest segmentation, as well as the fragmentation of the advertising market. *Home networking* –that supposes the communications integration, the leisure and the home automation– is an industrial challenge of great economic importance, besides its biggest repercussion on society: Internet can reinforce the assault to cinematographic sector, turning into a real killer application.

In the international panorama, cultural policies opposite to new networks are in an embryonic state. The ignorance about cultural products effects puzzles the governments and supranational institutions and to the companies that their management models must be adapted to new business so impregnated with expectations as with uncertainties. Whereas United States rests strongly its electronic industry to lead the technological change and retires the cultural policies because of its hegemonic culture, the European Union and the national governments have not just confronted the problem, about this fact serious doubts are generated both on its possible acceptance on the market as on its arrangement. The network economies are very delicate and it is complicated to design control systems. In the online consumption and in the new digital distribution that e-cinema allows, international policies look for disappearing the piracy, the equipments standardization and new auto-regulated control models sufficiently flexible to allow the technological change. But it is not a matter of moving only in force systems of promotion and protection for audiovisual production of the new networks, but also to studying their scope and their effects in the industrial current structure. The video under demand and the cinema are innovations that can relegate the leisure and the entertainment to nominal market shares, and impose a new commercial logic of absolute domain, with a monopolistic control over the theatrical exhibition and over the traffic of audiovisual products for Internet.

The position of the European cinematographic production before digital market is relatively weak. It is a sector under-constructed, with a great managerial atomization, where undercapitalized and financially weak companies coexist with another small group of more solvent producers. The rest of agents also meet serious difficulties: theatres cannot confront the migration towards digital projection with guarantees; television channels cannot produce new attractive channels for Digital Television, when it depends on a limited market as the advertising one; producers cannot make only with their resources and in addition exploit new windows to reach the consumers directly; and they are threatened by the danger that the business B2C (*business to consumer*) could transform itself with great quickly in free models P2P (*peer to peer*).

Digital production market will be articulated in the next years around electronic production, distribution, exhibition, and the online consumption of movies. The domestic digital cameras potentials and the Internet ones like distribution ways need support and promotion politics, before the integration of progressive networks and terminals.

The lack of knowledge about challenges and potentials that technology adds fits higher confusion. The market has the key of the evolution of a few innovations that can be an opportunity to recover historical market shares and to help an excessively weak sector. This market might be operated from public institutions to stimulate a real competition between suppliers of broadband, with an equitable and universal access to this service. The high prices of wireless accesses and the strong development of ADSL technologies do necessary to work not only to confront the challenges of digital distribution, but also to stimulate the services of the Information Society.

On the other hand, there might help the creation of standards and compatible and opened procedures that stop managerial interests of short term, based on incompatible and closed systems. In turn, these systems that imply networks and devices integration have to be scalable to construct through them new services and applications. And in addition, the helps should be fomented to investigation projects, development and innovation from European platforms, in order to increase the competitiveness of the companies and to know the challenges that raise the information and communication technologies.

The European Union and the international market

A last challenge is the distribution and the international interchanges with third countries. The European Union, the higher commercial associate of the world, foments the cooperation with third countries. How is it possible to associate the cinema with the European Union cooperation policies? While the European Union already cannot ignore its cultural dimension, the audiovisual producers must adapt to the new market realities and show the benefits that the economic and political investments can obtain in the cinema.

The European Union should programming an ambitious agenda and developing the confidence to support important projects, showing a common interest with the cinematographic industry and developing solutions that might follow three managerial beginnings:

- The pluralism of the expression
- The access to the market of the European movies
- The impulse of the capture of risks in creative projects.

What can we contribute from Spain to Europe to help to formulate this strategy? The Organization of Management of the Audiovisual Producers of Spain (EGEDA) was created in 1990 to represent collectively the interests of Spanish producers identifying and thinking about the challenges that there had the cinema of our country in the nineties, and that now already in the century twenty-one is still in force. The first contribution of this entity would be EGEDA's creation Digital/filmotech.com, a company that has the aim to offer the European movies to an international public across Internet. The platform, launched in April 2007, gives the entire world a box office result that, at the moment, is formed by more than five hundred titles. The year 2008 is very important for this project and EGEDA Digital/filmotech.com wants to share its experience with the cinematographic industry in Europe, and moreover, EGEDA Digital/filmotech.com is demonstrating the importance of working together in order to influence the market development; when assembling more than two hundred cinematographic producers and hundreds of movies, EGEDA can reinforce the position of the cinematographic industry during the licenses negotiations with users as powerful as telephon and technological companies, that look for cinematographic contents. This is an example of how the industry is developing its own strategy to approach the digital challenge.

The second initiative is a Reciprocal Guarantee Society (SGR) created by EGEDA and the Spanish Culture Department to stimulate investments on movies, since the insufficient capitalization of the Spanish companies and the funding lacks from banks were justifying it. This plan has helped to obtain in one year and a half more than 60 million Euros of new funds for the Spanish industry, which undoubtedly have influenced the increase of the production of the year 2007 (172 films, opposite to 150 of the year 2006).

The third initiative would be a strategy of support in order to develop similar structures to EGEDA in Ibero-America, helping the industry of these countries to organize themselves way to have the possibility of influencing local developments, and guaranteeing equally to the European producers the respect to their rights of intellectual property.[3]

The talent and the creativity that exist in Ibero-America do not fit with the market reality. Good scripts, authors and ideas exist in the frame of a fragmented and soft market. This weakness is the constant that repeats itself with a demand that satisfies itself fundamentally with American products and an offer characterized by the shortage of national products. The marketing channels lack solid structures of distribution, are fragmented between different countries, and transnational companies, concentrated in big multiplex complexes in the urban cores, control the exhibition sector.

In the cinematographic industry the productive capacity is not so important as being able to come to the last phase of the production line: the theatrical release. In this point, the luck of the cinematographic Ibero-American companies, as those of the whole world, is determined by the dimension of the internal and external markets that they represent and in the possibilities of the different exploitation windows, which are slightly significant.

A will exists between the diverse organisms of Mercosur government to stimulate the cinematographic national production and to face to the control of the American majors; it explains the creation of the Ibero-American Fund of Help Ibermedia, stimulated by initiative of the Conference of Cinematographic Authorities of Ibero-America (CAACI) as result of the Chiefs' Ibero-American Summits of State and of Government in 1997. This program –that has Spain as a relevant actor–, has pluriannual character and consists of a financial fund –constituted, as Eurimages, from the contributions realized by its members and the return of the granted lendings–. The above-mentioned fund limited to Spain and Portugal in European participation, is formed nowadays by thirteen countries. In spite of the increase of the number of productions in which these two countries take part with Ibero-American countries (any more than seventy), and that other European countries –as France and Italy– have demonstrated their intention of joining, it is not possible to speak yet about an audio-visual common Euro-Ibero-American space of traffic and interchanges. In this respect, the implication of the European Union in transnational initiatives of this type might mark an important difference, already be for the economic entity of its contributions as for the contribution of a market and a few much more extensive resources, indispensable conditions to rely on

[3] WWW.EGEDA.ES

certain guarantees of success in this type of programs. To finish this analysis, we can realize of EGEDA's implication with the European industry, since the MEDIA program has granted a help to this organization for the accomplishment of the audiovisual project *Training to promote rights exploitation with the EU and Ibero-America*, that consists in the accomplishment of an action of applied permanent training for young producers of Brazil, Mexico and Argentina who want to improve their capacities.

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