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BACHELOR THESIS

Hollywood Economics:

Factors of Succes
in Times of
the Online [r]Evolution

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Media Faculty

BACHELOR THESIS

Hollywood Economics:

Factors of Succes in Times of the Online [r]Evolution

auther:
Mr.
Benjamin Rieser

course of studies:
Applied Media Economy – TV-Producing

seminar group:
AMW 08

first examiner:
Prof. Peter Gottschalk

second examiner:
Pr. Dr. Dominik Große Holtforth

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1. Introduction

> *Economy is no closed equilibrium system, but an open, imbalanced, and adaptive system.*[1]

Since the inception of man's cultural consciousness, people have looked for their identity in stories. Storytelling has always been the key element of cultural development.[2] Our ancestors told stories at the fireplace. Today, we go to the movies or we even participate in cultural exchange, while we sit in front of our PCs via the Internet. People have the desire to be taken to other places, they want to see other worlds, they want their hopes and dreams see manifested so that they can be experienced on a conscious level. And no other institution in the world has perfected the manifestation of our dreams and imagination as the US film industry Hollywood.

But what lends wings to the phantasies of millions of people around the world and carries them off their everyday lives, is an uncompromising and well organized business with copious economic involvement and also strong sociopolitical impact.

The history of the Hollywood industry is very moved and fascinating at the same time, because it is so deeply connected to the social, technological and economic change within the 20th century. Many structural changes, caused by new technologies have challenged the integrity of Hollywood, but in the end all that took the business further and further up to the 21st century to its zenith of power.

Now the world is fully connected via the Internet and its enormous communicative potential influences every aspect of our society. Following this, its economic impact is huge. And no business can acquit itself from the „online"-pull. So, now there is a technological and sociological innovation, which is the ultimate disruptive economic force of the 21st century, and because of that another change process, which affects the international film business is currently going on and we are in the middle of it.

I, as a future producer and creator of audiovisual content, will be thrown into a changed world. Into a film business which will be fully integrated in a digital environment. We are born directly in the transition process. And especially for this generation of filmmakers it is very important to know about the factors of success in this particular work world. As making movies in Hollywood is an international line of work it is vital to know the international film business and the course it is heading. But also every other entity, which sees itself confronted by working in this economic change, can regard this bachelor

[1] Beinhocker [2007], p. 97

[2] cf. Horx [2009], p. 165 ff.

thesis as an attempt to mirror the effects of digitization and the Internet on traditional lbusiness models.

The economic structure of the international film business is very complex and extends into vast regions of the economy, so the topic of this bachelor thesis had to be narrowed down. Correlatively the core subject is Hollywood's film value chain with the focus on distribution, because the Internet affects this element the most and it is the main pillar of the industry's business model, while Hollywood practically resembles the international film business. This paper will make clear why it is expedient to say so. Ultimately, in the context of changing effects the Internet has on Hollywood, this thesis raises the questions: Can Hollywood render its traditional business model, it developed over the past 60 years, one-on-one into the Internet? If no, how will it change and how can a potential business model look like that is fully adjusted to the online-market? Can Hollywood compensate contingent losses? The purpose of this work is to specifically answer these questions.

This thesis contains material from written sources such as monographs and articles covering the subjects; media, film business, Internet-economy and digitization. My intention is to present the latest information regarding the solution of the scientific problem. That is why no source is prior to the year 2000. Because of the procedures in science and the currency of the subject the body of source material is limited to a certain degree and online sources also had to be considered.

The body of the work starts with part **2**., which is a general approach to create the basis of comprehending the business structure and to narrow down the main subjects of this work, concentrating on the last on the film value chain, distribution of motion pictures, and how rights are managed in Hollywood, what is referred to as the business model in this work. Part **3.** provides a more specific view in showing how digitization changed the product, how piracy, as a still remaining problem, exactly affects it, and delivers a benchmark example in form of the music industry. Its struggle with the Internet will be explained briefly. Moreover, it will be discussed why attention is more important for the film industry than ever before. Part **4.** Starts the main argumentation and delivers the concrete reference points to the solution of the research problem by shining a light on how exactly the business model is changing, what consequences occur and how an alternative business model could looks like. The marketing and distribution of films belong to the range of subjects addressed to in this part. Part **5.** refers to Reepel's Law and explains why it is so much applicable to the international film business.

2. General Structural Analysis

The first part of this scientific work is the analytic approach to the introduced problem. It establishes an overview of the economic structure of Hollywood, and explains why it basically represents the international film business. The chapter lays the groundwork for understanding where the change, initiated by the Internet and the ensuing online market, will have the most effects.

2.1 Once Upon a Time in Hollywood

World War II marks the beginning of Hollywood's triumphal procession with most of the European film industry infrastructure destroyed or in stagnation.

A handful major production/distribution companies rose to power. From the 1950s onward, their integration into diversified conglomerates began, resulting in their involvement in a wide range of cultural production.

Those Hollywood majors are sorted in a tier one group or the instant majors, which includes the top studios:

Time Warner, Twentieth Century Fox, Paramount, Columbia Pictures, Universal, Disney and as the latest member *Dreamworks S.K.G*.

The second tier includes a few smaller or less potent production/distribution companies, or so called minor majors like *MGM/UA*.

Interest in the Hollywood majors became especially intense at the end of the 1980s with a concentration of mergers and consolidation. Deregulation as result of financial upheaval (post-fordism), privatization, technological developments, and opening of international markets contributed to this growth. At the end of the twentieth century, several Hollywood studios were owned by foreign enterprises like *Sony*, *Vivendi*, or *News Corp*.

Production teams in all countries often work directly for the major companies to make their products appear in theaters as digital formats around the world. The majors therefore clearly dominate the film business. They draw their power from film distribution, which indeed is central to the film business. Despite the rightly presumed risk involved in film distribution, the major companies manage to survive and usually profit. In addition to their position within diversified conglomerates, the major companies have distinct advantages, which include massive distribution profits, enormous film libraries and therefore access to huge financial resources.

In the history of the international film business many newly founded companies tried to enter this exclusive club of major distributors and failed.[3]

This particular circumstance enables the majors to act as gatekeepers, so that they can exclusively attract the top talent and the best projects, while controlling costs by negotiating the best terms of condition. Their access to the mentioned capital, and its concentration in one physical location, allows the Hollywood majors to dominate the world's top film talent, and act as an attraction pole for leading filmmakers and stars to gravitate towards the major Hollywood Studios.[4]

In **Figure 1** – overleaf – are shown ten key player groups in film business.

Clearly, an oligopoly in motion picture production and distribution has existed and continues to exist. In typical fashion, this oligopoly represents the relatively few large companies, which were mentioned at the beginning. They dominate the industry. This dominance is indisputable and most of all undeniable. It is even defended sometimes as necessary for the industry to succeed. Nevertheless, these corporations are not necessarily omnipotent or infallible. They are susceptible to economic ups and downs, recessions, depressions, and other problems. The Hollywood companies have by all means encountered criticism because of escalating costs, and inefficient, unstable management. But nonetheless, the majors still remain major.[5]

So, in order to understand Hollywood economy, one must confront the Hollywood majors and thus ultimately encounter distribution. A point, which is emphasized in this work as one of the main subjects.

[3] cf. Wasko [2003], p. 59 ff.
[4] cf. Finney [2010], p. 10
[5] cf. Wasko [2003], p. 81

01 Creative players	02 Company players (small/medium)	03 Vertically integrated companies	04 Finance players	05 National powerhouses that have wider international market impact
Authers and screenwriters Directors (and writer/directors) Creativ producers Talent 1 – stars/actors Talent 2 – creativ producers, e. g. director of photography editor, etc. (Agents and managers, as representatives of key creative talent)	Production companies – led by business/creative producer or team Sales companies (aka sales agents or international distributors) Distribution companies (normally within a 'national' territory) Specialist cinemas, screens/chains	Production/finance/sales/ marketing/distribution companies Distribution/exhibition companies Specialist ancillary distribution companies TV production/film production companies	Equity players – as investors Equity players – as financiers Tax/cash flow financing players Banks – as financiers Subsidy players/pan, national and regional/US state specific Broadcasters Distributors – aka as 'byers' (Agents – as packagers) (Lawyers – as producer/financier tool) Note: 'finance' and 'equity/investment' are often mixed up. Certain finance players are pure 'investors' in film in return for rights/income streams. Others are 'financiers', meaning that they assist with cash flow through discounting and gap funding rather than direct equity investments (e. G. banks). Broadcasters normally acquire licence rights, but some also invest equity.	Leading non-Hollywood companies – normally vertically integrated. Examples within the European Union include Pathé, Europa, Svensk, Gaumont, UGC, Rai Cinema, Egmont/Nordisk, etc.

* Continued

** Continued*

06 Public funds – national and pan-European	07 Hollywood Studios	08 Leading international independent players	09 Major exhibition chains	10 New players emerging via ‘connected’ market delivery systems
The European Union’s MEDIA programme – loans for development, sales, distribution, etc. The European Commission’s Eurimages co-production support mechanism for production loans National film subsidy bodies, e. g. UK Film Council, Irish Film Board, Centre National du Cinéma (France), Dutch Film Fund, the national Scandinavian/Nordic funds (territories), the Nordic Film Fund (pan-Nordic), etc.	MPA members SONY (controlling Columbia Tristar, MGM, United Artists, Sony Pictures Classics, etc.); DISNEY (including Walt Disney, Touchstone, Buena Vista, and most recently, Pixar); WARNERS (controlling New Line, HBO Films); PARAMOUNT (controlling Dream Works, MTV, Paramount Vantage); UNIVERSAL (controlling Focus, Working Title); FOX (including Fox Searchlight), etc.	The Weinstein Company, Lions Gate, Summit Entertainment, Village Roadshow, Overture, The Film Department, Metropolitan, Gaumont, Pathé, Studio Canal, Nordisk, Sogetel, Scanbox, Entertainment Film Distributors, Momentum, etc.	US: AMC (American Multi-Cinemas) Regal Entertainment Group, Century, Loews Cineplex, Carmike Cinemas (lead in digital), Redstone (National Amusements), UltraStar, Cinemark and Marcus Corporation. European Union: Europalaces, Odeon/UCI, Cineworld Cinemas, Kinepolis, Egmont/Nordisk Asia Pacific: Toho (Japan), Hoyts (Australia), PVR (India), CGV (South Korea)	To include: Apple, Google, Yahoo, AOL, British Telecom, Amazon, Netflix, Ericsson, Nokia, Vodaphone, Motorola, etc. Advancing conent web players – YouTube, MySpace, etc.

Figure 1: Key players in the film business: a break down (Source: own illustration based on Finney [2010], p. 20)

2.2 Hollywood's Rights

Before it is possible to examine the direct implications of the film value chain, it is necessary to ground the analysis on a legal basis.

The related rights, which constitute a movie product can be broken down into three parts:

1. *underlying rights*
2. *newly created copyrights*
3. *exploitation rights*

The underlying rights to a film are normally a pre-existing item like a book, script, play or other sources, which have to be acquired, including any underlying rights that are created or used, also including elements such as character, image or music. Secondly, the right to utilize and exploit the work, of any artists involved in the project, needs to be acquired by legal contract. Furthermore it is required that permissions must be sought and cleared from third parties, e.g. when shooting on location or for service agreements like the use of studios, laboratories, visual effects houses, and other infrastructure. After the completion of a production, the film copyright is created. Other copyright elements are potentially included within the film, such as the score, costumes or characters. These copyrights and related rights are exploited by the licensing of various sales, distribution and merchandising rights to third parties for active distribution, exhibition and merchandising.

The Hollywood Studio system is essentially constructed as a vertically integrated model. The Studios develop the underlying rights. Therefore it controls them. It produces, with the help of producers, the physical film and its marketing and distribution operation positions. It then exploits the product through the varying windows available.

The major Studios are well aware of complex financial instruments, such as off-balance sheet financing. In contrast to loans, debt and equity, which appear on the balance sheet, off-balance sheet financing includes joint ventures, research and development partnerships among other things. This practice attracts third party interests who are not strategic players in the industry to share the risk of production and distribution investment, which enables the Studios to protect repayment of its significant overheads and reduce the cost of financing. They are also in the position to compare and maximize tax and other production incentives. The major Studios also syndicate rights to lower exposure. This can be carried out by two Studios splitting domestic and foreign rights. In an attempt to further mitigate risk versus the costs of production and distribution, nowadays more than $120m for most studio productions, and as high as $300m for tent pole releases, the majors have focused on franchises based on properties that have proven their appeal in the global marketplace.[6]

As will be bared later in this disquisition, these windows of exploitation are about to radically change over the influence of the Internet.

2.3 Murphy´s Law

This small section quickly presents an economic rule, which will be referred to in subsequent points of the work.

The specific rule is called *Murphy's Law* and describes a 20/80 model. It suggests that 20 percent of the goods produced take in 80 percent of the revenues generated in the market. Some other author first described this phenomenon in the context of other industrialized processes, but *Art Murphy*, statistical analyst writing for Variety, was the first to render it on the theatrical film market.[7]

In the course of this work *Murphy's Law* helps understanding the high failure rate of products in the film market, which is a fundamental characteristic of the film business.

2.4 The Industry´s Price Policy

The price policy of the film business can be divided into two categories. The first one is the competition oriented approach. The particular circumstance lies within the nature of the film business. No matter how expensive the production of a movie is, if $30 million or $300 million, the ticket at the box office always costs the same. (The illustrations on the following pages, are showing the summery of receipts and expeditures in **Figure 2** and the avarage costs of film production in **Figure 3**).

The same goes with DVD/Blu-Ray sales. Only movies with excess length or shot in 3-D are higher priced than the average product. According to that, 3-D slightly differentiated the current pricing structure of the business.

The second category is described as the demand oriented price policy. Prices can be adapted by the exhibitors (cinema owners) depending on the demand and the time frame, in which a movie currently runs. Almost similar to the sale of DVDs and Blu-Rays. New releases can be higher priced than movies, which are already in trade for quite a while.[8]

[6] cf. Finney [2010], p. 9 ff.
[7] Ibidem [2010], p. 100
[8] cf. Wirtz [2009], p. 329 f.

GROSS RECEIPTS

- THEATRICAL EXHIBITION
- HOME VIDEO
- PAY/CABLE TV
- TELEVISION (NETWORK + SYNDICATION in the US)
- NONTHEATRICAL (airlines, military, schools, hospitals, prisons, etc.)
- MERCHANDISE
- MUSIC
- MISCELLANEOUS

EXPENDITURES

– Distribution Fee (30% US, 35% Canada & UK, 40% rest of the world)

– Distribution Expenses
P & A
• Prints
• Advertising and publicity
(+ 10% advertising overhead)
Collections
Dubbing, foreighn versions, any copyrights or licensing fees
Shipping/transportation
All form of taxes
MPAA dues
Theater checking
Royalties/residuals
Miscellaneous (charitable contributions, legal fees, etc.
Overhead (10 %) (fixed costs of marketing department)

– Interest on negetive cost

– Negative cost (can include budget, overhead (12-25 %), interest)

– deferments & gross participations

NET PROFIT

– Net Profit Participations
– Producer's Share (50 %?)

Figure 2: Summery of receipts and expenditures
(Source: own illustration based on Wasko [2003], p. 88)

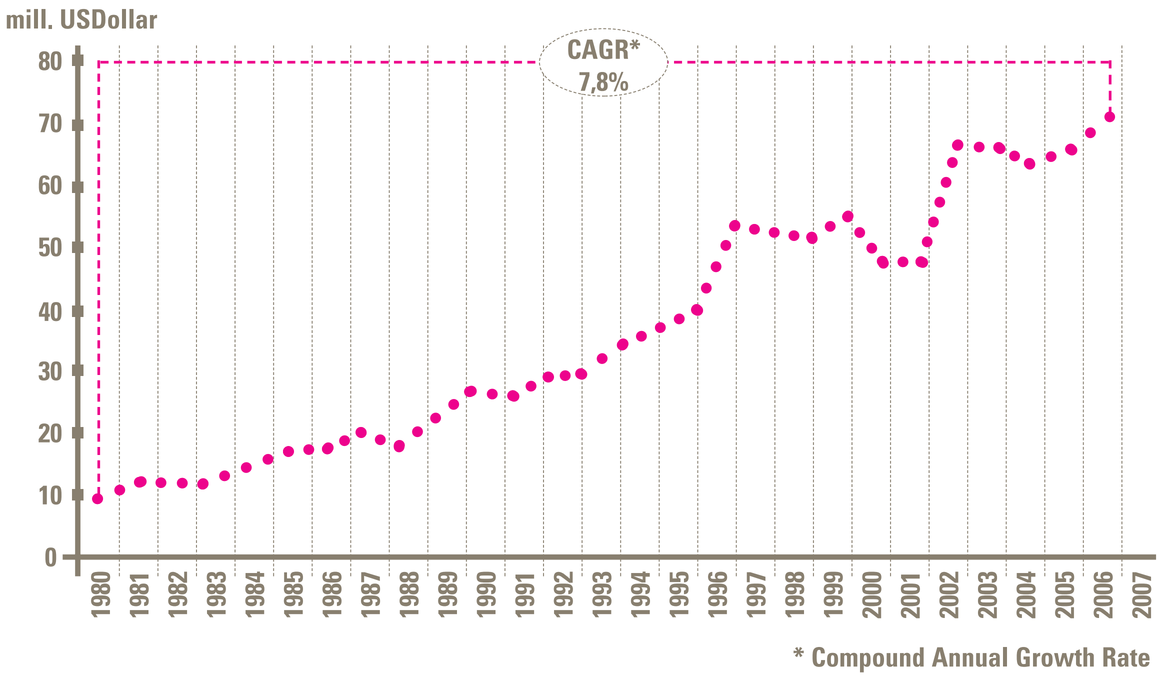

Figure 3 : US Major Studios' avarage costs of film production
(Source: own illustration based on Wirtz [2009], p. 325)

Another method of price differentiation is the structured windowing-strategy, which is part of the next section.

2.5 Strategic Positioning and the Film Value Chain

Since the 1980s Hollywood embarks the *Blockbuster-strategy* and has enforced from that moment on. Within the scope of this strategy the major Studios have reduced the amount of their annually productions to intensify the marketing of their big budgeted movies. For example Paramount has produced 50 percent less movies in *2002* than was usual before. Hollywood is now more than ever interested in producing *event-movies* that are characterized by creating a whole world of experience around the movie. The main reason for that is the high revenue from licensing and the split of marketing investment. In doing so the biggest portion of revenues, is supposed to be generated within a short period of time by distributing the movie on a high number of screens, due to the intense price competition at the box office broached in **2.4**.

The rising production costs in the industry are not necessarily to be negatively interpretated. There are a numerous of examples, which indicate that motion pictures with a high production standard, and on account of this, high budgets can be outstandingly profitable. Also projects, which were not able to initially generate net profits, became viable in the long run. This is the basic setup of the *tent pole* strategy[9].

[9] cf. Wirtz [2009], p. 325

To get the big picture and to be able to comprehend, where Hollywood correlates its strength, one has to understand that a lot of the world's Industries have wholesalers, but their role is in most cases more narrowly defined than in the film industry. Wholesalers are normally customers of manufacturers, from whom they buy products at discount prices, and resell it at a higher price. So, one can say that wholesalers are intermediaries who are not directly involved in making decisions about the actual product. The major distribution companies, however, have tremendous power and involvement in the manufacturing process itself. Often, they are in control of a film. They can influence all elements of a production, like script changes, casting decisions, even final edits.

According to the Motion Picture Association of America, global revenues for the major Studios in 2002 totaled *$37.3 billion*. This included incomes from theatrical, home entertainment, television and other outlets in the US and foreign markets.[10]

These forms of exploitation are part of the film value chain, which presents itself as follows in **Figure 4** (overleaf).

Why is it so important to regard the film value chain in the context of this thesis? Because, as an essential part of the economic complex of the film industry, it represents the existing business model Hollywood has used to succeed. Beyond that, it reflects the battlefield where change, caused by the new economic impulses of the internet, engages. Especially the relation between distribution, production, exhibition/exploitation and consumption will be affected. That is why this chapter reviews the tail of the chain more detailed.

Let us have a look at the forms of exploitation first:

Theatrical exhibition:

> *The introduction of new outlets for motion picture has continuously been accompanied by predictions that theaters or cinemas were doomed. Nevertheless, most films are still released first in the theaters, which still attract sizable revenues each year.*[11]

The overall revenues at the theaters in 2009 were *$29.9 billion* according to the Motion Picture Association of America.[12]

[10] cf. Wasko [2003], p. 80 and 84
[11] Ibidem [2003], p. 104
[12] cf. Frankel [2010], p. 1

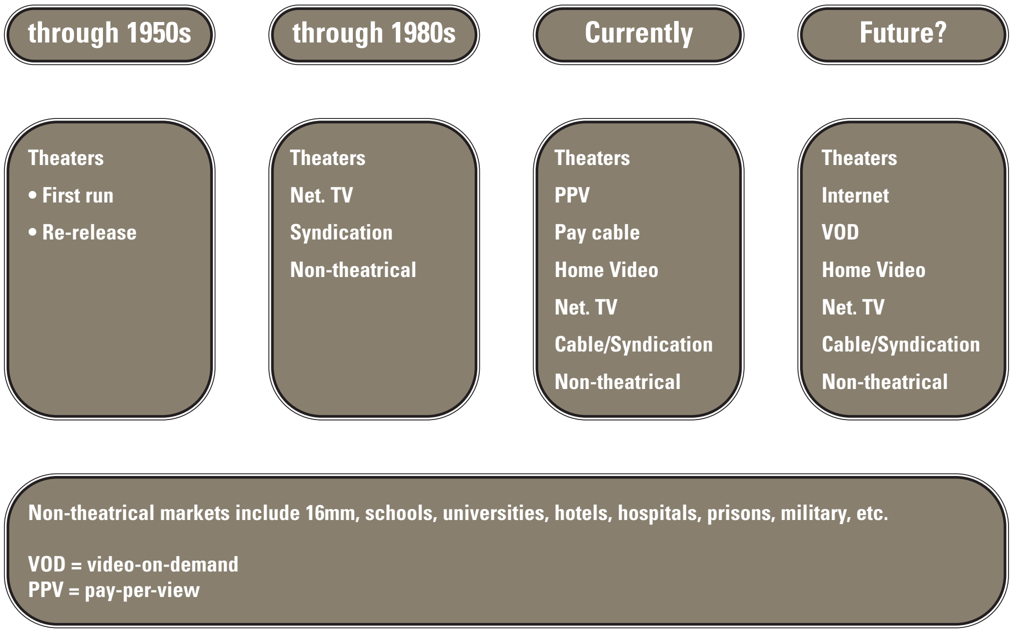

Figure 5: Release patterns and markets
(Source: own illustration based on Wasko [2003], p. 105)

Box-office receipts are only one source of revenues for a Hollywood film, but the theatrical release normally precedes release in other outlets and sets the value for markets that follow.[13]

The theatrical release window is also the first vertical form, because it was the first to be used transmitting film.[14]

The distributer's share of the total box office receipts (in professional circles called the gross) is the film rental and can be as high as *90 percent* of the box office gross after exhibitor's expenses. It is often claimed that distributors receive around *50 percent* of the total box office receipts, but this amount actually may be underestimated. Theaters are still considered the key film market for a number of reasons. The importance of building consumer interest in a film at the box office is primary and sets the value for other markets. As one statement points it out:

> *A bad opening will usually kill a movie and kills all the potentials of the movie. Because while the preponderance of income and the revenue strings in the movie business today are no longer from that domestic box office – the money really is coming in from worldwide box office – sales to television, home video, DVD, and all those other revenue strings on a global basis are so driven by that success or failure in the domestic box office.*[15]

[13] cf. Wasko [2003], p. 88
[14] cf. Finney [2010], p. 4
[15] cf. Wasko [2003], p. 105

Home Entertainment:
The sale of DVDs and Blu-Rays represents larger revenues than the theatrical box-office. Since the late 1990s a direct revenue sharing with the leading retail chains has been adopted.

Pay-Television:
License fees for Pay-Tv usually are based directly on the theatrical box office gross of the movie. In these deals, a movie must have appeared in a minimum number of theaters for a minimum amount of time with a minimum amount of advertising expenditures. Also, the same companies that own the Pay-Tv outlets own the major distributors.

Free-TV:
The term „free“ in this case is misleading, as advertising represents a form of financing that is not entirely free. Consumers ultimately pay higher prices for products and services, to which advertising expenses have been added. When reporting revenues from free television, the industry is referring to network, syndicated and cable television, and foreign television.
These syndication markets can purchase packages of films, with a single license fee negotiated for the entire package. For purposes of profit participation, each movie is assigned a specific amount of the overall package according to a complicated ranking system that is based on US theatrical film rental, running time, genre, talent, and network rating.

Non-theatrical:
The dominant non-theatrical market is the airlines, although Hollywood movies also are licensed to other public or state institutions. Non-theatrical sales are typically negotiated flat fees or a specific amount per viewer, and represent a relatively minor source of revenue.

Foreign markets:
Foreign revenue sources are increasingly significant for Hollywood features. Often the revenues from foreign markets exceed those of the domestic. In foreign theatrical markets, distributors may use their own subsidiaries, a foreign affiliate or a sub distributor. Here also, the US distributors receive a high distribution fee. Entertainment is still the second largest net export industry for the USA, after aerospace. Again, it is made clear that Hollywood dominates the global market for motion pictures.

Merchandising, videogames, music, publishing:
Not all movies generate additional revenues from these sources, however, some box

office hits are able to profit from additional commodities. Many different kinds of deals are involved with licensing the rights to various elements that flow from the initial film product, such as characters, stories, music, etc. Distributors add fees to manage these markets, as well.[16]

Why has the film industry followed such strict structured forms?

The first reason is historical, as the film business was naturally less global at the start of the last century. It was only with the development of the motion picture, and the associated costs in production and marketing, that the need to expand to new undeveloped markets arose. The theatrical window is also the first vertical form, because it was the first available for transmitting films.

The second reason lies at the heart of the industry's economic structure. Based in Los Angeles the majors inherit the worldwide exploitation system that consistently holds the greatest share of the world's film market. They utilize the vertical economic approach by releasing their films theatrically and ensuring increased revenues and profits, through creating a system of windows, where the film product is not released onto the next form of media until the exploitation in its previous one has been depleted.

Each movie is being delivered and viewed a number of ways by the consumer. Up until recent times, and still predominant, is the exploitation chain, which can be summarized like this:

1. *theatrical release*
2. *DVD or Blu-Ray release*
3. *Pay-TV*
4. *Free-TV*

The major Studios also apply the horizontal approach to the business dynamics of film by typically acquiring rights to any possible territories in which the film product could be exploited. Any revenue returns are then governed by cross-lateralization, which means that high returns in some territories are balanced by losses in others. Over the past decade in particular, the distributor's dominance over both conduits of exploitation have been exposed to increasing pressure and market erosion. The international film business stands on a turning point. Changing technology, in this case the Internet and user demands are radically challenging the established windows structure.

In this connection film has a unique combination of characteristics like prototypical production, high sunk costs in the development stage, very high unit costs of production,

[16] cf. Wasko [2003], p. 89 ff.

high and also rising costs of marketing, a vast failure of the majority, a short and competitive shelf life in the theatrical marketplace and no price differentiation in the classical sense (of which more later in 4.6). There are other high value industries in the world that share some of the same properties: biotechnology, oil and gas exploration and high-end sports. However, the combination of upward cost pressures, the historic transfer of power and economic benefit to talent, all due to competitive pressure, and the relatively poor rates of revenues in important markets of TV, DVD/Blu-Ray and the Internet, have led to a decline in operating margins, which have fallen from 15 percent in the 1970s to 5 percent these days.[17]

> *The explosion of the DVD business helped fuel a spectacular boom in Hollywood, one that lifted the community's expectations and appetites.*
> *But the air has gone out of the DVD balloon and the gab between the demands of the corporations and those of the artists who contribute the content is causing a toxic atmosphere.*[18]

The assured structures and basic business models Hollywood Studios, relied on for decades, are about to get disrupted.

[17] cf. Finney [2010], p. 4 ff.
[18] Bart [2009], p. 4

3. Specific Structural AnalysisSpecific Structural Analysis

This chapter now will determine the effects of digitization on the motion picture itself, furthermore will it offer a look on internet piracy as an initial consequence and, as a transition to the main argumentation, show what happened to the music industry, when digitization began to mess with its business model, to give an example that can be used as a negative benchmark compared against the economic development of the film business and its dynamics.

3.1 Digitizing the Movies

Digitization of the media is in full swing. The motion picture is no exception to this rule. Not only is the technical implementation of a movie fully digital, but also has digitization, and the underlying binary system, enabled the microelectronic diffusion of the product, which results in almost infinite duplication and accessibility of film.[19]

The cyberspace and its worldwide digital connectivity allow a dialogue like media communication independent from time and space at the speed of light. The consumer becomes the user. A more direct connection between the filmmakers, distributors and the user is correspondingly inevitable.[20]

Angus Finney refers to this issue:

> *There has been a generally held assumption that the digital age will bring huge change to the movie industry's primary window – the release of films at the cinema. There are a multitude of factors in play, including the poten tial reinvention of content, alternative programming, the specific kinds of films that could become available, alternative and highly flexible, targeted programming, non-feature film material such as live performance and sports events, new ways of presenting film material and groundbreaking technical experience devices including, most importantly, 3-D viewing.*[21]

This currently experienced development is one of the chances the film industry is encountering. The global digitization of filmmaking and exhibition could allow considerable flexibility and save billions of dollars in all branches related to film distribution.

19 cf. Hartig [2007], p. 3
20 cf. Hüther [2005], p. 3
21 Finney [2010], p. 90

For approximately 80 percent of the benefit would accrue to distributors, who are the main object of this work. Taking this fact further on, the latest technological advancement enhances the customer experience and as an advantage for the distributors, obviously legitimates increased ticket prices.[22]

This advanced integration of film into the social economic arrangement of our society holds new challenges and changes, but above all it implies a very disruptive force, which affects the manifest forms of film distribution and the legitimation of the film industry's active business model.[23]

The next statement puts the facts of the case in a nutshell:

> *They [the majors] have represented the tallest, strongest „gatekeepers „of the system. The Studios have long had to suffer barbarians at their gate, in the form of a significant independent sector. But those gates are currently being beaten more firmly than ever before in the shape of digitization and the global Internet.*[24]

Terms like user generated content and the emergence of content piracy are some of the many examples of issues relativizing the concepts of copyrights and the self-conception of an industry that has prevailed for so long.[25]

The issue of piracy will be the object of the next section.

3.2 The Never-Ending Story of Piracy

Huge file sizes and the natural occurring distrust towards the Internet have delayed Hollywood's altercation with the issue of piracy.[26] But even without the Internet, piracy causes considerable losses:

> *The MPAA and MPA claim that the US motion picture industry loses in excess of $3 billion annually in potential revenue due to piracy. The organization states that this figure does not include Internet piracy losses because of difficulties in calculating such ammounts. However, those damages are claimed to be substantial. For instance, one estimate was that there were 4 million illegal downloads of Star Wars and Spider Man during May 2002.*[27]

22 cf. Ibidem [2010], p.90 ff.
23 cf. Todtenhaupt [2000], p. 21 ff.
24 Finney [2010], p. 18
25 cf. Monaco [2000], p. 550
26 cf. The Economist [2010], p. u.
27 Wasko [2003], p. 214

Since it is si easy to reproduce media on a proivate level, piracy has occured in different forms. Hollywood's comprehension and inclusion of new technologies has always led to breaches of copyright laws. As the film industry introduces these new technologies to evolve and expand its products, it also inevitably introduces loop holes for those who want to illegally and unauthorized exploit the products themselves, if it is *Theatrical print theft, DVD/Blu-Ray piracy or Internet piracy.*[28]

In 2004 the number accounted to piracy in general was *$3.5 billion*. This number still does not say anything about Internet piracy, but there are estimations that the number including digital trafficking is 75% higher. If this number rises, declines or remains stabil cannot be said at this point. What can be said very clearly, is that piracy not only affects the overall income of Hollywood, but also can have a grave impact on the public opinion, when a movie is released illegally via the Internet preliminary to the actual film premiere.[29]

Another example is dedicated to a website called *ZML.com*, where users could download films from a huge library in at least DVD quality. *ZML* had a user-friendly interface and offered its products for a reasonable and competitive price. One could assume that it was a perfectly legal film distribution website, but to the contrary it was a very sophisticated pirate website. *ZML* has been shut down by the government of the United States. But there are still countless pirate operations in form of Bit-Torrents and Peer-to-Peer file sharing systems. The main problem in this case is that the choice of what is legally available succumbs the range of options offered by illegal databases.

This creates a situation that threatens and noticeably damages the DVD market, which represents the main income source of the current business model, because of revenues double the size of those, produced by the theatrical sector. But where is danger, there is awareness. The distributors know that neither the DVD nor the Blu-Ray will define the future of film distribution; anyhow the majors still remain dull about the issue. But there is no doubt, and that is foremost the lesson piracy teaches the industry, in the longer run the only growth market will be the Internet.[30]

Despite of Hollywood's cooperation with governments all over the world and measures like simultaneous foreign release dates, or the introduction of 3-D as a more advanced exhibition technique have shown some constraining effects on Internet piracy, the problem may never be fully resolved.[31]

27 cf. Wasko [2003], p. 216
29 cf. Kirsner [2008], p. 182
30 cf. Finney [2010], p. 124
31 cf. Wasko [2003], p. 218

3.3 Worst Practice: The Music Industry (an Excursion)

This section shines a light on the transformation process the music industry had to endure during the late 1990s and the beginning of the 2000s. It serves us as a negative benchmark to see what mistakes were done and how these mistakes can be avoided.

The interesting fact is that the music industry was, and still is to a certain degree, structured the same way as the movie industry. There were handful major distributors, who were the dominant force behind the business and had a winning streak between *1985* and *1995*, in which they tripled their revenues.

Then came the *World Wide Web* and the introduction of the open MP3-format occurred, which made music files easily downloadable right from the start. At the end of the 1990s the meltdown was perfect, as the pirate bays like Napster appeared on the set and clustered millions of users around them. The music industry let itself be taken by surprise by this development and reacted in panic. Huge restrictions were forced and finally the battle against the free download platforms were won and the biggest pirate bays went offline. But instead of establishing a common front and encounter the new challenge together, the major music incumbents blocked each other in the attempt to utilize the new model, introduced by troublemakers like *Napster*, for themselves. This happened out of the fear that one of them could succeed over the others and then dominate a potentially new distribution model. So the effort to sell their music via the Internet on a grand scale failed, because the majors could not agree on common terms, therefore could not establish a mutual platform and then tried to sell their product on even higher prices coupled with unattractive restrictive conditions on different platforms on the net.

It required a force from outside the industry to unite the major players again. *Apple* introduced the *iPod* and *iTunes* in 2001 and 2003. The commercial platform combined all the advantages the majors were looking for, even linked with a user-friendly hardware supply and a fair price policy. But it was already too late. The struggle and history of failure forced the music industry's majors to agree to *Apple's* approach. *Apple's* success and market leadership even made it a major player itself and as result established a dependency concerning the established incumbents.

The irony of the matter is that eventually the old business model has been reestablished during this process. Music is produced by the major companies and then sold via a store based distribution structure. However, the main difference now is that the market has shifted into the cyberspace and that the remaining majors have lost the control over the most important sections of the music industry's value chain. In all their endeavor to find a place in the digital world, the music majors overlooked to cultivate their business model on a horizontal level and experiment with new forms of distribution, which they have to make good for today.[32]

3.4 Leisure Time and Attention as the Ultimate Economic Resources

What all target groups and all consumers or users have in common is that they have 24 hours per day to do, what they have to do and there is logically even less time to spent on leisure time activities, let alone on consumption. So there is heavy competition within the available daytime. Films are one of the most expensive media to produce and yet they take up a very slight percentage of leisure time available. The film marketplace is therefore a very competitive one, also in this aspect. Expenditure and time use surveys have shown that there has been substitution away from cinemas and DVDs into Internet use in general. This occurs particularly amongst 15-24 year-olds, which happens to be one of the most lucrative target groups of the film industry.[33]

What emerges from these facts and circumstances is that more than ever attention hast to be created as a key component to keep certain windows of the value chain open.

Information floods every inch of the networked world. To become useful and manifest in a way it can be accessed and consumed by the user, it has to create attention. As a matter of fact attention plays a central role in connecting Internet-economy with the film value chain and its multiple income streams.[34]

As Richard A. Lanham puts it so properly in a rhetorical question:

> *Must it not be human attention, the action that converts raw data into something humans can use?*[35]

The sheer overwhelming increase in information availability makes it harder for the average consumer to distinguish and select viable and foremost reliable data. Exactly this knowledge makes time to a vital issue. Because the absorption, and therefore the comprehension of information takes time. And as pointed out at the beginning of this section, time is a resource, which is not infinitely available in our society. The shortage of this resource becomes greater as the information society continues to grow.

32 cf. Dolata [2007], p. 348 ff.
33 cf. Finney [2010], p. 98 ff.
34 cf. Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 36 ff.
35 Lanham [1994], p. u.

The same goes for attention, which is also principally limited. Only if information strikes attention, can it affect human behaviour and by implication initiate an impulse for action. If information does not trigger attention it remains ineffective.
Only the bid of information is being consumed, which provides the greatest benefit for the time spent. This proposition implicates the huge demand for audiovisual offers, because it takes less time to consume a complex amount of information visually as in text format.[36]

Creating attention is the nature of the beast, so to speak. The challenge of the film industry is to chanel the created attention in the right directions in a world taken over by the online-world, to engage the boosted competition for people's attention as a whole.[37]

36 cf. Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 41 ff.
37 cf. Kirsner [2008], p. 196 f.

4. Strategic Implications, Anticipation and Concrete Change

This chapter starts practically the main argumentation. It converges the facts, listed in the previous parts, with the developments leading to the answer of the research question. Consequently the chapter is dedicated to Internet-economical aspects as well as the changing complexities of film distribution the industry encounters nowadays. In that regard we see where change really affects the Hollywood business and if the old business model in fact has to be discarded or not.

4.1 The Changing Value Chain and Shift of Power

Digitization has led to increasing networking, which again begins to erode the traditional value chain of the international film business. In this pressurized environment there is one substantial credo to be followed: „Always be the first one to prune yourself, before someone else does it. “ For the online market is subject to high economies of scale, in which a late market entry can be fatal. Some of the reasons why the film value chain, like any other, is translocating into the online environment is because there are lower transaction costs and a bigger performance variety centered around a heightened media richness. Good quality of content and a noticeable additional value remain the requirements for being successful also in this ecology.[38]

On top of that, again the Internet represents a horizontal world delivery system being able to spread information and media at light-breaking speed. As a consequence the new technology also greatly interferes with the vertical chain model. A result is that the so far successful windowing system of Hollywood is breaking up.

As we determined in the early passages of this work, the distributors are the gatekeepers of the industry. Nothing is being done without them. Out of that reason they have been the main risk takers, but also the ones, who benefit the most out of every deal made in the market. The specific economic characteristics of the film business, like rising costs on production, the high failure rate, the capacity constraints in exhibition, all reasons why the majors remaind powerful.

Today’s generation can witness how this economic power house is forced to change. The emergence of direct links between the producer and the consumer/user is now fundamentally chaning its architecture. Production and distribution roles as with the music

38 cf. Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 17

industry are becoming more important maybe at the cost of the distributor's dominant position. The changing game slowly forces the distributors to adapt to the user's demands, within his or hers own terms of time management, rather than what suits the distributor's time scale of delivery.

But the picture is not to be drawn too darkly. The transformation process is unlikely to change all sectors of the film business. Mainstream studio productions will probably continue to be distributed in the same manner over the next 10 years. What is definitely about to alter is the vertical structure of the film value chain. It will tighten to a great degree, whereby the producer is brought much closer to the consumer/user and can rake in the revenues being recouped. Niche target groups or audiences have more significant value if able to be reached in a less expensive way. Community build ups offer the potential for fan bases and by implication significant commercial core audiences, too.

So, as determined the film market virtually undergoes a rebirth, with the distributor's supremacy possibly undermined, by both the producer and the exhibitor. New opportunities of film financing also arise with big retail brands, for example, being interested in new sponsorship and marketing fields. Internet marketing as a prospect will encourage those, who are momentarily at the end of the value chain, such as exhibitors, Pay-TV operators and video game operators to penetrate the production sector themselves. Global players, predominantly Google and Apple, may also enter the market. They could initiate the production of films and commission development which in turn help drive their platforms. This would cut out third-party distribution as a whole. The cost of marketing will be carried by the production financier rather than be carried over to the distributor. A development that can be seen partially today.

Figure 6: New film exploitation value chain
(Source: own illustration based on Finney [2010], p. 16)

According to that, the redefined film value chain will become considerably compendious and simplified. The theatrical release of motion pictures will continue to dominate at least for a few more years, as it is still the success defining element and of course a whole other consumption experience in comparison to home entertainment, especially considering new exhibition capabilities like stereoscopic 3-D. The vertically arranged and complex exploitation system of connected windows will look a good deal flatter and more horizontally oriented, though. (That is portrayed in **Figure 6**, page 26.)

That does not mean that the value chain cannot be compressed even further. At least in some cases, making it more dynamic. People still go to concerts or watch sport events live in stadiums, although there is always the opportunity to watch these contents at home. The same case could be imagined for the future of film distribution in connection with the Internet, in which a „one-window"-exploitation still creates noticeable profits in all exploitation forms, maybe even fueled by the diffusion speed of the network.[39]

The described evolution consists of pure logic. As Angus Finney rightly says:

> *Users have been voting with their mouses. Controlling web activity is the antithesis to controlling audience access to product through the structured window system of releasing across different platforms on different timetables.*[40]

But because the regularities of *Murphy's Law* still apply to the film industry, its power law distribution looks very different to normal, also called „bell curve", distributions. Extraordinary events, like the introduction of the *World Wide Web*, not only affect but dictate the performance and awareness of the film product. That is why standard risk management procedures are not effective in film investment models and that is why developments in this subject cannot be predicted with high accuracy. What can be said is that the Internet lowers entry barriers, which also affects the strategic marketing considerations of the established business players by democratizing the art of filmmaking.[41]

The described change of the film value chain is the main aspect that explains the evolutional effect the Internet has on the film business. All economic action must be executed according to this modification. How the potential restructuring may look like, is made more clear in the following sections.

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39 cf. Kirsner [2008], p. 196
40 Finney [2010], p. 123
41 cf. Finney [2010], p. 14 ff.

4.2 Internet Marketing: Hollywood´s Favorite

From a strategic marketing perspective Hollywood has discovered the *World Wide Web* early on. Already in the mid-90s all the major Studios had web sites connected to their biggest releases featuring audiovisual content like trailers or scene stills. The online circulation of trailers represented a new tactical engagement with the potential user. The Internet became a key instrument of viewer congregation. Publicity could be distributed more rapidly and above all cheaper than before.[42] Already by *1997 40 percent* of the movie sites had some sort of interactive attributes.[43] But it was not until *1999*, when Hollywood discovered the full promotional potential of the Internet. This insight was inspired by the independent filmmakers who used the Internet in a very innovative way to promote their products. *Blair Witch Project* is a very good example, where the makers skillfully sowed information relating to the reality of the movie and as a result caused a viral effect never encountered before. Fan bases and the media were all over the movie and the revenues became astronomical in comparison to the productions costs (made for approximately *$50,000* and grossing more than *$100 million* in the US alone). The special characteristic of the marketing campaign was the mixing of fact and fiction and the overall marketing effect being exponentially more worth than the actual costs invested in the campaign.

The dynamic shown between the Internet and film in this section can be viewed from a micro level referring to interaction with audiences through social networks, applications, etc. At the same time it can also be viewed from a macro level, which connects film marketing to a greater socioeconomic context, in which the changing structure of the industry and its enhanced relationship to the consumer (and now user) is reflected, pointing out that the Internet emerged as both, a new marketing tool and a new chanel of consumption. The business is now in the middle of a turning point. Marketing transitions from a *one-to-many* broadcast principle, in which market entry can easily be controlled by a few *gatekeepers*, to a customized *one-to-one* relationship, but still on a mass media scale, only highly responsive to the individual user.[44]

42 cf. Grainge [2008], p. 137 ff.
43 cf. Wasko [2003], p. 199
44 cf. Finney [2010], p. 131 f.
45 Franklin [2008], p. 24

Michael Franklin states concerning this matter:

> *The internactive media platform offers opportunities for advertising, selling, pro duction, distribution and market research that are inseparable and complemen tary. Digital technology has reduced conversation cost to zero,providing limit less any-to-any communication that is a dramatic contrast to the historically dominant one-to-many broadcast model. … Any-to-any communication opera tes on a global scale and affords limitless possibility for both information and value transfer between consumers and businesses in any combination.*[45]

It is now possible for the producer through the aspect of interactivity to start communication and to establish a two-way line with potential audiences before any other traditional advertising tool is introduced. The producer is thereby capable of adjusting the product according to the taste of his audience, while still in production. It creates a more intimate relationship between the user and the producer, which in return builds brand-loyalty and what is the most effective outcome, constructs user communities, which may turn into *fan bases*. From a creative point of view it can be hard to determine the extent of influence, which is appropriate to allow from the audience, but it is definitely an advantage regarding market-based strategies. That aspect resembles the biggest change and chance in comparison to the 20th century so called *push advertising techniques*. Out of the new method can emerge a full scale buzz, which results in self-perpetuated awareness and word of mouth far beyond any core fan base. But for all that marketing costs have still risen in most cases within the last 10 years, because Studios still go very traditional ways and just buy out pages in the web so as to dominate headlines. In contrast a much cheaper, but more uncertain strategy is the viral approach.

The term viral marketing refers to a form of marketing that is initiated by subtly positioned and promoted elements, which are supposed to start a chain reaction of an *idea virus* spreading autonomously through the Internet by people passing along a message voluntarily. Viral promotion can be started with anything, if it is a USB-Stick left in a public place or an image that contains any kind of code, the possibilities are nearly endless. Contrary to usual word of mouth spreading, which can die out over a period of time, viral marketing and any *idea virus* can grow exponentially. In the process, it emphasizes natural human behaviour of sharing, disseminating and interacting.

45 Franklin [2008], p. 24

It is important for producers or marketers interested in creating a successful viral campaign to identify or invent individuals with high social networking potential, also refered to as SNP and to create messages attractive enough for a broad community in order to have a high probability of being passed along a specific segment of the population. Astroturfing is in most cases involved in the process to give the impression of natural or spontaneous word of mouth enthusiasm. Not all film themes are obviously suitable for viral marketing, but the link between two-way-communication and UGC allows for a wide range of ideas and options. Traditional marketing material like trailers, artwork, etc. also still have their place within this form of promotion, but they are broadcasted in a way that the user can interact with. But remember the viral effect of a campaign cannot be anticipated at 100 percent and is no guarantee for high revenues. Examples like *The Dark Knight* or *Star Trek* are evidence for successful marketing campaigns including viral methods. But examples like *The International* or *Snakes on a Plane* were not as successful as expected, despite a viral approach. The situations in which a viral campaign mostly works can be narrowed down to projects, which are kept in shades, so that fans become highly eager to discover, or a greatly anticipated project that has enough time in advance to well connect with its audience.[46]

Marketing wise the Internet is literally Hollywood's ace in the hole. It provides almost exclusively advantages considering its possibilities and economic aspects. The creative content produced by the film industry is perfectly suitable to create alternate, or virtually realities, or to pull up whole universes around a product franchise. Storytelling and entertainment has always been an interactive issue in human history, it is something people have to and want to participate in. But with the Internet the whole case gets a new and globally networked dimension. Marketing is just one fraction of the complex to put the film product into the market. The next step is distribution. And how this looks like in the online world is the subject of section **4.3**.

4.3 Internet Distribution: Disruptive but in Any Case Necessary

The main reason, why Hollywood has been the least affected of the large creative industries by the rise of the Internet, was pointed out in section **3.2**. But the current developments cannot be stopped. Accordingly the mostly undiscovered land, in form of the online market, has to be conquered. One part of the strategic approach is the distribution of the film product via the Internet.

46 cf. Finney [2010], p. 133 f.

Online video-on-demand was already available in *1997*, but still is not fully built out today, although it is a rapidly growing market, which almost grosses an estimated *$2 billion*. There were two waves of Internet platforms to be noted, offering movies online in the last 14 years. They failed in establishing a viable sales model. We can now witness the third wave with *Apple iTunes* as the leading platform. But there are also other players to be considered: *Amazon*, *Veoh*, *Hulu* (which has a very distinctive connection to Hollywood), *Netflix*, and *Blockbuster*.

One advantage for the film industry that has led to the current development is the thoroughly less disruptive influence of piracy and other effects of digitization, compared to other businesses. Basically three models of profitable online distribution have emerged. There are advertising supported sites, which are offering to watch motion pictures for free. It effectively resembles the free-TV model relocated to the net. In this case the most successful platform is *Hulu*. Then there are sales platforms that enable the user to rent or buy movies as downloads, which are paid individually. The leading protagonist is *Apple* with its *iTunes*-platform. And lastly there are so called *subscription* sites, where subscribed users can rent or buy films on a pay-per-view basis or provide a surplus value in form of free streaming products. To utilize this privilege the user pays a monthly fee and receives physical DVDs or Blu-Rays delivered directly to their home. *Netflix* happens to be the first to be successful in this segment. In addition there are also some sites, which combine parts of those models, e.g. offering rent as well as free broadcasting combined with advertisement.

Blockbuster, *Amazon*, and *Netflix* are literally the cyber-versions of a video store. *iTunes* can be counted to that group as well, but movie section is constructed more like the music platform. It uses the content as a foundation to sell the matching hardware like *iPods*, *iPads*, and *iPhones*.

The specialty of *Netflix* is to offer free content for streaming to its subscribers, who rent physical volumes to be delivered at home. Also, *Netflix* offers a premium service to anyone, thus enabling not only subscribers to stream movies on pay-per-view basis. Recent news suggest that the success of this particular model has led *Netflix* to emerge into other international markets, like Central and South America and may set the ground to penetrate the European market in 2012 as well.

Most of the best rated platforms utilize the free movies with an advertising model. *Netflix* is the only one of the top ten sites to use its specific commercial strategy. The sites, which lead statistically in downloads and streams are *Hulu* and *iTunes*. Again, the main difference between the two sites is their market goal setting. *Hulu* is a content based platform, whereas *iTunes* handles a device driven business. Because of their user-friendly interface and the most attractive bargain (*Apple* with its reasonable prices and *Hulu* with a free-to-use model), from a consumer's perspective, have managed it within a few years to reach a chain-reacting mass of users. That fact gets to the heart of their success. The extraordinary success of *iTunes* poses self-evidently a threat to traditional business models. Because its model, which I describe as a „two-phase-model“, sells Hollywood premium content in high quality at a near break-even point level and then profits from hardware sales.

At around the same time, in 2008, Hollywood has made its bet on *Hulu* with its advertising supported online VOD platform. The rise of *Hulu* had a huge impact on the market. Especially, considering it being backed up by major incumbents of the US film industry. Their success seem to prove that content still is the major reason to buy, also in the net and that Hollywood is forearmed to survive within the global cyberspace. Of course the numbers attesting this success are still centered around the USA and because of that it is not possible to predict the global magnitude of the development. But as the US has always been a prototype market for innovative businesses, exceedingly concerning e-commerce, one can anticipate that the Hulu based model can be easily applied to a global stage.

Having said that, some might notice how this situation also reflects *Apple*'s position within the music business with its price policy, which made the major labels slaves to the ultra-thin margins of *iTunes* and *Apple* more powerful than ever before. Learning from this mistake, Hollywood refused that kind of distribution model and went with the advertisement based model by simultaneously offering the content for free. A practice Hollywood is used to in reference to the sales of free-TV rights. The majors know this playground for 50 years now and understand it very well.

As technological hurdles were overcome in the past three years. Significantly due to the efforts of leading nations like South Korea and Japan. There downloading a full sized high definition movie takes around 5 minutes. Other barriers towards the fully online distributed film remain. For example, surveys have indicated that most people prefer to watch their movies on a television set, rather than on their PCs. This consumer behaviour mostly is based on the wide spread of home theatre systems and high end devices like LED screens or HD-wall projectors. Connectors between those items and the PC are broadly considered „user-unfriendly“. Technological advancement is indicating a sort of hybrid technology.

Another severe barrier is the absence of a common digital standard across all platforms. Download rights tend to differentiate greatly within the online ecology.[47]

That barrier has been of great concern from the start and that is why it is addressed intensively by the industry. One recent outcome is the *Digital Entertainment Content Ecosystem*, a consortium consisting of five major Hollywood Studios as well as other players of the IT-market and retailers. The join agreed on a format for digital motion pictures and founded a single outfit to monitor purchases in the beginning of 2010. This is a huge step forward in harmonizing Hollywood's online expansion. The goal is to prevent companies like *Apple* from doing, what they have done to the music and publishing industry. The *DECE* also follows the trend of lifting restrictions and copy protection, thus creating an open format, which is supposed to create more competition and innovation. By implication, this aims at stabilizing the market for the film industry.[48]

Also interesting is the impact of user-generated content. Already do the professional or commercial content and the UGC run parallel in a form of co-evolution. Both worlds influence each other economically. During the rise of *Hulu* and its high quality content, *YouTube*, under the leadership of Google, also introduced its videos in high definition and even entered negotiations with Hollywood Studios for more sophisticated content.

The film industry on the other hand utilizes *YouTube* as a wide range marketing platform, mostly for Trailers and other audiovisual advertisement.

Both sectors, the commercial and the non-commercial market, grow together, proving that the open nature of the Internet and the IT-innovation it brings with it, can be put at service of a mass media content model. *Hulu* also fits perfectly into this picture.

What is more, also from a producer's perspective Internet distribution holds significant benefits. Core audiences can be connected and reached more directly and successfully than in traditional distribution cases, proper market research provided. As *Peter Broderick*, film industry consultant, points out:

47 cf. Finney [2010], p. 124 ff.
48 cf. The Economist [2010], p. u.

Returns to filmmakers from direct online sales are higher than those made from retail sales.[49]

There is the director of *A Scanner Darkly*, *Richard Linklater*, who incorporated the Internet in his marketing efforts in a very creative way. He encouraged his potential core audience to cut their own trailers for the movie, with material provided by the studio. The best trailer would win a contest at which end the creator of the trailer was invited to the movie's premiere. A very good example of direct producer to consumer communication.[50]

The *National Endowment for Science* provides on top of that more alternative options how to handle digital distribution, specifically relevant for the work as a producer, and in the frame of this thesis indication for more opportunities in the digital ecology:

- ➜ Producers have to watch digitization costs. It is possible to digitize and encode for low costs, a common standard assumed.

- ➜ Video-on-demand deals need careful consideration concerning there platform and the resulting revenues.

- ➜ Be flexible and dynamic by keeping contracts for a short period of time and provide content to as many platforms as possible.

- ➜ Use as many free platforms as possible to promote the film product. Use commercial services as well but do not exclude TV-companies and closed plat forms.

- ➜ Consider self-distribution, it creates an sovereign profile, produces attention and can help to fund projects independently. But it does not guarantee commer cial success.

- ➜ Mobile applications have to be considered as well. But it has to be made sure, that a potential film or other content runs frictionless in this format.

- ➜ These mobile content has to be easy to find and fairly priced, because mobile video content is still a niche market, which has a less influential share of attention. Because of that revenue rates are still low. Network operators are the major players and need to be navigated to get them into contract.

49 Broderick [2004], p. u.
50 cf. Kirsner [2008], p. 190

➜ Also cooperate with non-business players in order to build a rights pool and build up scale.

Regarding this catalogue of propositions it also contains elements possibly embedded in a future business model resting upon the possibilities of the online market.[51]

As another additional example, web streaming in cooperation with *Google*'s *Ad Sense* can push DVD or Blu-Ray sales. But web streaming has one essential problem; it requires millions of views to be profitable. So what if the DVD/Blu-Ray market shrinks? This question makes clear that in the end it will boil down to the model *Netflix* is using right now. Besides their rental system, on which *Netflix* has based its rise to a very formidable platform. *Netflix* now also offers motion pictures as web streams, but on a pay-per-view or subscription basis. As iTunes has shown as well, this model simply bribes through its low prices and simple concept. For that reason it resembles the perfect compromise between monetization and user-expectations.[52]

There are also examples of movies being released successfully in a combination of theatrical release and online distribution. Even cases, in which films are released exclusively via the Internet, or in a simultaneous release also on DVD/Blu-Ray, can be strived.

But the last form is not easy to implement, because it is not in line with the economic ideas of other incumbents of the value chain, with the exhibitors at the front of the opposition. That problem will be part of the next section.

4.4 Case Study: Releasing Movies in One Go

This section will have a quick look on two film projects, which were produced to be released exclusively on the net and how they created a stir that revealed some of the main mental problems, but also the big chances within the industry.

Those two movies were *10 Items or less* and *Bubble*. On the first look two typical low budget movie productions for Hollywood standards, produced for right under *$10 million*. The two movies were at the spearhead of a movement, which intended to make motion pictures available simultaneously in all exploitation forms and in all formats. Both projects had very popular figures to support them. *10 Items or less* had a stunning cast, consisting of *Morgan Freeman* et al. and the director of *Bubble* was *Steven Soderbergh*.

51 cf. NESTA [2009], pp. 7-8
52 cf. Finney [2010], p. 127

The motivations behind these experiments were first of all to save money concerning the marketing costs of a movie. Different release windows require individual marketing campaigns, which are all costing money. If there is just one release, there is also just one marketing campaign to take care of financially. The second thought was to avoid piracy. The almost simultaneous release of the product had the purpose to get the Internet affine audiences on board from the start. So that they would not be seduced by the illegal temptations of the online world.

At the end of the day the releases of the movies went on almost unnoticed by the public and the industry. *Bubble*'s production costs totaled *$1.6 million*, but theatrically it earned only *$145,000*. The producers claimed that they succeeded in turning some respectical profit, but achieved that with DVD revenues and the sales of foreign rights, which are exact practices of the big Hollywood power house, they wanted to prove wrong not adapted enough. So has the experiment failed? That is hard to suggest, because scientific evidence to answer this question is missing. But that is not the object of this example. Instead it shows the industry's bifid attitude towards the handling of the Internet.

While on the one side there are archconservative hardliners, who want to keep Hollywood's involvement with the Internet on a minimum level, there are hyper progressive forces on the other side, who cannot wait to embrace the future, even if there has to be firstly built a fundament to stem the significant amount of change and to make the future profitable as well as efficient in the sense of keeping up the high aesthetic standards of Hollywood. There are also other players to be considered, who still play an important role. First and last the exhibitors have a strong negotiation basis and do not want to lose their exclusive place at the top of the exploitation process. Especially not after their hightly priced efforts to digitilize their cinemas in the first place. So it is no wonder, that most cinema owners boycotted the two movies, which were supposed to even accelerate a radical transition process.[53]

What this thesis points out is that a middle way is probably to come out of this rudimentary “civil war”. A business model, which incorporates aspects already proven to be successful in a human defined economy and considers the evolutionary process of digitization at the same time, can and probably will be successful. The coming section will lead the reader further towards the elements of such a redefined business model.

53 cf. Kirsner [2008], p. 174 ff.

4.5 Content Remains „King“

Media and for that reason the film business likewise stands for the production and the distribution of creative content. Content in the movie industry is promoted and channeled by producers, but assembled by creative artists. That is why the distribution efforts of content are difficult to implement, because the success of creative content, in relation of the attention it is supposed to create, is hard, if not impossible to anticipate. Creative content is a public good. For that reason there exists no rivalry in the context of consumption, which means that regardless of the amount of consumption there is no physical deterioration of the film product itself. Because of that there is an infinite request for interesting and popular content within the industry. Content is the reason why people are interested in film and why Hollywood can potentially build up a new value chain in regard of the online sector. One must not forget, the Internet is already fully commercially accessed. So all in all what is left for Hollywood is its attractive content to create attention and to rise above the competition. Components like the attraction of content, performance quality, and user-friendliness are supposed to have a distinct additional value.[54]

So, in the course of future audience development two key elements are important. The first one is still the quality of the product. But quality does not necessarily indicate big budget movies or the continuing installments of a franchise, which can show signs of fatigue. As it has been mentioned above, there is never any certainty with content and the 20/80 law states that many supposed blockbusters fail to recoup their overall costs even at the end of their full ancillary run. There is always the possibility that a niche product breaks out to a wider audience and becomes very popular and above all things profitable. Recent examples are the movies 300 (2007) and District 9 (2009). Also the reimplementation of 3-D is to be regarded relatively. From an aesthetic point of view it clearly enhances the movie going experience. But on the other hand the product still depends on its content. Films without any proven appeal, just converted into 3-D still will not perform appropriately. That is probably why the relative numbers of 3-D consumption decreased in the last couple of months, just to rise again with the release of other, more attractive films. But that does not mean that one can neglect the technological advancement as the second key element. Digital distribution as a whole and advances in exhibition technology have all done their part in sustaining the movie experience as a major part of cultural life since the late 19th century and has involved audiovisual entertainment as the pinnacle of information transfer. Mass broadband penetration is just the next step in this process. VOD, commercial downloading, mobile devices, etc., it all has the potential to bring entertainment onto the next level.

54 cf. Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 48

Still, while technology and scale is „queen“, content remains „king“. Content is the ingredient, which is independent from any medium or delivery system. Only compelling, emotionally alluring, moving, and zeitgeisty stories will induce people to experience film in the future. The Internet in particular is the next logical manifestation in delivering and promoting incredible content. And Hollywood is still the leading film industry because it produces this kind of content. Hollywood just needs to figure out how to utilize the new delivery system in the most efficient, customer-friendly and of course profitable way. Because without monetizing every creative industry perishes.[55]

4.6 Redefining the Business Model

Several factors influence and disrupt the production and distribution of film production. Angus Finney summarizes them in the following manner:

- ➜ *technological change, including a considerable increase in bandwidth specifi cally within Western Europe and North America, but also many first and second world regions;*
- ➜ *audience fragmentation and migration;*
- ➜ *an increase in multi-tasking skills and multi-absorption of varying media simultaneously;*
- ➜ *a rise in social network and associated user-generated content and collaboration;*
- ➜ *a rise in multi-channel, interactive broadcasting;*
- ➜ *an increase in populist, interactive programming involving the public as lead players and contestants;*
- ➜ *a change in payment/billing mechanisms;*
- ➜ *a rise in the public's ability to produce and distribute (often cost-free) their own creative endeavours, including music, words, photographs and video;*
- ➜ *an increase in file sharing and an associated increase in piracy;*

.

55 cf. Finney [2010], p. 86 ff.

➜ *inter-changeablility between mediums, with decreasing and less clear bounda ries between online networks, short films, recorded music, photos, etc.*.[56]

The current transformation process forces the former Hollywood business model to change; there is no doubt about that. And there has been clear evidence presented in this work to support this thesis.
The „old school“ *invest and exit strategies* the film business has cultivated becomes more and more obsolete. It is necessary to adapt and resculpture the business model in order to get loose of the tension between paid commodities and gifts.[57]

This issue is a concern of price policy and a question of which revenue model is best to be implemented. Remember that there are different approaches of how to create a functioning distribution platform, which creates profit. It seems that this decision has been made, but in fact it is still work in progress concerning which platform will dominate the scene in the long run. The Internet not only restructures the value chain, but it also constantly creates new revenue models. Correspondingly, the constant, representing the business model of the film industry, becomes a variable, which the producer is able to plan and modify.

Apple has proven that transaction based payment seems to be the most efficient revenue and distribution model. Because there is a concrete connection between benefit awareness and willingness to pay. Those models seem to be successful, which feature an obvious utilization reference. The *iTunes* practice, of pay per video, is a perfect example of that principle. Generally, it can be said that user behaviour always refers to the habits of the consumer. So, offering content for free can also be prolific, if there is some way to recoup the initial costs of the production. In this case advertisement as the financing source can do the trick, although it is the more unstable model. The present success of this strategy, Hollywood relies on distributing content freely, also referred to as *Follow the Free*, grounds on the combination of the unique price structure of the Internet and the Internet specific network effect phenomenon. Both here mentioned models are already implanted into the film industry, as mentioned, and regarding the presented facts, they will continue to run.[58]
After all there are voices, which state that the advertising financed model is not a solution to invest for the long term. Though it is a very good tool to penetrate the online market in a fast and decisive manner, it cannot sustain itself over a long period of time, because advertising is not providing enough revenues. The question of which revenue model is the best suited for Hollywood is not yet answered. So, the selection and decision process is still work in progress.

56 cf. Finney [2010], p. 184
57 Ibidem [2010], p. 183 f.
58 cf. Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 29 ff.

There are some potential rules, which are described in the following table, and can be a guideline to establish new ideas for the further developing economy:.

NEW RULES FOR THE NEW ECONOMY

- **Embrace the Swarm.** As power flows away from the center, the competitive advantage belongs to those who learn how to embrace decentralized points of control.
- **Increasing Returns.** As the number of connections between people and things add up, the consequences of those connections multiply out even faster, so that initial succes aren't self-limiting, but self-feeding.
- **Plenitude, Not Scarcity.** As manufacturing techniques perfect the art of making copies plentiful, value is carried by abundance, rather than scarcity, inverting traditional business propositions.
- **Follow the Free.** As resource scarcity gives way to abundance, generosity begets wealth. Following the free rehearses the inevitable fall of prices, and takes advantage of the only true scarcity: human attention.
- **Feed the Web First.** As networks entangle all commerce, a firm's primary focus shifts from maximizing the network's value. unless the net survives, the firm perishes.
- **Let Go at the Top.** As innovation accelerates, abandoning the highly succesful order to escape from its eventual obsolence becomes the most difficult and yet most essential task.
- **From Places to Spaces.** As physical proximity (place) is replaced by multiple interactions with anything, anytime, anywhere (space), the opportunities for intermediaries, middlemen and mid-size niches expand greatly.
- **No Harmony, All Flux.** As turbulence and instability become the norm in business, the most effective survival stance is a constant but highly selective disruption that we call innovation.
- **Relationship Tech.** As the soft trumps the hard, the most powerful technologies are those that enhance, amplify, extend, augment, distill, recall, expand, and develop soft relationships of all types.
- **Opportunities Before Efficiencies.** As fortunes are made by training machines to be ever more efficient, there is yet far greater wealth to be bad by unleashing the inefficient discovery and creation of new opportunities.

By Kevin Kelly, Executive Editor Wired Magazine

Figure 7: New Rules for the New Economy
(Source: own illustration based on Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001],, p. 207)

Other observations of the online market can be described as well. First, the Internet draws together a fragmented audience, but unified it resembles a huge market. Secondly, the film product can be personalized and attuned to the demands of the audience more efficiently. Thirdly, and this a highly controversial point, the 80/20 principle is no longer the decisive factor of the industry.[59] According to this there are three additional rules to be stated for the new economy, by *Chris Anderson*, editor of *Wired*:

1. *Make everything available.*
2. *Cut price in half, now lower it.*
3. *The companies that will prosper are those that switch out of the lowest-com mon-denominator mode and figure out how to address niches.*[60]

These rules are put into the context of the long tail model, which in general reflected the market structure of Hollywood and can be seen in the next illustration.

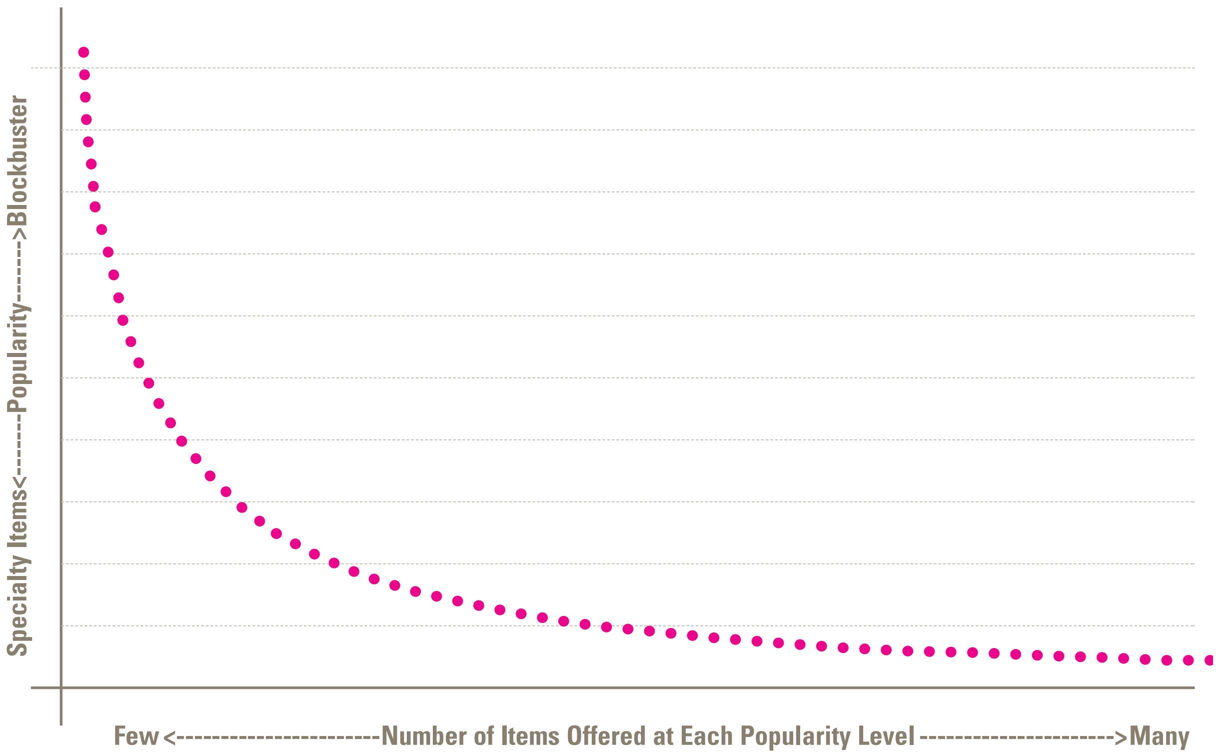

Figure 8: The Long Tail Phenomenon
(Source: own illustration based on Anderson [2006])

59 cf. Finney [2010], p. 186 f.
60 Anderson [2006], p. u.

Considering the rules *Anderson* stated, in the near future the most profit will be extracted from the tail, by rigorously diversifying the product portfolio.

But there are also opinions, which contradict *Anderson*'s view. *Anita Elberse* from Harvard Business School reminds that diverse products can already be purchased on the world market and that the Internet increased their availability. But in fact these niche products are mostly a diversion for the user, who is generally looking for true blockbusters and mainstream products. She doubts that much money can be made from the tail and due to this the tail will remain flat. In her perspective hits will continue to be the dominant force behind the film business revenue models. For her it is more a question of cost-efficiency and the capability of capitalizing on individual best sellers.

As user-behaviour indicates, consumers tend to concentrate around certain content and hype it, as it has been throughout the history of capitalism. It is human nature. And anticipators should not forget that also the new economy consists of people, their behaviour will not change radically overnight. Someday the Internet will change how we view the world, but what it does at the moment is more subtle. The Internet nowadays acts more like a catalyst on already existing social behaviour and as a result on consumption. People still want to group themselves around massive franchises like *Harry Potter* or *Avatar* and participate in a collective experience. Solely creating or producing something does not mean it will be watched just because it is available on the Internet. The consumer wants to purchase the experience of something, which is not available in his or hers daily routine.[61]

Another economic aspect of the film industry was the windowed exploitation within the value chain. As this argumentation continued, it became visible that the window-system is not going to cut it in a world dominated by the online-market. A flattened value chain, will be very likely, but one question remains,: How can each version of a film product (*DVD/Blu-Ray*, downloadable movie, etc.) generate a sizeable profit, without economically getting in the way of the other exploitation forms, when there is no chronological release timetable anymore?

The answer to this question is called Versioning. This term describes a form of product differentiation that was not an option for the film business in a long time. But has to be reconsidered since the full capacity of digitization has struck the industry. Because now the dimension of the released motion picture, in its digital state, can be modified in an easy fashion.

61 cf. Finney [2010], p. 188

The reason for this kind of practice is to create a product line from which the user can choose the version of the product that suits him or her best. A possible example of a differentiated product in the film industry can be a movie, which is offered via the Internet after its theatrical release, but exists in different volumes. One version includes special features, the other version is just about the movie, or the user can order the whole Blu-Ray Steelbook Version online as a physical item. The important thing is to present a sensible difference between the versions of the product. Otherwise there would be the danger of losing the attention of the premium product and as a result loosing the ability to charge a higher price for it.

Another aspect, which can be a crucial factor of success concerning Versioning, is the quantity of versions within a product line. The number 3 is also in this case the magic number. Three output stages can usually guarantee the maximal potential receipts. One counterexample ought to clarify the matter: If one makes just two offers available the user, who is undecided, ultimately chooses the cheapest one.

So, if the product line consists of three versions, potentially rated in gold, platin or diamond for example, the undecided user normally goes for the medium version.

That kind of product policy is anything but a new invention. McDonalds has used it for decades and also Hollywood has diversified its product portfolio with different versions of the same movie. The model just needs to be made entirely applicable for the Internet.

The huge advantage of Versioning in connection with digitization is the very budget-friendly implementation. Digital products can be modified, enhanced and manipulated with less effort. That is why Versioning will be established as an integral strategy in the Internet economy.

The classical value chain will transform into a multimedia value chain with clearly advanced possibilities. Limitations of the old value chain slowly but steadily disappear. The walls fall and this progress results in a higher industry performance and greater Media Richness. What makes the online market so attractive to the filmmaker and the user alike is its enormous flexibility in producing entertainment goods and services.

All processes within the new value chain will not be separated from each other by any boundaries anymore. Instead the value chain evolves into a dynamic and centric oriented business model.[62] This is what is illustrated in the next figure (Figure 8, overleaf).

62 cf. Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 176 ff.

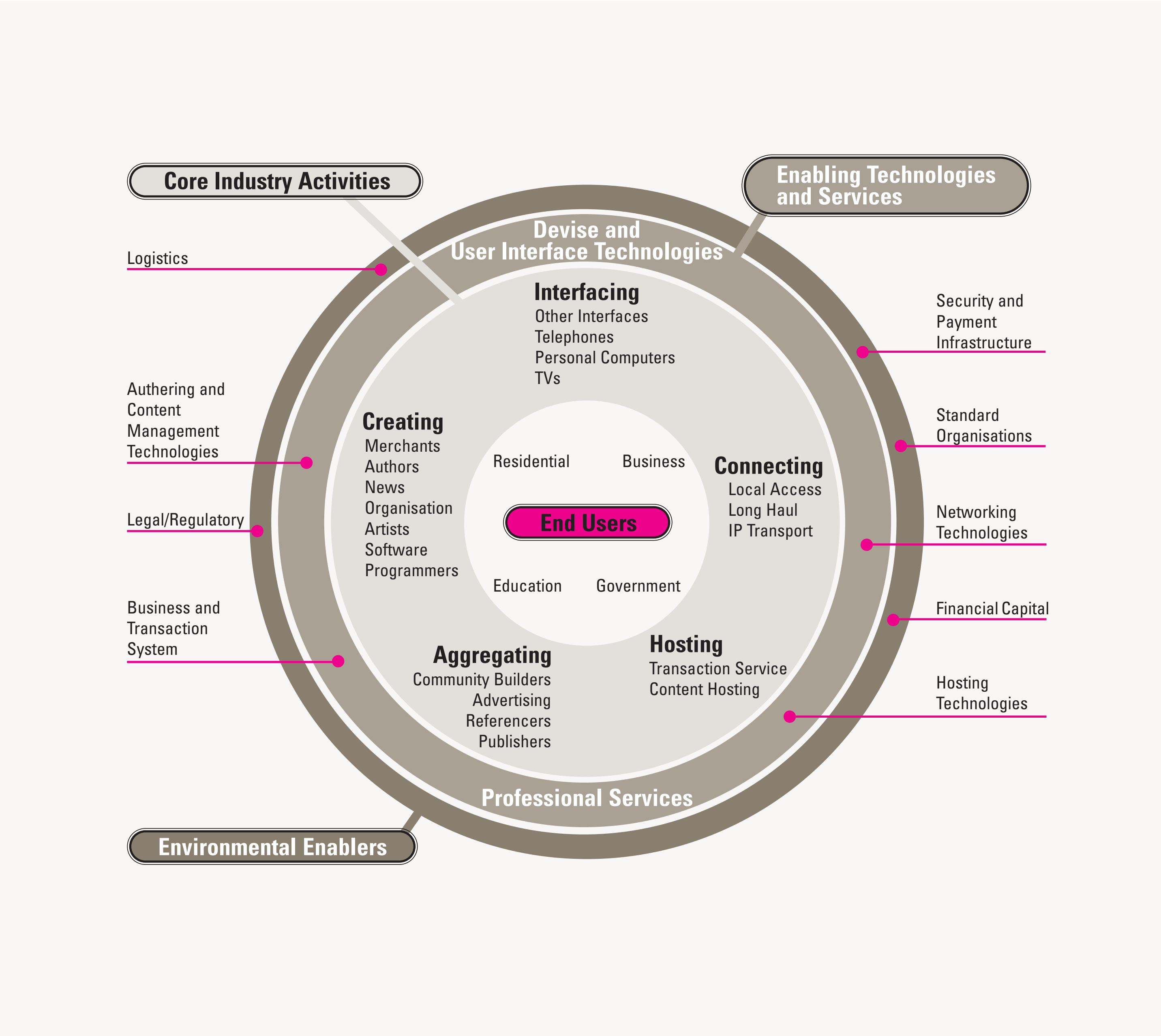

Figure 9: Extended value-added New Business Model
(Source: own illustration based on Zerdick; Picot; Schrape; Artopé; Goldhammer; Heger; Lange; Viekant; López-Escobar; Siverstone [2001], p. 177)

Many chances and challenges came with the arrival of the *World Wide Web*. This work could not present every single one of them, but a few very important ones. Like lowering sunk cost risks of productions, new commercial opportunities and the infinite scope of interaction between the filmmakers, the user and even between markets related to the core product.

The acception of the more holistic approach envisaged in this section, will be vital in a world of multi-platform exploitation. This is where Hollywood can lead a trump. Operating the so called *360 degree* model for decades now, Hollywood already has the knowledge to survive in a world, where the user faces infinite choice, creative businesses not only have to compete with each other, but also with industries not related to the media economy, where all is about the consumer's attention. It requires consideration, assessment and adaptation to conquer the new environment. All that can be seen in the industry's behaviour.

Multi-channel exploitation is the key to become part of the multitude of old and new revenue channels. The essence to this strategy is to build partnerships and joint ventures. Here again Hollywood has proven to be strong. The integrated procedure explained here, can create the virtuous circle illustrated above, because each element promotes and reinforces each other.[63]

62 cf. Finney [2010], p. 189

5. Reepel´s Law Must Be Applied to the Film Business

1913 *Reepel* phrased his hypothesis in reference to antique forms of communication. Film was still silent at that time. He stated that once a form of communication is established and has proven itself, it cannot be displaced or replaced anymore. Media whatsoever, which matches his description, rather relocates or takes on new niches.

Some authors may shake their heads and point on many examples, which superficially seem to disprove *Reepel*'s allegation. Well, it is right to say, that we do not write on stone plates anymore, although we still could, if we wanted to. Yet, the disproof of *Reepel's Law* is not that simple, it depends on the context. If one puts his interpretation in a purely economic context then yes, there are many examples of communication media that lost its economic relevance in the past. Considering it may seem true that there is no survival guarantee for any established business.

But also precisely in the economic context there is no way around the fact that audiovisual media will continue to exist. Why?

Because as it has been broached in this thesis, audiovisual media is the apex of the sociocultural development in media over the last thousands of years. The reason is simple. It is the narrowness of our perception that predetermines how we can communicate. All media-technological advancement, every art form had the purpose of recreating reality within a specific cultural frame and finally has led to this point in history. And as long as there is no *Star Trek*-like invention in form of some sort of holodeck, where all the human senses can be addressed, audiovisual communication will remain the technologically most sophisticated way of delivering content. Even if the delivering systems will surely develop further, audiovisual media (in particular film as the highest form) will have to be produced by some form of cultural and economic entity.[64]

Mike Kelly, media finance expert, compares the current situation to the game of musical chairs. The Internet represents another round in this game and when the music stops it is not unlikely that the same players will place themselves on the same chairs as before. The ultimate qualification for this outcome is that the film business has to find a way to securely monetize the business model and defer to the expectations the user has of the Internet. Impulses like piracy are the logical reaction to the gap the industry leaves by not giving the consumer what he wants and what he demands. But those players who adapt to the new environment and utilize all the different revenue streams that occurred in a dynamic way to restructure their business model and also accept the Internet as a strengthening tool will be in prospect to succeed in all disciplines.[65]

64 cf. Monaco [2000], p. 541 ff.
65 cf. Kelly [1998], p. u.

6. Conclusion

Fact is:

> *Wether you are a writer, agent, producer, broadcaster or distributor you will need to re-evaluate your business model to adapt to the changing landscape. You need to do something about it now. The pace of change is accelerating, as is the economic impact on your business.*[66]

But at the same time this statement is also valid for Hollywood and its economic strength, especially in the digital age:

> *Digital technology doesn't mean everybody is going to retreat in to their bedroom and watch „content“ on their phone. The movie business, at its heart, is one of the most opportunistic businesses the world has ever seen, and out of threats and opportunities presented by digital technology, the latter will predominate.*[67]

The Internet changes everything. A declaration, which is a tantamount to a dogma. When one gets teeth into the overall subject, one recognizes that change is very dynamic cultural process and therefore hard to narrow down as a term. Almost every author I have encountered talks about the Internet as a revolution, as something that changes everything we know about our society, our culture and likewise our economy. But as I entered the subject more elaborately, I tend to relativize this predicate. The whole development occurs more like an economic evolution. It is in most cases and also in the film industry not the ultimate game changer. It is much more than that. It enriches and expands the system. The market translocates into the cyberspace, no questions asked. But many rules remain valid, which were also valid 30 years ago, as new economic rules can be applied or truly must be applied as well. The explanation for that is to be summarized in one word: People. Our economy is made of people and the consumer still wants, what she or he always wanted. The way the consumer, and now effectively the user, can access products, can access film or any form of creative content has changed and has become more sophisticated than ever before in human society. And what is more is that the user himself can be accessed by the business side. This two-way communication does not change the way we think, at least not as severely as many have expected, but it changes the way we trade and it certainly changes the structures of our economy, it democratizes industries.

So, what does that mean for creative industries? What does that mean for Hollywood as the premiere creative industry?

66 McKenna [2008], p. u.
67 Grummit [2001], p. u.

As for the research questions raised at the beginning of this thesis the answer is very clear. Hollywood's traditional business model cannot simply be rendered on the Internet, so the answer is a big loud no. It already is right in the middle of the transformation process. It has been ever since Hollywood has started to utilize the Internet for its marketing campaigns and will continue to transform into a much more dynamic business model as seen in **4.6**.

Remember, Hollywood is part of a much bigger industrial complex, with connections in all kinds of other businesses, which can be economically useful to distribute motion pictures. And it is also experimenting with concrete distribution platforms in the Internet, being able to compensate potential losses, also through product differentiation and the right use of Versioning.

Piracy has always existed in some form and will continue to exist, it surely causes damage, but there is no doubt that people will continue to pay money to see movies and with that sustain the business.

Hollywood has survived other transitions; it will survive this one as well, because it will not loose people's attention. When the music stops, it is sure that the major players will get a seat. But it will also be a question of how fast Hollywood is changing course.

Today it looks very ambivalent, because of hardened fronts between innovators and conservatives. So Hollywood is momentarily just changing as much as needed, which slows progress down to a minimum rate. It is definitely not the optimal attitude and the new formed direct communication line between players within the value chain and the user topples the unchallenged dominant position of the major Studios. If Hollywood, as an economic complex, is not careful enough, and does not remain aware of the user's needs, it will lose its predominant power over the distribution-market in a worst case scenario. But this will take years to come. Still time to adapt.

Because economic change is generally excepted within the industry, everybody sees the signs; no one can be caught by surprise, unlike in the music industry 1990s, which reacted to the Internet in sheer panic.

Another problematic aspect is that Hollywood's current Internet distribution platform is not meant to last in the long run, or it has to be obtained, like *Google* obtains *YouTube*. If Hollywood is economically able to do so, it will be fine. But if it wants to establish a strategically profitable model it needs to induct a different online price policy. Most importantly for Hollywood, regarding the context, is to remain independent from other business players like Apple. Keeping to build own platforms, and not becoming a slave to demands or thin margins these players should be on top of any agenda. Netflix and its model is a good example and should be considered very well.

Anticipating the future is one of the most difficult practices. Because we like to think and predict in linear ways. But the world does not work like that. We have to think in processes and correlations.[68] The process that changes the film industry has been described within the framework of this thesis. The outcome for the next years could be a still powerful Hollywood complex, dominating the distribution of films internationally, but with an already strengthened independent film industry at its site. And a lot of individual filmmakers, producing small, but high quality movies in their living rooms, to share the market with. At long last there must be a value chain that is very much bent towards a centric core; the user, which is in its distribution and exploitation phase almost completely horizontally structured.

68 cf. Horx [2009], p. 220

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Köln, den 22. Juli 2011

Benjamin Rieser