This is a book about the film industry and how it functions as a business, how it is changing, and why. Movies have been made and sold for over 100 years and a study of the history of the business shows that there are recurring trends, technological developments, and inflection points that impact and foretell the future of film. An understanding of this history will help a student of, and participant in, the industry to anticipate what is coming next. This book will cover the basic components of the industry providing the reader with an understanding of how movies are created and sold, and how those basic components interact.

In the popular imagination, the movie business is a handful of big, well-known studios located in Los Angeles, the films these studios release, and the movie stars that appear in them. While it is true that the studios are responsible for producing and distributing the movies that receive the most public attention and generate the most revenue, the film business encompasses much more than just the studios and their output including: Internet companies streaming film and television shows like Amazon, Netflix and Google and others; numerous online film platforms; independent filmmakers working outside the studio system and producing some of the most interesting and thought-provoking films; documentarians focusing on social and political issues; animators; producers and distributors of films made for television, video, and DVD (digital video disc); producers creating corporate films, web videos and webisodes, virtual reality films, and educational films; independent distributors; technology companies expanding into media distribution; foreign sales agents; theatrical exhibitors; talent agents and managers; as well as the thousands of vendors providing services required to create, market, and distribute these films. Here are the basics of the industry: what; where; when; who; and how.

• **What** is it? The core function and activity of the film business is producing and distributing films for profit.

• **Where** is the film business? While the American film industry is still based in Los Angeles, the business is now a truly global enterprise.

• **When** did the film business start? In the 1890s with the invention of the movie camera (Kinetograph) and projector (Kinetoscope) by Thomas Edison in the US and at the same time in France.
• **Who** are major players? Currently dominating the industry, the big six studios in the US are: Disney; Universal; Paramount; Sony; Warner Bros.; and Fox, and together they produce and distribute the films that earn the most revenue worldwide.

• Lionsgate, Amazon, and Netflix are rising players in production and distribution, while Chinese company Wanda (owner of the AMC theater chain) is the biggest movie exhibitor in the world, with 636 theaters and 8,128 screens across eight countries.

• **How** does it operate and how is it changing? Today, movies are made (produced) and licensed (distributed and marketed) all over the world in multiple media formats. Global markets, consumer demand, availability of financing, and technological developments are constantly changing how the business operates.

### Movie Industry Themes

**A Global Business**

American films generate the highest box-office grosses, dominating the world market. Film is a dominant force within the overall media and entertainment industry, which generated $635 billion in revenue in 2016, nearly a third of global media and entertainment revenue.\(^1\) The US is the third largest film market in the world in terms of tickets sold, behind China and India. The international market is increasingly important to US film companies, with over 71 percent of the $39 billion global box-office revenue for US films in 2016 coming from abroad.\(^2\) Surging international revenue reflects an increasing worldwide appetite for franchises, sequels, and movie stars. Success in the movie business requires a keen understanding of evolving markets, cultural factors, and economic developments throughout the world. The rapid growth of the entertainment industry in China is impacting the US industry in major ways, affecting development and production, financing, and distribution. The US population of 350 million makes up only 5 percent of the nearly eight billion world population, which means that creating films for customers outside of the US is of growing importance and is changing the business.

**Both a Business and an Art Form**

Balancing the interests and demands of business and art is a challenge. The American film industry is profit-driven and business interests have almost always dominated filmmaking since it began. In much of the rest of the world, particularly Europe, art and the interests of artists have often trumped business interests, although this is changing. Many believe that it is the supremacy of the profit motive that explains the worldwide dominance of American films. From its beginnings, the American film industry was financed by the private sector as a
commercial profit-making enterprise. Success was measured by the imperatives of the private capital markets: a return on capital and wealth creation. In Europe and much of the rest of the world, from its beginnings film was considered more an art form than a commercial product, supported by public funding rather than private capital.

**Profit-Driven**

The businessmen and investors who financed and often ran the film industry were interested in making money, which meant making films that appealed to the largest possible audiences. American filmmakers became adept at turning out movies that satisfied the tastes of the broadest audiences. What counted was box-office success, not critical acclaim. Today, approval from press, reviewers, and “tastemakers” are only important as marketing tools for a movie. The producers, writers, and directors who could make commercially successful movies were rewarded financially and with more work, reinforcing the dominance of movies that had broad appeal. In this system the producer, who was often the investor or who represented the interest of the investors, had control over the filmmaking process. He or she had the power to hire and fire the creative talent, and to make whatever changes they deemed necessary during the production or editing process in order to make a film more commercial. These commercially savvy producers—men like Daryl Zanuck, David O. Selznick, Irving Thalberg, and Robert Evans—often ended up as heads of film studios.

Outside the United States, and particularly in continental Europe, where there was a tradition of governmental support for the creative arts, filmmaking was financially supported from its early beginnings by the public sector. This meant that filmmakers from these countries had less need than their American counterparts to be concerned with catering to the tastes of the general public. Their ability to get funding for future films did not necessarily depend upon success at the box office, but rather on acceptance and recognition by those who made the decisions about which artists and what art was worthy of government support. This subsidized system, which elevated artistic merit and recognition over mere commercial success, also led to the concept of the director as the “auteur,” or author, of a film, with total control over the filmmaking process. In the US model, the producer has total control. Public financing often restricted the choice of screenwriters, directors, and other professionals to local filmmakers, precluding the use of creative talent from other countries. American producers, free to choose the best without restrictions, drew talent from around the world, helping to give American movies an international flavor and dimension lacking in the more parochial films that emanated from other countries. In countries controlled by restrictive governments, film content was dictated by strict rules to be used as propaganda, artistic content an afterthought.

With control lodged firmly in the hands of profit-driven producers and studio heads, and career success linked closely to commercial results, the American
industry was and still is unrivaled in turning out films as popular art—movies that appeal to the widest possible audiences worldwide.

The state-subsidized model that prevailed in Europe (and in many other countries such as the Soviet Union and China), with control in the hands of the director and success linked to artistic recognition, resulted in artistically acclaimed films from directors like Ingmar Bergman, Federico Fellini, Jean-Luc Godard, Luis Bunuel, and others; films that garnered worldwide recognition as great art, but generally were unprofitable or minor commercial successes, with limited appeal to audiences from other countries.

Film industries in other countries outside Europe and the US tended to follow the European model of public financing, although privately financed film companies did emerge in countries such as India, Japan, Korea and in Latin America, in the period following World War II.

**Film Is Collaborative**

A writer, painter, or musician can create her or his art alone—and with limited and relatively inexpensive tools such as pen and paper (or today, a computer), paint and canvas, or an instrument. However, movies are more complicated. As an art form film has characteristics that distinguish it from other art forms and, in a sense, force filmmakers into collaborations and compromises with, as well as a dependency on, business and financial interests. With the advent of digital technology, filmmakers are taking more of the process into their own hands, but must still rely on others throughout the process.

Filmmaking is a highly collaborative enterprise involving many craftspeople with specialized skills. Film production and distribution also entail the use of equipment, materials, and processes that are expensive to design, develop, and manufacture such as cameras, film or video stock, editing equipment, sound systems, projection devices, and so forth. Few, if any, filmmakers have the human or financial resources, or the organizational support, to produce and to distribute a commercially viable motion picture on their own; however, with the Internet and do-it-yourself distribution services available, filmmakers are now able to market and sell their movies in many ways to audiences without going through a traditional distribution company.

Annually, the top earning 40–50 films yield about half of global box-office revenue, and typically, top grossing films have the largest production budgets. Ranging from $1 million to $225 million, the polarity in budgets is increasing, with the average production cost of a studio film at $93 million in 2013, and marketing costs an additional $48 million. Over one-third of Hollywood films released in 2016 were budgeted from $100 to $250 million, averaging $120 million. Movies at the top of the spectrum are getting more expensive, with the highest budgets at $425 million (*Avatar*) and $306 million, (*Star Wars: Episode VII—The Force Awakens*), according to Box Office Mojo. Even a so-called “low-budget” film from a studio would entail a budget of at least $15 million in
order to have the minimum production values and look needed to compete commercially.

The franchise model of movies with budgets over $100 million, based on popular comic book characters, previous hit films, video games, and best-selling books, is becoming the prevailing staple of studio filmmaking.

Made-for-television movies have budgets in the low millions, and are increasing. Faced with the high cost of production and the organizational support needed to fulfill their artistic visions, throughout the history of the industry filmmakers have had to turn to others to provide these resources, such as the major studios or other media companies or private investors.

**Film Is an Art Form that Is Technologically Driven**

Unlike music, visual art, and literature—art forms that long predated the age of technology—motion pictures became possible only after the development of the camera, the projector, and film itself. Film as both an art and a business has continued to be shaped by technology, not only in the manner of its delivery and distribution, but in the way in which films are produced as well as what sort of films are made. This dependence on technology, and the risk capital required to develop it, has historically strengthened the role of business and finance in the industry.

Trends in technology push the art form in two opposite directions, to be more real and lifelike in one direction, and more fantastic and as far from reality as possible, in the other.

Each significant advance in technology (see Figure 1.1), whether in the production process, such as IMAX, 3D, 4D, augmented and virtual reality; or in distribution, such as mobile viewing or bit torrent streaming pushes the boundaries of the medium. Movies and their stories change as the technology is favored by audiences, exemplified by the popularity of internet platforms like Amazon Prime, watching movies on mobile phones, the growth of VR headsets, and the prevalence of comic book movies laden with computer special effects.

![Figure 1.1](https://example.com/figure1.1.png)  
*Figure 1.1 Major Advances in Movie Industry Technology.*
Capital-Intensive

The need for large amounts of money to produce and distribute commercially viable movies has shaped the industry and, at times, influenced the kinds of films that were made. Currently, as an example, American film companies seeking funding from China are collaborating with individual and corporate investors from China, which is impacting decisions about story lines, which actors are starring in the films, and the selection of shooting locations.

The number of films produced each year budgeted at over $100 million has fallen from a high of 34 in 2011 to approximately 20 movies per year. In the first decades of movies, production funding came from theater owners who needed more product. Later, as production and distribution costs increased, in part because of technological improvements, financing came from the money markets in the form of equity and debt capital. In recent decades, while continuing to rely on these markets, the industry has turned to partnerships with private investors and strategic partners like foreign distribution companies. In addition, financing has resulted from mergers with better-funded companies. To satisfy the interests of investors, the “mom-and-pop” type of individual ownership that prevailed in the early years of the business gave way as the film industry organized itself into an efficient corporate form where the demands of capital usually trumped those of art. One advantage that the film business has always enjoyed in terms of outside financing is the “glamour” factor: the attraction of movies as an investment for both individual and corporate investors. Despite the inherent risks of the business, the industry has learned over the years how to play this card adroitly to interest outsiders in putting money into movies.

Much of the film business has been shaped by the need for capital, the impact of technology, and the dynamic tension between art and business. Today, new technological developments such as affordable video cameras and editing systems, internet-related delivery platforms and mobile technology that allow filmmakers to reach moviegoers directly, and content aggregation systems like YouTube and Vimeo, as well as internet media film and video providers iTunes, Amazon, and Netflix, are exerting enormous pressure on the industry. Government-funded production incentives, which offer financing based on expenditures in a certain area, are influencing where films are being made.

Essentially, movies have been produced and distributed in the same way almost since the beginning of the industry, with the major film studios or television networks acting as gatekeepers for product flow to consumers. Today, the studios (also called the “majors”) and other traditional gatekeepers are confronting these new formats and delivery systems, forcing a rethinking of this model and a redefinition of their role in mediating between filmmakers and consumers. As in any time of transformation and upheaval, opportunities abound. One of the premises of this book is that those who learn from the past will be best positioned to seize opportunities in the future.
A Brief Business History of Film

There is a substantial literature on the history of film as an art form; our recommendations can be found on our website (www.ThisBusinessofFilm.com). Since this book is about the business side of cinema, the following brief overview will focus on key developments in that history that affected the business and recurring themes that have emerged from those developments.

The Early Years

While the answer to the question of who invented the motion picture in the 1890s is still a contested one, with the French giving the credit to the Lumiere brothers and the Americans to Thomas Edison, there is no doubt that film as a business originated in the United States. In Europe, particularly on the continent, film was perceived as a new form of artistic expression, suitable primarily for the aristocratic and social elites, like painting, classical music, opera, and ballet—profits were an afterthought. In America, however, the opposite was the case. Merchants and small businessmen like Samuel Goldwyn, Adolph Zukor, and William Fox quickly grasped the potential of movies as an entertainment diversion—and as another type of merchandise to sell to the masses crowding the large eastern and midwestern cities. First appearing in retail stores, nickelodeons were the first movie theaters, where one-reelers could be seen by one person at a time for five cents. Early films attracted the masses, especially recent immigrants for whom the movies were an introduction to American life, language, and lore.

Retailers needed more films to meet demand, and in response, nascent film production facilities sprang up, centered in New York and New Jersey. As demand for movies grew, including demand for longer films that told stories, the theater owners realized that to have enough product, they would have to start financing and producing movies themselves. These newly minted producers were first and foremost businessmen, with a focus on profit, not art. From the outset of what became the film studio system, business interests were paramount.

The Birth of Distribution

The process of transforming a film from a script to a commercial movie goes through five steps:

1. **Development**: an idea transformed into a script, the attachment of key players (producer, director, stars), creation of a budget; in order to seek:
2. **Financing**: securing the funds necessary to make the film.
3. **Production**: making the film so it’s ready to be seen and sold.
4. **Distribution** and **Marketing**: creating the maximum **availability** (distribution) of the movie for sale in as many media and places as possible; while generating **awareness** (marketing) so people want to see the movie, which is called:

5. **Exhibition**: the point of purchase where people buy and consume a movie—in movie theaters, online or DVD, through pay-per-view (PPV) and video-on-demand (VOD) systems, on cable or television.

When theater owners began to produce movies in order to keep up with customer demand, it was a first step toward vertical integration, that is, the common ownership and control of both production and exhibition facilities, and the beginning of what eventually became the film studios.

A number of these production-exhibition companies then took the next step of renting the films they owned to other theater owners—creating the distribution side of the business.

The phenomenon of exhibitors or other licensees of content becoming producers in order to ensure a flow of product for their distribution systems is one that repeated itself over the ensuing decades, with television networks and video distributors, and even consumer products manufacturers like Sony, entering the production business. In many cases, these attempts to go “upstream,” that is, from being a content exhibitor, or licensee, to a content creator, failed. The primary reasons for this failure were the significantly larger amounts of capital required to compete on the production side of the business, which many downstream exhibitors or distributors lacked, and the much different management skills needed to succeed as a producer, including the ability to manage creative talent.

With the new wave of internet distribution companies such as Netflix, Amazon, Google, and Apple expanding rapidly into the media business, we are seeing new efforts to go “upstream”; time will tell whether these new distribution players can successfully make the transition to production.

**Thomas Edison’s Monopoly**

Thomas Edison, the inventor of the Kinetoscope (first film viewer) and Kinetograph (first film camera), held patents on the equipment needed to make and exhibit films. In 1908, in an effort to control the film business in the United States and to drive out competitors, Edison went into business with a number of exhibition and production companies to form a monopoly; no film production company or exhibitor outside the monopoly would be able to buy the equipment needed to make or exhibit films. The monopoly was called the Motion Picture Patents Company, better known as the Edison Trust. The Edison Trust was a cloud over the growth of the film business in its early years. The Trust, which held Edison’s patents, would not sell film equipment to filmmakers, but only rent it for fees that became increasingly exorbitant. The Trust’s power was such that
it was able to force Eastman Kodak to withhold raw film stock from producers who weren’t licensed by the Trust.\(^5\)

Independent producers fought the Edison Trust monopoly by buying equipment and film outside the United States and moving production operations from the East Coast to the West Coast. At that time, California was far enough away to avoid the effective legal reach of the Trust, making it difficult for the Trust to monitor the producers’ activities and to enforce its patents through injunctions or other legal measures. Once there, the producers found a hospitable environment for filmmaking: low-cost labor and facilities, wide-open spaces for location shooting, and good weather year round. They stayed, and the center of the film business has remained in Southern California. Eventually, in 1915, the federal courts ruled that the Edison Trust was an illegal monopoly, and it was dissolved.

**The Birth of the Studio System**

The period from 1908 through the 1920s saw the emergence of the companies that came to dominate the industry for the rest of the twentieth century. It was during this period as well that the “star system” developed—with studios perfecting the art of publicity to glamorize and glorify certain actors as larger-than-life figures and then using them to sell their movies to the public. Actors like Mary Pickford, Lillian Gish, Douglas Fairbanks, Charlie Chaplin, and Rudolph Valentino became fan favorites, huge celebrities, and big moneymakers for the studios, with the public clamoring to see their films. In effect, the actors became the draw, more than the films. It was during this period that the full-length feature film, telling novelistic stories, became the norm.

By the end of the industry’s third decade the studio business model, with full vertical integration, had emerged as the prevailing form of business organization. The five major studios, which came to be known as the “Big Five”—Warner Bros., Paramount, RKO, Metro-Goldwyn-Mayer, and the Fox Film Corporation/ Foundation—owned the production facilities, distribution systems, and major theater operations, as well as the talent, including the actors, directors, producers, and writers who were salaried employees under contract to produce or appear in several films a year. These were high-paid employees, to be sure, but employees nonetheless. This business model would prevail until the 1950s.

**The Marriage of Sight and Sound**

The first major technological advance in film was sound. *The Jazz Singer*, released in 1927, was the first feature “talkie” and the film business was changed forever. The history of the transformation to sound captures a number of themes that recur at each point of major technological change in the industry.

Adding sound to film became feasible by 1921. The research and development work that led to sound was carried out by companies outside the industry, which had the necessary capital and research capability, including Western
Electric and General Electric. Once the talkies were introduced to the public, the silent era was over. Countless actors who could not make the transition to sound saw their careers ended (Clara Bow, Emil Jannings). A movie that illustrates this pivotal changeover in the industry is *The Artist*.

Smaller production companies that could not afford to make the transition went out of business. The shift to sound solidified the Big Five studios’ hold on the industry, but even they had to seek outside capital to finance the cost of converting their production operations and theaters to talkies. This need for outside capital led to the first major investments in the film business by Wall Street financiers, further solidifying filmmaking’s dependence on business interests.

The introduction of sound changed not only the way films were produced and exhibited but also the kinds of films that were made. Sound allowed filmmakers to create movies that were dialogue-driven, vastly expanding the types of stories that could be told and the power of film to convey the human experience. This impact of new technology—changing films in kind and nature—recurred with later technological developments as well.

**The Influence of Capital**

The need for capital affected the film business in diverse ways. Beside driving out smaller players and consolidating the dominance of the major studios, the need to account to outside investors brought greater fiscal discipline and organization to the industry, entrenching the studio-business model of full vertical integration and tight control over talent as the dominant model. And again, as with sound, this external influence had an impact on what sorts of films were made. Eager to please their new investors from the world of finance and cultural conservatism, the studios turned out movies with patriotic themes, celebrating the perceived virtues of small-town, middle-class, hard-working America. During this period the first stirrings of censorship were experienced by the industry, leading to the creation in 1922 of the Motion Picture Producers and Distributors of America, created by the film companies and headed by Will H. Hays, the Hays Office, as it came to be known, enforced a reign of strict self-censorship, so as not to offend the guardians of morality, often allied with centers of finance and capital.

This influence of capital and ownership on the kinds of films that were made was a phenomenon that recurred later in the century when ownership of the majors was restructured, and the studios became divisions of large media conglomerates with a wide variety of businesses aside from movies.

**Funding Research and Development**

Another feature of technological change exemplified by the introduction of sound was that the technology itself was developed outside the film industry by companies with the required know-how and capital to take the financial risk that
the research and development would lead to usable products. This, too, became a familiar pattern. Film companies generally preferred to let outsiders take the lead in developing new technologies for the industry or in adapting these technologies to the production and distribution of films. In the case of later advances, like television and video, the studios also allowed other newly formed intermediary companies to take the lead in exploiting the new technologies. One consequence of this risk-averse approach was that the industry gave up part of the economic value of the new technologies to the companies that developed and first exploited it. Another was an initial resistance to certain technologies.

In the cases of television and video, the studio’s first reaction was to perceive these inventions as a threat to the very existence of the film business. The studios fought the introduction of television, particularly pay-TV, and home video in the courts, and, by engaging in anticompetitive practices, withheld films from companies that sought to exploit these new delivery systems. Eventually, however, the studios reached accommodations with these companies, licensing their films for exploitation in the new markets. Once these markets proved lucrative and profitable, the studios went a step further, embracing the technologies and directly distributing their product through the new media. Eventually, they took the ultimate step of acquiring former licensees, such as television broadcasting systems and home-video distribution companies.

**The Impact of World Events**

The decade of the 1930s was a boom period for movie making. Fully integrated and with major talent under contract to write, direct, and act in several films a year, the studios turned out record numbers of movies. The supply of talent was enhanced by an influx of European filmmakers fleeing the worsening political situation in their home countries. The first commercial films in color were released during this era as well.

The film business did not, however, escape the effects of the Great Depression, with theater attendance decreasing in the early part of the decade. During the years of World War II, the industry, like other major industries, contributed to the support of the war effort. While theatrical films continued to be produced and distributed, many were war movies that extolled the bravery and prowess of American forces and demonized the Axis enemy, employing stereotypes of Germans and Japanese that persisted long after the war ended. Many actors and other industry people enlisted or were drafted, and writers and directors turned to producing training films and documentaries about the war.

**The Advent of Television**

The late 1940s and the decades following were dominated by two interrelated developments: the introduction and growth of television, and the gradual breakdown of the vertically integrated studio system business model.
The introduction and immediate popularity and widespread growth of television from 1948 into the 1950s had a profound impact on the movie business. For the first time in its history, the industry faced a new competitor for consumers’ “eyeballs.” The notion that people could stay home and watch for free live or filmed entertainment rocked the movie industry. Many predicted the end of the theatrical movie business and the studios’ first reaction was non-cooperation, refusing to license films to television networks and broadcasters. But in the early 1950s, Lew Wasserman, chairman of MCA Universal, saw a dual opportunity in television. First, he understood that producing television programs was not that different from producing movies, and with television growing rapidly, the new medium needed more program content that the studios, with their skill, know-how, and facilities, could provide. Second, Wasserman correctly perceived that the thousands of movies in studio film libraries were another source of content for television. With these insights, MCA Universal started producing TV shows and licensing its library films to television, quickly generating revenue and profits from both activities. Other studios soon followed suit. By the late 1950s, the major film studios, as producers and licensors of TV content, were the largest suppliers of television programming, establishing lucrative new streams of revenue for the industry.

The first crack in the business model came in 1948, when the US Supreme Court ruled against the studios in an antitrust case involving the studio ownership of theaters. The case, US vs. Paramount Pictures, began in the late 1930s when the Department of Justice launched an investigation of the industry in response to complaints from independent theater owners about the anticompetitive practices of the studios in booking their films into theaters. After an interruption during the war years, the investigation resumed, and the government filed an antitrust action against the major studios, seeking as a remedy divestiture by the studios of their theaters. After the Supreme Court decision in 1948, the studios entered into a consent decree agreeing to divestiture. The effect was two-fold: the studios were, for some period, no longer fully vertically integrated, and since they no longer had the pressure of filling their own theaters with new product every two weeks or so, they began to produce fewer movies. The eventual result of the Paramount case and the divestiture that followed was a consolidation of theatrical exhibition into a few large companies, like AMC, United Artists Theaters, Carmike Cinemas, and General Cinemas, mirroring the structure of the production and distribution side of the industry. The consent decree was relaxed in the 1990s and the studios were permitted to reenter the theater business, but by that time the share of overall revenue to the studios from theatrical exhibition had dropped significantly, and the existence of strong, well-funded competitors undermined one of the key rationales for the antitrust action.
Television Spurs Media Consolidation and Independent Film Production

To attract the public and lure them out of the comfort of their homes and away from the TV set, the studios began to make fewer, but bigger, films, turning movie-going into an “entertainment experience” worthy of the price of a ticket and a babysitter. Epics of the time included *Cleopatra* (1956) and *Around the World in 80 Days* (1956). Films got longer and more expensive to produce, and the double feature—the practice of offering two movies plus a twenty- to forty-minute “short” (often a live-action comedic film by artists such as Laurel and Hardy, or a newsreel) and a cartoon, for the price of one ticket—became a thing of the past. By the 1960s, average weekly attendance at movie theaters was down 60 percent from attendance in the 1920s (see Figure 1.2). But the studios were able to survive the decline, because revenues from television supplanted reduced revenue from the theatrical market. By 2000, the major film companies’ income from theatrical exhibition accounted for approximately 20 percent of total revenue, while income from television represented about 40 percent of revenue. Studios increasingly rely on television revenue (as well as content licensing and video games) to offset the riskiness of inherent on the film side.

By 2000, three of the major television networks were owned by film companies (ABC by Disney, CBS by Paramount, Fox by 20th Century Fox) and the fourth was part of a conglomerate that included a movie company (NBC by GE). Every major film company was part of a group that included ownership of cable television stations and/or cable broadcasting systems. The marriage of the movie business and television, first conceived by Lew Wasserman in 1952, was complete.

Television also opened up new opportunities for writers, actors, and directors. As the majors began to reduce the number of films they produced, the studio

![Figure 1.2 Average Weekly Cinema Attendance by Percentage.](image-url)
business model of having talent on permanent contract or fixed salaries no longer made sense, and it was better to contract for the services of talent when needed. This in turn gave the talent, particularly actors, more independence, allowing them to offer their services to any of the studios and, often, to the highest bidder. This freedom of contract for talent also marked the beginning of what became the independent film sector. Actors, directors, and producers formed their own production companies and began to develop films on their own, acquiring scripts or the rights to novels and plays, and taking these projects to the studios for financing and distribution. This spurred the growth of new independent production companies that, over time, became major suppliers of film projects to the studios.

As in the case of sound, television changed the kinds of films that were made as well. With the licensing of first-run theatrical movies to the television market becoming an ever-greater source of revenue, the studios began to tailor more of their product to what would work successfully on TV. Formats that fit the needs of broadcasters in terms of running time (with room for commercials) became the norm. In the pre-pay television era, broadcast television standards limiting profanity, sexuality, and extreme violence became, in effect, the standards for mainstream commercial film as the importance of the TV market grew; a form of self-censorship that, in part, led to the end of the era of strong external censorship exemplified by the Hays Office.

With well-funded platforms Netflix and Amazon offering increasingly large quantities of television programming, and players like Apple getting into this space, studios will be forced to spend more in an attempt to keep up.

**The Expansion and Impact of Cable TV**

Cable television (initially CATV—coined after the “Community Antennas” utilized) began in the late 1940s as a way to improve poor television reception in remote areas. It expanded nationally in the 1970s with programming separate from over-the-air television, offering movies that had previously been released into the theaters, sports events, syndicated programming, and all-news formats.13

Cable’s major impact on the film industry was the creation of additional outlets for the licensing of film libraries, enhancing revenue. Over time, cable networks such as Turner Broadcasting, Lifetime, and the Disney Channel became producers of original films, expanding the non-theatrical film business to the benefit of the industry as a whole, particularly independent producers and creative talent. Almost all cable networks now create original programming based on the specific tastes of their target audience.

As the popularity of cable television grew through the 1970s, two tiers of service emerged: basic cable—a bundle of stations that were provided for the overall price of using cable; and pay-television—stations provided for an additional monthly subscription fee on top of the price for cable. Pay-TV, as a new
and competing window of exploitation for films, first emerged with the formation of Home Box Office (HBO) in 1972. Once again the film industry perceived this new medium as a threat. The industry’s response was to form its own cable channel, Premiere, which would hold exclusive pay-TV licensing rights to films from its members (Paramount, Universal, Columbia, Fox, as well as cable/financial interest Getty Oil).14 This anticompetitive ploy was quickly challenged in the courts and, once again, the studios’ efforts to thwart a new technology failed. And as before, the industry quickly adapted and began to license films for pay-TV viewing, which soon became another significant source of non-theatrical revenue.

In the early years of pay-TV the pay-cable networks relied almost entirely on theatrical films for programming. However, as their subscriber base grew (to 16 million households by 1980,15 then 30 million by 2002)16 and the cost of licensing films increased, the networks turned more to original programming. This was particularly true of the two biggest networks, HBO and Showtime. While this development reduced the licensing revenue to the studios, as was the case with basic cable it also created new sources of production financing for producers and opportunities for creative talent, further expanding the non-theatrical film business. And, since HBO, Showtime, and a number of other pay networks were or became corporate partners with studios, the revenue and profits from these productions remained within the industry.

The cable industry is undergoing a significant shift, thanks to the Internet. Many cable subscribers have “cut the cord” from their cable packages, preferring to subscribe to individual stations online, whether watching them on their computer, smartphone, iPad, smart TV, or using a gaming system like Nintendo, X-Box, or other device such as Roku, or Apple TV. Cable stations, armed with detailed knowledge of who their subscribers are and exactly what they like to watch, are producing their own content, relying less and less on movies for programming. This convergence of television, cable television, and Internet has contributed to an increasing number of high-quality viewing choices for the public.

The Introduction and Influence of Home Video

The introduction of the home video player in the 1970s marked the next major transition for the film business. As with television, the industry’s first reaction to the new technology was fear and resistance. Again, home video was seen as sounding a death knell for the theatrical film business. Commercial-free and with user flexibility for the consumer, home video was also perceived as a threat to the licensing of theatrical films for television broadcasting, which had become a lucrative market for the major studios.

The industry’s first response was a lawsuit against home-video manufacturers to enjoin the sale of the devices on the grounds that they could be used to illegally copy films. The manufacturers prevailed.17
As in the case of television, the majors then held back from licensing the video rights to their films. But gradually, the studios began to test the waters with selected licensing of home-video rights to intermediary video distributors, ceding some of the economic value of these rights to the intermediaries in exchange for letting them take on the business risks until the market proved viable. With the rapid growth of the home-video market in the 1970s, the studios realized the enormous potential of the new market and established in-house divisions to license video rights directly to wholesalers and retailers, cutting out the intermediary distributors. Within a few years, home-video licensing and sales had become the largest source of revenue for the film industry, by a wide margin.

The home-video boom sparked the birth of several new production and distribution companies as well, including Nelson Entertainment, Vestron, De Laurentiis Entertainment, and Hemdale. These companies financed a large part of their film budgets through advances from independent video distribution companies hungry for product. Almost none of these companies survived the 1980s; their films were unable to compete with studio films in the theatrical market, and as the growth in the video market began to level out in the late 1990s, many of the individual video companies went out of business.

The video market supplanted the free television broadcast market for new theatrical films. To entice consumers to pay for home videos, the window for free television had to be pushed back until after the initial exploitation period for video. Within a short time, television networks stopped licensing new feature films. This reshuffling of the release windows—the order in which films are made available to the public after initial theatrical release—occurs each time a new exploitation format emerges. The essential factor in the ordering of the windows is the cost to the consumer, with each subsequent window being less expensive.

Video cassettes morphed into DVDs, and their popularity offered reliable revenue for movies for a period of time until the internet window began to cannibalize that profit center. The introduction of Blu-ray DVDs has supplemented the flagging DVD market, without providing a real solution to the declining medium. Online viewing is replacing the DVD window, but has not fulfilled the promise of replacing DVD profits yet, but may, in time.

The Restructuring of the Film Studios

The decades of the 1980s and 1990s were marked by realignments and a restructuring of the film industry. The trend away from the classic studio model accelerated. Indeed, the physical studios themselves were used mostly for television production and rarely for films that, more and more, were shot on location. The majors increased their reliance on projects brought to them by independent production companies, serving as “banks” that provided financing in exchange for distribution rights. Production budgets continued to climb, with the average
negative cost of a studio film growing from $16.8 million in 1985\textsuperscript{18} to $93 million in 2013.

Faced with these escalating budgets, the majors sought outside off-balance-sheet financing through investor partnerships and rights deals with foreign distributors, trading a share of potential profits in successful films for less overall risk.

*Corporate Consolidation and Risk Aversion*

The trend toward reducing risk was also driven by a restructuring of the ownership of most of the majors. By the end of the 1990s only one stand-alone major film company remained—MGM/UA, controlled by financier Kirk Kerkorian. Warner Bros., Paramount, Columbia Pictures, Universal, and Disney—the companies formed in the first half of the twentieth century that dominated the industry and were primarily, if not exclusively, film companies—now operated as divisions of huge media conglomerates, with interests in television, music, publishing, live theater, theme parks, and other activities. In most cases, the film divisions are relatively small contributors to the overall revenue and profit of these media groups. Senior managers of these groups are not inclined to take large risks in the film business due to possible negative consequences on their company’s stock price.

As was the case following earlier technological and economic developments, this realignment of ownership in the industry affected the kinds of films that were produced. Seeking to reduce risk, the majors turned to large-budget formula movies, starring actors with proven box-office drawing power. This drove up the asking price for these actors, further driving up the cost of producing the films. Thus, remakes, sequels, and film versions of popular television shows—perceived as less risky—became standard fare.

*The Evolution of Film as a Global Business*

Another feature of the modern era has been the increasing importance of foreign markets to the American film industry and the evolution of the foreign film industry to a more American-style commercial industry model. Today, film industries from other countries emulate the American model in order to become more competitive, while the American film industry, in creating film production tax incentive programs akin to those in Europe and Canada, is increasing its effectiveness. The rapid growth of wealth in China has created a buying spree of Chinese companies purchasing Hollywood production, finance, and distribution companies from AMC movie theater chain, IM Global, Legendary Entertainment to distributor Voltage Pictures, with price tags from the millions up into the billions, although by mid-2017 the pace of Chinese investment had begun to slow, partly because of pressure form the Chinese government.
The invention of movie-related technology was global from the outset. Almost simultaneously with Thomas Edison’s creation and development of motion picture technology in the United States in the 1890s, the Lumière Brothers in France created similar technologies and launched film as a new art form in Europe. The Lumière Brothers and their representatives proceeded to demonstrate their Cinemategraphe around the globe, traveling to Bombay, Saint Petersburg, and Shanghai. From there, it spread quickly to Egypt, Japan, and Australia. So in a sense almost from its beginnings, film was global. But film as a business remained domestic; films produced in a country were generally shown only in that country. The globalization of the business in terms of the exporting of films to other countries did not begin in earnest until after World War II with the expansion of the American film business overseas, in large part to provide entertainment to moviegoers in other countries whose indigenous film industries had been crippled during the war. By the end of the twentieth century, film was truly a global business in every sense, with production and distribution operations and revenue streams all carried out and calculated on a worldwide basis.

American filmmakers, with a huge domestic market and a strong private financial sector, were better positioned than filmmakers in other countries to make big-budget action-adventure movies with substantial production values; the type of movies that appealed to audiences throughout the world. By 1993, almost 50 percent of the studios’ film revenue was consistently coming from foreign markets, and foreign distribution contracts represented a major source of financing for independent films produced outside the studio system. In the late 1990s into the 2000s, American film companies also became more aggressive in financing films by foreign directors who are successful in appealing to crossover foreign and American audiences; such as Alfonso Cuaron (Gravity); Michel Hazanavicius (The Artist); Guillermo Del Toro (Pacific Rim); Ang Lee (Life of Pi, Crouching Tiger, Hidden Dragon); Bong Joon-ho (Okja, Snowpiercer); Pedro Almodovar (Talk To Her, All About My Mother), and Michael Gondry (Eternal Sunshine of the Spotless Mind), even shooting the films in a foreign language. The studios also began to take direct stakes in foreign production companies, for example Warner Bros.’ joint venture Flagship Entertainment Group, a China joint venture with CMC Holdings.

Currently, studios are aggressively expanding into emerging markets with a rapidly rising middle class, such as Brazil, Russia, India, and China, in order to capitalize on the growing economies. All of the studios and major distribution companies are forming joint ventures, or partnerships in these areas; such as NewsCorp and Relativity Media with Chinese partners; DreamWorks in Shanghai; Disney’s Marvel in Beijing; Fox in Argentina, India, and Russia; Warner Bros. in Russia, India, and the Middle East; Sony in Russia, China, Mexico, and India; a trend that will continue for the foreseeable future.

The growing focus of the studios on foreign markets is also a function of declining theatrical audiences at home, as the growth of cable television and
streaming services has cut into the American appetite for a theatrical experience. At the same time, the growing middle class in many foreign countries noted above, the expansion of the exhibition industry in those countries, and technological developments that make the distribution of films in foreign territories in all formats easier and less expensive, have further fueled the studios’ focus on big-budget action-adventure and fantasy films that foreign audiences crave and only American studios can deliver.

The European movie industry, which had developed as a state-subsidized business producing films primarily local in content, began to evolve in the 1980s and 1990s into a more commercially driven, privately financed market as subsidies for film production were gradually reduced and modified to economically based, rather than artistically driven, models. This evolution was aided by the privatization and expansion of broadcast television throughout Europe, significantly enlarging the secondary markets for films and allowing European filmmakers to produce larger budget, high production value films with export value. International coproductions also flourished during this period, supported by European coproduction funding, and the new interest of American film companies in partnering on large-budget films to reduce risk. A consequence of this shift in the European industry to a more profit-driven, privatized model was that European films became more competitive in their own countries and around the world with international hits like the German-produced *Run Lola Run*, and the French movies *Amelie*, *Brotherhood of the Wolf*, and Italy’s *Life is Beautiful*.

In regions and countries outside the United States and Europe, film as a business developed in ways specific to each region, influenced by local political, economic, cultural, and demographic factors. The potential for the development and growth of a viable film industry in those regions and countries was affected by the existence, or the absence of, underlying conditions needed to nurture and sustain an industry.

Without a large-enough domestic audience base to generate sufficient revenues from within the producing country, filmmakers are constrained in how much they can spend making a film, limiting the production values and the commercial appeal and competitiveness of their films internationally. Vibrant film industries have flourished primarily in countries with relatively large domestic population bases, like the United States, United Kingdom, France, Italy, Germany, Japan, and India.

The development of a film industry also depends on a political environment and social structure that encourages artistic creativity and free enterprise and does not view film as either a useful propaganda tool or a potentially subversive art form. During the film business’s growth periods in the last century, many countries like the Soviet Union, China, and the Eastern European countries during the Soviet era, regulated and censored film content for political purposes. In addition, many of the same countries subsidized filmmakers with state funding, similar to the Western European model, imposing content requirements
and barring or limiting the use of non-local creative talent, resulting in the production of parochial films with little interest to audiences outside the producing country.

Finally, given the costs of producing commercially viable movies that can compete in the marketplace and support the growth of a sustainable film industry, sources of private investment capital need to be available to filmmakers.

The lack of one or more of these necessary conditions in most countries in Latin America, Asia, Africa, and the Middle East meant that with a few exceptions, these regions and countries failed to develop a film industry beyond small, highly localized, and generally underfunded operations.

The exceptions were countries in those regions where the necessary conditions prevailed: postwar Japan, India, and South Korea, for example. China and India offer an interesting contrast. In India, the combination of a huge domestic audience base, a democratic political system that imposed few, if any, restrictions on filmmakers, and a private financial sector that supported the film business, resulted in the development of a vibrant film industry over the last few decades of the twentieth century, producing more movies than any other country and, by the start of this century, beginning to export its films around the world. By contrast, China did not develop a viable film business despite a huge population base due to a system of government regulation and censorship of film production and distribution, and, until recently, relatively poor economic conditions and the lack of a private investment sector to support a film industry.

Japan and South Korea, with conditions similar to India, developed strong local film industries, although filmmakers from these countries, with some exceptions, have had limited success in producing movies with export value.

As China’s wealth is increasingly spent in developing its movie industry, budgets are rising, more theaters are being built, to take advantage of the vast population of over 1.3 billion people with films like Kung Fu Yoga, Journey to the West: The Demons Strike Back, and The Monkey King 2.

Asia continues to gain as a portion of international box office, compared to other major regions, according to the Motion Picture Association of America (MPAA), as illustrated in the following chart.

![Figure 1.3 International Box Office by Region 2016.](chart)
Other Important Developments

Other significant historical developments include the expansion of the independent movie company sector and online distribution, availability of affordable digital production equipment, the rapid digital conversion of theaters, the development of virtual reality and augmented reality films, digital technology and specifically computer-designed digital special effects, the introduction of the DVD, and the potential of Internet Protocol Television and over-the-top (OTT). These topics will be discussed in further detail in the chapters about production and distribution.

Independent Movie Companies

Driven by the breakdown of the studio system and the concentration by the studios on big-budget “tent-pole” movies, the field for smaller budget, more idiosyncratic, artistically focused films was left to independent producers. Successful independent companies, like Pixar, Miramax, and New Line, were eventually acquired by the majors, a development mirroring the majors’ acquisition of downstream distributors, such as video companies and cable television systems once the economic viability of these downstream markets had been proven. While the independent sector grew significantly at the end of the twentieth century in terms of the number of films and critical acclaim, exemplified by the many Oscars™ garnered by independent films, the majors continued to dominate the industry in terms of revenue.21 One consequence of the success of independent cinema, and another example of the majors co-opting a market segment once it has proved successful, is that every studio now has a separate division for the production and distribution of their own “indie” (independent) films: 20th Century Fox (Fox Searchlight), Warner Bros. (New Line), Paramount (Paramount Classics), Disney (Miramax), and Sony Pictures (Sony Pictures Classics). A few companies, patterning themselves on the studio model developing and leveraging independent-style films, have risen to prominence, such as Lionsgate.

Multiplexing

In the 1960s, the theatrical exhibition business began a shift from single-screen theaters to multiple-screen locations—the multiplex. This shift was propelled by the post–World War II growth of suburbs and exurbs, and the emergence of the shopping center as a retail hub, driving large numbers of potential moviegoers to a single location. With a concentration of audiences in one place it made sense to offer a variety of movies suited to different tastes and audiences at that location.

The AMC theater chain (American Multi-Cinema at that time) opened in 1963 the first double-screened movie theater in a shopping center in Kansas City, Missouri, following up with four-screen, then six-screen theaters by 1969.22
Some of the biggest multiplexes currently, such as Kineopolis Group, have up to 25 screens in a single theater location in Madrid, Spain, seating 200–1,000 people per screen.\textsuperscript{23} By the 1990s, the multiplex was the dominant retail model, sparking an enormous increase in the number of available screens, leading to ever larger opening weekends and even greater reliance on big-budget films that could be released nationally on 3,000–5,000 screens; 4,468 US screens for the 2010 film \textit{The Twilight Saga: Eclipse}, and 10,152 screens worldwide for 2014’s \textit{Transformers: Age of Extinction}. This simultaneously drove up marketing and advertising budgets. At the same time, more screens were available for independent films, supporting the growth of that sector. The development of computer-designed digital special-effects technology opened up extraordinary new possibilities for filmmakers, exemplified by films such as \textit{Pirates of the Caribbean: Dead Man’s Chest} ($1 billion worldwide), \textit{Iron Man} ($566 million worldwide, and \textit{Indiana Jones and the Kingdom of the Crystal Skull} ($760 million worldwide).\textsuperscript{24} These special effects-driven epics became the most commercially successful movies of all time, with huge global audiences, further entrenching the big-budget “tent-pole” film as the dominant studio product model, and driving production costs even higher. The digital special-effects phenomenon is another example of a new technology that changed not only how films were made, but also what kind of films got made.

\textbf{Convergence and Disruption}

The definition of convergence is moving toward a union, or coming together. There are many examples of convergence in the movie industry, typically caused by developments in technology and access to capital.

Disruption is a radical change in an industry or strategy, involving the introduction of a new product or service that creates a new market. Often, convergence causes disruption, as new business models are formed, disrupting the previous models.

Examples of convergence in film include the transition of cable channels to home-based movie theaters (early cable channels didn’t have any original programming and showed Hollywood films almost exclusively). Most impactful and creating huge disruption is the combination of computer and internet, which has vastly increased home viewing possibilities. This has enabled content retailers to use streaming technology, creating new business models—such as Amazon and Netflix—now disrupting the movie industry and forcing change on the studios.

Mobile technology on smartphones and tablets combined with fast internet speeds and a variety of websites offering videos has changed the way we watch movies and television. We can now watch filmed entertainment wherever and whenever we want. This new format has also given rise to the enormous popularity of shorter form videos easily consumed during sporadic commutes.
OTT, or over-the-top viewing (essentially internet video streaming or download) is an example of convergence; content that combines audio, video, and other media transmitted via the Internet without the need for multiple cable or direct-broadcast satellite television systems, resulting in transforming computers into televisions, movie screens, and gaming systems. Whether a consumer has an elaborate home theater system, a smart television, or simply watches programming on their laptop, the ability to use the Internet to screen films represents a convergence of viewing systems. These advances have contributed to the meteoric rise of Netflix, Amazon, YouTube, and Apple.

The convergence of the growth of the independent film market (itself fueled by the declining costs of production and editing for independent filmmakers) and the Internet as a platform to self-distribute one’s film has nurtured a new market, particularly for documentary film and do-it-yourself filmmakers.

Disruptors include technologies, like augmented reality, virtual reality, 360-degree films, holograms, gaming, and 4D, or may also include video games that offer potential intellectual property for new films, like Angry Birds. When disrupters first appear, it can be difficult to spot whether a condition will be beneficial in the long run to filmmakers and the industry overall.

An additional disrupter is the technology and social media industries as they draw young people with higher salaries and promises of extreme growth from the movie executive talent pool. Even seasoned executives are going digital, for example, Scott Stuber, a former top manager at Universal Pictures, left for Netflix. The battle for talent has become so fierce that Fox has waged a legal battle with Netflix over the aggressive poaching of its executives.

**Fast Forward to Present Day**

Combined forces of the pressure from increasing global audiences as a dominant revenue source, the popularity of special effects films such as the comic book movies and animated films, with the high salaries of stars and technological advances, have created conditions for a polarity of film budgets. Films at the high end are getting more expensive while lower budget films can be made for less. The vibrant expansion of the indie filmmaking sector offers audiences interesting low-budget movies, adding some small incremental gains to the diversity of content. Changes in technology change the content of movies.

**Internet Protocol Television/OTT**

The latest challenge to the industry with the possibility of undermining the traditional role of the major studios is the emergence of Internet Protocol Television (IPTV) platforms and formats as a means of content delivery over the Internet. IPTV is television programming and other video provided online using the TCP/IP protocol as opposed to traditional cable or satellite signals. While the first rush of excitement over IPTV in the late 1990s fizzled out along with
the dot-com frenzy, by the early 2000s, filmmakers and studio executives acknowledged the reality and appeal of this new window and were grappling with its meaning for the industry. As of 2017, established studios and new players have changed the game with increased offerings and services, broadening the concept of IPTV to OTT—over-the-top content delivered by services such as Amazon, Netflix, Hulu, Roku, Sling, or Apple TV, where content is provided via the consumer’s existing broadband provider that is not responsible for the content. IPTV posed major challenges for the industry with its potential for the democratization of distribution, allowing filmmakers to reach viewers directly by uploading content onto platforms like YouTube, Vimeo, Amazon, Apple iTunes, and Facebook, a niche that is growing rapidly, but has the potential for increasing the risk of piracy via free downloading systems—as happened in the music business. Theater attendance in the crucial 15- to 25-year-old audience segment began dropping in the early 2000s, with strong indications that its primary audience was more inclined to spend time on the Internet and on their cell phones than in movie theaters. The challenge for the film industry, similar to challenges it has faced and successfully met before, is to harness this new technology to the service of the industry’s needs and interests. Some were predicting that the prevailing system of production and distribution, with the major distributors serving as gatekeepers for content flow to consumers, was dying—headed for "the dustbin of history"—and that entirely new models would emerge, which would lessen the dominance of the major studios, and which would free filmmakers from their historical reliance on the studios for capital and distribution. Art might yet triumph over business!

Digital Streaming and Downloads

Digital streaming and downloads over the Internet are replacing DVDs, and make up the fastest-growing category as total home-entertainment revenue. Of the $18.3 billion home entertainment revenue in 2016, streaming revenue ($6 billion) eclipsed digital revenue in the US for the first time. Unfortunately streaming is not making up for ongoing declines in sales and rentals of physical DVDs; the total US home-entertainment market remains well below its peak of more than $22 billion in 2004.26

While the tech world has created more outlets for people to watch movies, it has not eased the pain for studios losing revenue from DVD sales and television licensing which once helped lift box-office duds into the black. Digital streaming and downloads are usurping DVD as a format, but not as a revenue stream.

From the 1920s until now, the industry has gone from one way of selling movies to the public (in the theater) to many. Digital streaming and downloads over the Internet on computers, smart televisions, and smartphones, are the newest ways to consume movies, changing both distribution and financing architecture. With the rise of this technology and widespread popularity, new players in the movie business; Netflix, Amazon, Google, and Apple are positioned to
threaten the established Hollywood studios. The dominant model in internet streaming is subscription video-on-demand (SVOD) where the consumer pays a fee to subscribe to a service that gives the consumer access to a library of works for viewing at a time and place selected by the subscriber. Netflix is currently the leader in SVOD. The internet download model offers movie downloads which can be watched multiple times whenever a viewer wants, since the movie file is downloaded onto the viewer’s computer after it is purchased. Piracy is a concern related to this technology, as are price points, and the impact on other distribution windows.

**Mobile**

Mobile smartphones, with their ability to play, download, and stream video content, add another moving part to the movie business. Smartphones now have the sufficient storage capacity and internet access, so watching movies on them is becoming more popular. Given several choices, consumers are increasing pressure on the industry to make movies available in multiple media formats.

Movies are not generally produced for such small screens, so experience is very different than on a big screen. A few projects have been made for mobile viewing, like *Rage* (2009) which was designed to be viewed on a phone, and *The Silver Goat* (2012), created exclusively for viewing on the iPad. Students, in particular, watch movies and TV programming primarily on their phones, due to the convenience.

**Large Formats**

Competition from the combined new media companies—Netflix, Amazon, Google, and Apple—combined with shorter time gaps between when a movie is released in theaters and distributed in the home has put the squeeze on the theater industry.

To remain relevant and competitive, theaters must continue to invest in a combination of technology, comfort, in-theater amenities, and security. The major innovations and improvements implemented by theater owners to maintain and bolster attendance in the television and internet era include: multiple screens (multiplexing); large-format screens like IMAX; modernized theaters with high-end, surround sound systems; stadium seating; reclining chairs and reserved seating; and a transformation to digital projection—bringing back new and improved 3D again.

Theaters and distributors use large and enhanced formats like 3D and IMAX to sell movies at a higher price point to avid moviegoers. IMAX and enhanced formats like 3D and 4D make movies more of an “event” spurring consumers to attend movie theaters when they might otherwise wait. Exhibitors have observed that US attendance has been relatively flat for many years, and if it will not increase long-term, there needs to be an additional draw. Large formats and
premium offerings get more money out of the consumer who would have gone to the movies anyway, as well as drawing viewers who might have waited to see the film online or at home.

New Formats

With the rise of digital production (rather than film) and exhibition, new formats have appeared, influenced by the gaming sectors and need to push the envelope in terms of creating ever-more lifelike movies. Movies made in virtual reality, 360-degree movies, and augmented reality, presenting a virtual dimension over the current reality, are rising in popularity. These formats require headset “smart-glasses” in order to see the experience to its furthest extent. The acceptance of the format will depend on audience appetite for both glasses and the experience. Some 30+ movies are to be released in 3D worldwide in 2018, it seems that increasing the dimensionality of commercial movies will increase, and that virtual and augmented reality may someday become the norm.

In addition to 3D, 4D film is on the rise, utilizing a theater system combining a 3D movie with physical effects, such as vibrating seats, rain, wind, scents, strobe lights that occur in the theater, synchronized to the film.

There is no doubt that new developments, in production, distribution, and exhibition, will arise, influencing how we experience movies and their content in the future.

Notes