DIGITAL PRODUCTION CHALLENGE II

Panel: The Market for Digital Distribution in France and Germany

With: Johannes Klingsporn, Deutscher Verleiherverband (German Distributor' s Association), Tommaso Vergallo, Digimage Cinéma, Martin Hagemann, zero fiction film GmbH

The ongoing process of digitalization not only changes the technical workflow and the technical specifications of deliveries, but the terms of trade of the entire industry are on stake. This is due on the one hand to the enormous costs of equipment to be installed in the cinemas and to the higher costs for producers who face a double delivery in analog and digital at least for the next years. On the other hand big savings are being made on the side of the distributors.

In the past, distributors risk-financed mainly the costs of the prints and the P&A for each release. These costs will be significantly lower in the future: will handling and profit fees up to 35% then still be acceptable? Will the situation create a new direct relationship between the cinema and the producer who would face an additional investment for DCPs and outsourced expertise from press agencies and marketing companies, responsible for the placement of a film in the market? Could the distributors be transformed into those marketing experts while the technical part of the distribution - from the production company to the cinemas - could be handled by the post production labs?

These questions were rather strictly denied by Johannes Klingsporn, who sees the core skills of the distributors in their knowledge of the market and of the national theatre landscape. Tommaso Vergallo also saw a lack of capital and knowledge on the producer's side to handle releases on their own.

The situation in France and Germany more in detail:

The national situation among the EU countries differs very much, from the UK being dominated by big cinema chains to France with many independent exhibitors. In France the Virtual Print Fee (VPF) is based on the maximum number of screenings during the first two weeks. In Germany the VPF is still being negotiated.

Since October 2010, a new law in France precises that a digital release has to be less expensive for the distributor than the 35mm release. In France there are 1608 digital screens in 507 theatres. The cost of the installation (server, projector, library, financing cost) is estimated to be between 65.000 and 72.000 € .

There are three ways of digitization for a cinema in France:

- A third party pays the equipment for the exhibitor. This applies mainly to big cinema chains. Deals with third parties are generally fixed over ten years.
- The exhibitor pays on his own, and may obtain subsidies.
- The Ministère de la Culture gives a subsidy for 75% of the equipment needed to small cinemas. The total amount of subsidy is of 125 Mio € for an estimated number of 2.000 screens in France.

The German government has foreseen less than half of this investment for 1.500 screens. In Germany the distribution models are still being discussed. The national film fund should act as third party or as intermediary to third parties. But the mixture of public money and third parties makes the situation more complicated in Germany. Right now the third parties foster the digressive VPF model which would make art house distribution more expensive than blockbuster distribution. Therefore many in Germany would prefer the flat VPF model used in France.

German art house cinemas are facing the danger of their business model falling apart. They are hesitant to implement the DCI standard and often prefer to keep 35mm or stay with E-cinema (below 2K resolution: Digibeta, HDCam). As a result, they will not be able to show mainstream product which might be bound by the majors to be screened on DCI-compliant screens, thus cutting themselves off from revenue streams and severely limiting their potential income: They might become very specialized cinemas. Two standards might be established: the high-quality standard for mainstream feature films and a lower standard for European or art house features. This may result in the closing down of 500 cinemas in Germany over the next years.

But the future lies also in the hands of the cinema owners. If cinemas had an own library of films, this could be a chance for more liberty in programming and adapting to their local audience's needs. With digital projection installed, they could also open the cinemas to alternative content like live opera or sports transmissions, games and other events, turning their cinemas into a kind of cultural marketplace.

With the price of digital equipment going down, there will be more possibilities even for smaller cinemas in the future – but the present offers many challenges and small cinemas will first have to survive these challenges while finding innovative and flexible solutions for the future.