

Hollywood's dominance of the movie industry: How did it arise and how has it been maintained?

A thesis submitted in accordance with the requirements for the degree of
Doctor of Philosophy at the Queensland University of Technology

by

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November
2007

KEY WORDS

Strategic, marketing, dominance, capabilities, Hollywood, Major studios, movie industry.

Abstract

Hollywood's dominance of the movie industry has been the subject of numerous studies. An interdisciplinary literature review in this thesis identified twenty different single or multiple factor explanations that try to account for Major studio dominance at different time periods but cannot comprehensively explain how Hollywood acquired and maintained dominance for nine decades. This thesis reviewed the economics, management and marketing literatures to identify existing theoretical explanations for the acquisition and persistence of market dominance. It then integrated existing theories identified within the business literature into a 'theoretical lens'. This lens enables an historical analysis of Hollywood's longstanding dominance of the movie business to be undertaken from a strategic business perspective. This thesis concludes that the Major studios rise to market leadership and enduring dominance can primarily be explained because they developed and maintained a set of strategic marketing management capabilities that were superior to rival firms and rival film industries. It is argued that a marketing orientation and effective strategic marketing management capabilities also provide a unifying theory for Hollywood's enduring dominance because they can account for each of the twenty previously identified explanations for that dominance. The original contribution of this thesis is the development of a strategic marketing management lens and a set of guiding questions that can facilitate a strategic analysis of market dominance in any industry.

Declaration of Originality

The work contained in this thesis has not been previously submitted to meet requirements for an award at this or any other higher education institution. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made.

Signed:

Date:

DEDICATION

This thesis is dedicated to my long-suffering wife Anastasia and my daughter Georgia who 'lost me' for close to five years but hung in there. The epic journey is over! This thesis is also dedicated to my mother who so loved the movies and gave me my passion for the industry and to my father who was always there for me. They would have been so proud.

ACKNOWLEDGEMENTS

My sincerest thanks go to my supervisors Professor Frank Alpert who motivated me to take up the challenge and to Dr. John McDonnell for their endless encouragement and unwavering support throughout the journey. Special thanks also go to Dr Hume Winzar.

ABBREVIATIONS

Fox – Fox Film that later merged to become 20th Century-Fox.

Hollywood – The Major studios (Majors)

Majors – Universal, Paramount, Fox, MGM, RKO, Warner Brothers, Columbia, UA and Disney

MGM. – Metro-Goldwyn-Mayer

MPA – Motion Picture Association

MPAA – Motion Picture Association of America

MPEA – Motion Picture Export Association

MPPC – Motion Picture Patents Company

RKO. – Radio-Keith-Orpheum

UA – United Artists

UfA – Universum Film AG

US – United States of America

List of Publications related to this Thesis

Journal articles

Silver, J. and Alpert, A. (2003) "Digital dawn: A revolution in movie distribution?" *Business Horizons*. Vol. 46. Issue 5. Sept-Oct 2003. pp. 57-66.

Silver, J. and McDonnell, J. (2007) "Are movie theaters doomed? Do exhibitors see the big picture as theaters lose their competitive advantage?" *Business Horizons*. Vol. 50. Issue 6. November/December, 2007 pp. 491-501.

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CHAPTER 1: INTRODUCTION

For ninety years, an oligopoly of Hollywood studios comprising Universal, Paramount, M.G.M., United Artists, Fox, Columbia, Warner Brothers, R.K.O. and Walt Disney, known collectively as ‘the Majors’ have dominated world cinema (Huettig 1944, Gomery 1986, Puttnam 1997, Ulf-Moller 1998, Kerrigan and Culkin 1999, Jacobsen 2001, Klein 2004). During that time, the movie industry landscape and business models have been dramatically transformed after the introduction of new technologies and by other macro-environmental forces, particularly, two anti-trust actions by the U.S. Government in 1915 and 1948, against the largest American film companies. Most of the Major studios were also bankrupt, or close to it, on two occasions, first during the Great Depression and then again in the late 1960s, yet no competitors were able to undermine Hollywood’s dominance. A leading film historian argues that contemporary Hollywood, is more powerful than it has ever been (Gomery 1999).¹ A literature review that appears in Chapter Two identifies twenty different explanations for Hollywood’s dominance or the global popularity of its movies, yet it is argued that none of them can fully account for the Majors’ enduring dominance for over nine decades. This thesis takes up that challenge.

It investigates the underlying causes of Hollywood’s dominance, how it arose and how it has been maintained, with the intention of determining what lessons can be learned for industry practitioners from the success of the dominant firms. A business literature review of *market dominance* found no existing model or framework that enables a comprehensive analysis of the origins and persistence of dominance in any industry over time (see Chapter 2). This gap in the literature on market dominance is addressed in Chapter 3, which develops a holistic theoretical framework, to account for the acquisition and persistence of dominance. It comprises two “soft” models that are based upon existing economic theories and integrates them with theories by Porter (1980), Hamel and Prahalad (1989) and Vorhies and Harker (2000), into a *strategic marketing management lens* (SMM), through which nine decades of historical evidence on Hollywood’s dominance can then be analysed using a series of guiding questions to aid the research. These are original contributions of this thesis.

The first section of this chapter describes the motivations for this study. The second section discusses the purpose of the thesis. The third section and an appendix, provide a brief business history of the movie industry, highlighting key developments relevant to this thesis.

¹ Film historian Douglas Gomery states: “*The six media conglomerates which dominate contemporary Hollywood now possess a power and cohesion against which the oligopoly of the Hollywood studios during the 1930s and 1940s simply pales in comparison.*” Gomery, Douglas (1999) “Hollywood as Industry.” In Hill, John and Gibson, Pamela Church. (Eds) (1999) *The Oxford Guide to Film Studies*. Oxford University Press. pp 245-254.

The fourth section uses statistical data to illustrate the degree of Hollywood's current dominance of world cinema. The fifth section and an appendix, indicate that whilst other national film industries and film companies outside Hollywood have at times been positioned to become significant long-term competitors to the Major studios, they failed to do so. The sixth section broadly outlines the business challenges facing smaller rivals operating outside the Hollywood system. The seventh section broadly overviews the existing film literature on Hollywood's dominance and identifies a significant gap in the study of dominance in the movie business. The eighth section states the research question for this thesis. The ninth section provides a brief outline of the chapters in this thesis and finally, the original contributions are noted and a brief summary of this chapter is provided.

1.1 MOTIVATIONS FOR THIS STUDY

Although much has been written on Hollywood's dominance, there has been no comprehensive strategic business analysis that draws upon existing management theory to explain how and why the Major studios dominance arose and persisted for nearly a century. Perhaps this is because film scholars, who authored many such studies, are mainly located in film and media departments within universities and therefore are unlikely to know business models well. Conversely, business experts located in business schools may not know the movie business very well. Eliashberg, Elberse and Leenders (2005) note the limited impact of scholarly literature on the movie business practices when compared to other industries.

After reviewing the literature on Hollywood dominance and on the popularity of its movies, twenty different explanations accounting for Major studio dominance were identified and yet no single explanation among them could account for Hollywood's enduring dominance for almost a century. The historical evidence indicates that new technology only offered opportunity to the those film companies that knew how to use it to strategically exploit their markets and were best positioned to achieve that aim. For example, Warner Brothers became a Major studio by pioneering talking pictures (TIME magazine 1929, Huettig 1944). And in the 1950s, Walt Disney, an independent production company that evolved slowly into a Major, was the first studio in Hollywood to see the emergence of television as a strategic opportunity to cross-promote its movies and its theme park business, enabling the exploitation of the intellectual property through marketing and licensing synergies between them (Holliss and Sibley 1988). This became the business model for the Major studios today.

These and other historical examples suggested that perhaps the Major film studios ongoing dominance might be due to a marketing orientation, to effective competitive strategy and to

superior strategic marketing capabilities over their rivals. Closer analysis of the twenty existing explanations for Hollywood's dominance located in the literature, revealed that each of them was 'rooted' to the corporate strategies or marketing capabilities of the Major studios (see Chapter Two). And the remaining explanations of dominance that could not be directly attributed to strategic marketing activity were all macro-environmental factors that were exploited by the Majors to their competitive advantage. This was another indicator that superior strategic marketing management capabilities may have played a significant role in Hollywood's ongoing dominance. Consequently, it became clear that in order to understand the industry, insights from the industry's past could be very valuable to industry practitioners.² No definitive business study has been identified in the literature review that can comprehensively account for Hollywood's dominance for over ninety years.

1.2 PURPOSE OF THIS THESIS

Thus, the purpose of this thesis is to investigate and unravel the complexity that surrounds Hollywood's nine-decade dominance of the movie industry and determine the underlying causes of that dominance. Whilst social and cultural considerations in relation to Hollywood's dominance have been well researched in the film literature, this thesis focuses on understanding the biggest practical barrier that independent film companies face - Hollywood's overwhelming dominance of the *movie business*. This thesis investigates how that dominance arose and how it has been maintained. Lessons learned may be of practical benefit to independent film companies when formulating future strategic plans, as well as to current industry personnel, especially new staff at the Major studios and related support companies.

Rosenbaum (1998 p. 1) states that "*dominance implies power and control*" and notes that economic 'structuralists' argue that dominance occurs when there is a high concentration of companies, of sufficient size and scale and with enough economic clout and market power that they can manipulate industry pricing, while in contrast, the Chicago school advances a rival theory that firms become dominant and achieve significant market share because they are more efficient than competitors over the long term. Shepherd (1972 pp. 25-37) proposes that indicators of market power include dominant market share, large economies of scale,

² Scherer (1996 p. 1) contends: "*Real-world industries are complex organisms whose evolution can be understood only through careful attention to historical dynamics.....(and) that those who fail to learn from the past condemn themselves to repeat its errors*". The practical value in history is suggested by Winston Churchill who observed: "*The further back you look, the further forward you will see*" (Schrieffer 1998 p. 26). "*The motion picture industry provides a fruitful research domain for scholars in marketing and other disciplines..... Despite the fact that the amount of scholarly research in this area is rapidly growing, its impact on practice has not been as significant as in other industries*" (Eliashberg, Elberse and Leenders. 3rd draft February 23, 2005 Abstract).

collusion and other forms of cartel behaviour, erection of high barriers-to-entry and overwhelming marketing force. A more detailed definition and discussion of dominance is undertaken in Chapter Two.

1.3 THE MOVIE INDUSTRY BEFORE HOLLYWOOD

Market dominance is not necessarily easy to acquire or maintain. Most people are unaware that in early movie industry history, a different set of firms ruled the industry.³ Hollywood's dominance was not inevitable; in fact in 1909, when the nine leading film companies in the U.S. market combined to create the Motion Picture Patents Company (MPPC), with the intention of monopolizing the industry, the Major Hollywood studios did not even exist. The demise of those earlier dominant firms suggests that maintenance of dominance is neither automatic, nor easy. Appendix 1 offers a brief business history of the movie industry to provide a context through which Hollywood's acquisition and maintenance of dominance can be more easily understood in later chapters.

1.4 HOLLYWOOD'S LONGSTANDING DOMINANCE

In the absence of global box office data prior to the 1980s, from which market shares could be calculated to demonstrate Hollywood's dominance, Table 1.1 below was constructed from a range of sources, to illustrate Hollywood's longstanding dominance from a different perspective. It shows the amount of 'playing-time' taken up by American movies on the cinema screens of five of the world's largest foreign markets, at different snapshots in time.

Table 1.1 Playing-time allocated to U.S. movies in other leading film-producer nations

Nation	1930 U.S. share of playing time	1960 U.S. share of playing time	2002 U.S. market share based on admissions
Japan	22%	21%	73% non-Japanese share (mostly U.S.)
Britain	75%	67%	82%
Italy	65%	55%	63%
France	48%	33%	56%
Germany / West Germany	32%	29%	88% non-German share (mostly U.S.)
Average in other countries (1930 average for 16 other countries; 1960 average for rest of the world)	75% 70% in 1933 of world playing time	90%	73% (Europe in 2000 www.obs.coe.int)

Sources: Segrave (1997) pp 284-285. *Film Daily Yearbook* 1934 p. 35; *Film Daily Yearbook* 1961 pp 97; *Focus* 2003 *World Film Market Trends* (www.obs.coe.int).

³ The Major American studios in the pre-Hollywood era were Edison, Biograph, Lubin, Selig, Vitagraph, Essanay and Kalem. French firm Pathe was the first globally dominant film company from around 1905-1915. European rivals were Gaumont (France), Italy's Cines (Italy) and Danish firm Nordisk (Fernett 1988; Ullf-Moller 1998 p. 91, 99).

The overwhelming contemporary dominance of the Hollywood studios is clearly illustrated in Table 1.2 below, compiled by the author. It shows that Major studio movies easily dominated the annual box office in North America, Europe and Japan.

Table 1.2 Hollywood's Dominance of the World Film Market in 2000

Year	Market	Hollywood Studios Market Share	Rest of world Market Share	Annual Cinema Admissions	Average Ticket Price U.S. \$	Annual Box Office U.S. \$ billions
2000	United States	93%	7%	1.42 billion	\$ 5.39	\$ 7.66
2000	Europe	73%	27%	844 million	\$ 5.70	\$ 4.79
2000	Japan	75%	25%	135 million	\$ 11.08	\$ 1.49
2003	India	N/A	N/A	2.8 billion	\$ 0.35	\$ 1.00
2001	China	N/A	N/A	220 million	\$ 0.49	\$ 0.101

Sources supplied from: *European Audiovisual Observatory* www.obs.coe.int *MPA* www.mpa.org *Screen Daily* www.screendaily.com.

Hollywood dominates the world's wealthiest market – North America

The same pattern of dominance is reflected in Table 1.3 below, which shows that although the Majors produced fewer films than independents in the North American market, they dominated distribution, releasing many more movies than independent companies and consequently earned the great majority of the annual box office. Appendix 2 presents a similar picture showing that the combined market share for each of the top ten movie studios and their subsidiaries (Miramax, Dimension and New Line) ranged between 92-96% between 1998-2003. DreamWorks was the only independent studio to rank in the top ten and its films were distributed by Universal. DreamWorks was acquired by Paramount in 2005.

Table 1.3 Major Studio Dominance in North America

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: Jaeger (1999) based on Motion Picture Association of America (MPAA) statistics.

1.5 NO SERIOUS COMPETITIVE THREATS TO HOLLYWOOD

Box office statistics show only a handful of truly independent movies, have been able to achieve significant commercial success (see Appendix 3). Other national film industries and rival film companies have at times in history emerged as potential challengers; however none became a serious longer term threat to the Majors (see Appendix 4), despite the fact that they were financially in two different time periods, when macro-environmental and technological changes undermined their viability.

During the Great Depression when audiences declined sharply, four of the Big Five Majors – Paramount, Warner Brothers, Fox, Universal, and R.K.O. all went into receivership, with only Loews-M.G.M. *virtually sailing through the Depression* (Gomery 1986 p. 8-9). Again, in the post-Studio Era from 1950-1974, the Majors suffered enormous financial losses as the mass cinema audience stayed at home to watch TV, except for occasional theatre attendance at a blockbuster movie event (Silver and McDonnell 2007 p. 492). Consequently, Hollywood experienced fluctuating cycles of boom and bust (Wasser 2001 p. 5). Hollywood in the late sixties has been described as “*a dying company town*” (Hozic 2000 front flap), a time when larger business conglomerates acquired the Majors.

Yet despite such breakthrough opportunities available to other nations with commercially viable film industries or to rival independent studios, none emerged to seriously challenge Hollywood’s dominance? Why?

1.6 THE BUSINESS PROBLEM FOR SMALLER RIVALS

Most films produced each year around the world are independent productions. However when it comes to accessing film finance and distribution deals that can place independent films onto the world’s cinema screens, it is not a level playing field.⁴

Some studies contend that the Majors dominate global film markets by controlling the channels of distribution (Puttnam 1997, Hoskins, MacFadyen and Finn 1997, Gomery 1999). Consequently, independent films made outside the Hollywood system simply do not have

⁴ “*Filmmakers working outside the Hollywood system often find it difficult to achieve a theatrical release in international markets outside their home territory. This is because an industry structure and related market practices have evolved over nine decades, creating systemic barriers that have severely disadvantaged smaller independent companies in all three key industry sectors: production, distribution and exhibition*” (Silver & Alpert 2003 pp. 57).

access to the big budget production-finance available to Major studio movies because they cannot secure worldwide distribution deals that guarantee significant marketing budgets and a wide theatrical release needed to establish the brand and provide a sustainable economic base that enables the movie to recoup its production budget and marketing costs across the various release windows (Dale 1997 pp. 93-115). These problems are further compounded by the massive advertising expenditures invested by the Majors on their own movies that saturate the market and make it difficult for small independent films to even get noticed, even if they do achieve a theatrical release. Porter (1980) would label these significant barriers-to-entry.

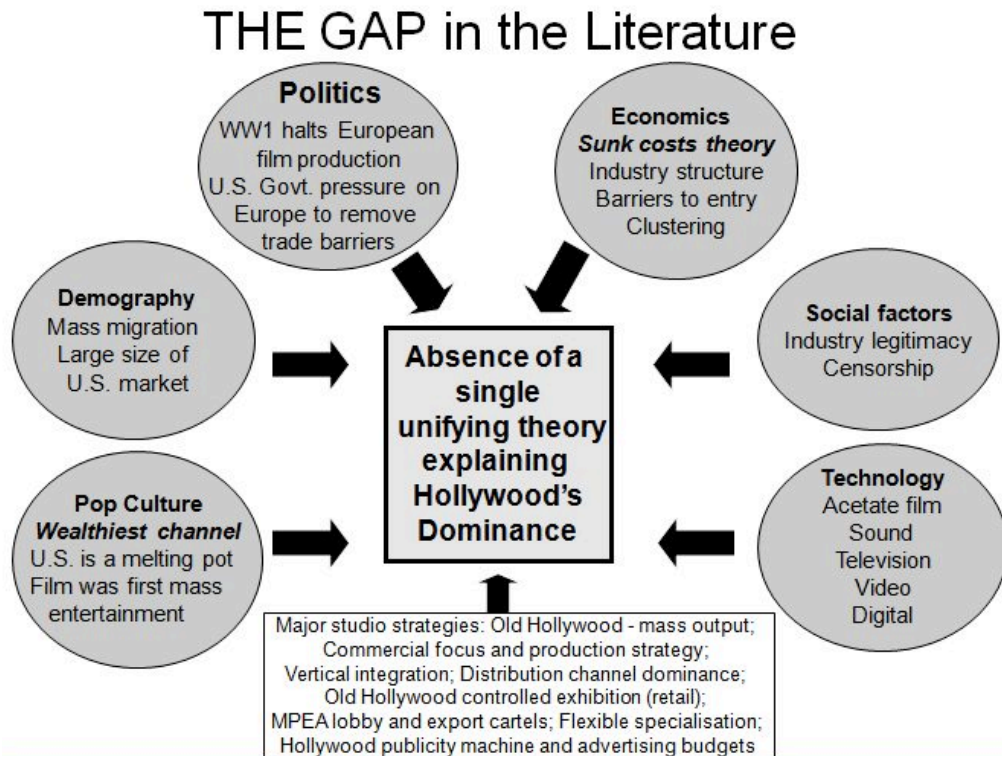
Occasionally, independent films do achieve major commercial success. From 1999-2004, seven independent films have achieved a combined total worldwide box office of U.S.\$ 2.2 billion (see Appendix 3).⁵ So, if movies like *My Big Fat Greek Wedding*, made outside the Hollywood system, can become blockbuster hits, why do so few non-Hollywood films become a commercial success? Talent and creativity (the foundation of any movie) can emerge from anywhere in the world and many thousands of international writers, directors, producers and actors have made their mark in the movie industry over the last hundred years. Why do most of these filmmakers who presumably begin their careers in their countries of origin, only become commercially successful on an international scale after they begin working *with Hollywood*?

1.7 THE GAP IN THE LITERATURE

A comprehensive review of the film, media and cultural studies, management, economics, legal and marketing literatures identified twenty different explanations for Hollywood's dominance (see Chapter Two Table 2.1 or Appendix 5). This number indicates that this is a highly complex field of study. Some scholars advanced multiple-explanations, or a combination of factors, to explain Hollywood's dominance of the movie industry. A root-cause analysis of these explanations groups them into thematic clusters, classifying them as either environmental factors or firm strategies (see Chapter 2 discussion relating to Table 2.2). The gap in the literature then becomes evident - the absence of a *comprehensive and single unifying theory* that can account for both the origins and persistence of Hollywood's dominance for almost a century.

⁵ It should be noted however, that *Crouching Tiger, Hidden Dragon* (a foreign language film) and *Love Actually* were however released and marketed by Major Hollywood studios, and that Universal, holds a 50% equity position in Working Title (producer of *Love Actually*).

Figure 1.1 Thematic clusters for explanations for Hollywood's dominance



This thesis proposes that a holistic approach to the problem that integrates economic theories on market dominance with business theory on strategic management, marketing orientation and marketing capabilities – Hay and Vickers (1987), Porter (1980), Hamel and Prahalad (1989), Vorhies, Harker and Rao (1999), Vorhies and Harker (2000), Vorhies and Morgan (2005) - can account for all of the various theories that have been advanced-to-date to explain the enduring market power of Hollywood from the early 1920's to the present day. This theoretical framework is covered in Chapter Three.

Limited scholarly research has been undertaken on the movie industry that is of practical use to managers in resolving critical management issues. A rigorous review of marketing literature by Eliashberg, Elberse and Leenders (2005) stressed the importance of more research on the motion picture industry and emphasised: *“We are not aware of any research that takes an industry perspective and addresses general questions such as: What is the nature of the power structure in the industry? How has it changed over time? What are its key determinants?”* This borders on the core issue to be investigated by this thesis. Cunningham (2002) also argues that there is *“a pressing need for research that seeks to*

understand how complex systems interrelate that involve entertainment, information, integrated marketing, lifestyle, aspirational psychographics and cultural capital.”

Turner (2002) calls for more “*problem - rather than doctrine driven research*” that cuts across more traditional boundaries. “*Increasingly, this is nominated as an area urgently in need of development.*” Turner refers to much of the film and cultural studies literature that places filmmaking primarily within an artistic or cultural context. From this paradigm, film studies and related research have tended to be dominated by belief systems driven either by ideological political positions, auteur theory, by a perceived need to protect indigenous artistic endeavours from contamination by crass commercialism and/or a distaste for popular cinema because “*Hollywood was widely regarded by intellectuals as meretricious entertainment for the masses*” (Turner 2002 pp 1-9). Consequently, limited research has been conducted into commercial aspects of the movie business and problems facing producers, distributors and exhibitors in popular cinema. In sum, these scholars all note there is a pressing need for more research because significant gaps exist relating to the business and marketing aspects of the MOVIE industry.

1.8 THE RESEARCH QUESTION

Given the situation described above, the central research question of this thesis is framed as:

<i>How did Hollywood’s dominance arise and how has it been maintained?</i>

1.9 CHAPTER OUTLINE FOR THIS THESIS

Chapter One: Introduction

The introductory chapter establishes the research context for this thesis and maps out the approach to be taken and the chapter content.

Chapter Two: Literature Review

A film literature review in Chapter Two identifies a range of single and multiple factor-based explanations that emerge from various disciplinary studies (film, cultural, media, communications, economics, management and law) that attempt to explain American dominance of the world film market. However, upon closer analysis, none of those twenty

explanations can individually account for the Major studios' enduring dominance over nine decades. Chapter Two examines the key weaknesses of these twenty explanations and proposes that the root cause underlying each explanation relates to the Major studios' strategic marketing management capabilities, or if not to marketing capabilities directly, then to threats or opportunities in the macro-environment that were identified and exploited by the Majors to their advantage, which also implies effective strategic marketing management capabilities.

This chapter also reviewed the economics and management literature, defining market dominance and discussing opposing economic theories about the acquisition and persistence of dominance. The 'structuralist' position proposes *market structures determine firm conduct*, which in turn determines industry performance – Scherer's SCP theory (Scherer 1980 p. 5). The rival 'efficiency paradigm' proposes that it is the competitive strategies and core competencies of dominant firms that account for their growth and substantial market power. The literature review revealed that legal acquisition of dominance is achieved through a firm's '*skill, foresight and industry*' or by growth through merger (Hay and Vickers 1987) and that dominance is maintained when market leaders continue to grow through superior firm performance (Penrose 1972, Brozen 1982), being more alert to market opportunities, through ongoing innovation and by possessing strategic marketing capabilities that deliver superior products and superior customer service.

Dominant firms also erect barriers-to-entry to deter potential rivals (Bain 1956, Stigler 1968, Porter 1980). Findings from this literature review are used in Chapter Three to develop an appropriate theoretical framework for this thesis.

Chapter Three: Construction of a theoretical business framework

The literature review reveals an absence of a comprehensive theoretical framework to enable a longitudinal historical analysis of dominance within an industry. This chapter addresses this gap by drawing together various foundational theories from the economics, strategic management and marketing literatures into an integrated model that accounts for how firms acquire dominance and then maintain it. The theoretical framework that is constructed suggests a comprehensive and unifying theory that can draw together and account for the twenty existing explanations on Hollywood's dominance.

In the economics literature, Hay and Vickers (1987) determined that firms grow to acquire dominance legally by two means: through mergers and by '*skill, foresight and industry*' (i.e.

strategy and competencies). Persistence of dominance was found to occur because dominant firms continue to grow through '*superior firm performance*' (Penrose 1972, Brozen 1982, Simon 1992, Baldassari 1992) and/or by erecting barriers-to-entry (Bain 1956, Stigler 1967, Porter 1980, Utton 1995).

The marketing literature shows that a marketing orientation is positively correlated to superior business performance (Day 1994, Deshpande, Farley and Webster 1993, Jaworski and Kohli 1992, Narver and Slater 1990) and that market-driven firms possessing superior marketing capabilities outperform less market-driven rivals on four dimensions – profitability, firm growth, customer satisfaction and adaptability (Vorhies and Harker 2000), by leveraging-off distinctive capabilities that create competitive advantage based on provision of superior customer value (Porter 1980, Day 1994, Cravens 2000). Market-driven firms consistently demonstrated comparatively higher levels of six distinctive marketing capabilities - marketing research (marketing intelligence and market research), product development, distribution, promotion, pricing and marketing management than less-market driven firms (Vorhies, Harker and Rao 1999; Vorhies and Harker 2000; Vorhies and Morgan 2005).

This thesis is patterned after a study by Jones (2001), so Chapter Three constructs a strategic marketing management (SMM) 'lens' that holistically links these economic, strategic management and marketing theories by integrating them into a single framework that enables historical data on Hollywood's long standing dominance to be examined from the perspective of business theory.

The first task will be to examine the role that mergers may have played in the acquisition of dominance by Hollywood. The second task will be to determine if '*skill, foresight & industry*' and '*superior performance*' that enable firms to acquire and maintain market dominance, can be explained by the Major studios in Hollywood possessing superior strategic management and marketing capabilities to their rivals, using the six critical marketing capabilities identified by Vorhies, Harker and Rao (1999), Vorhies and Harker (2000) and Vorhies and Morgn (2005) as a template to facilitate such an analysis. The final task will be to determine what role, barriers-to-entry have played in the persistence of Hollywood's dominance. A practical manifestation of the strategic marketing management lens that was developed in this chapter is the formulation of a short set of *guiding questions* that can direct the research and facilitate efficient identification of relevant historical data drawn from literally hundreds of sources and covering a century of industry history.

Chapter Four: Methodology

The underlying causes of Hollywood's dominance for over nine decades can only be identified through careful analysis of historical data.⁶ Using Jones (2001) approach, the evidence will be analysed through theoretical lenses constructed in Chapter Three, to determine how and why Hollywood rose to market dominance during the First World War and how it has maintained it, since then. A historical snapshot approach will be used that will analyse the Major studios' dominance and capabilities at different 'snapshots-in-time' during three distinct eras: 'Old Hollywood' from 1915-1949, 'Hollywood-in-decline' during the TV era (from 1950-1974) which I will call the 'TV era,' and 'New Hollywood' from 1975-2004.

Chapter Five: The role of mergers in the rise of the dominant studios

Hay and Vickers (1987) identified two legal means by which firms grow to become dominant – through mergers and by *skill, foresight & industry*. This chapter will examine the role that mergers may have played in the rise of the 'Big Five' and 'Little Three' Major studios that formed the 'Old Hollywood' oligopoly.

Chapters Six - Eleven: Analysis of the Major studios' marketing capabilities

A study by Vorhies and Harker (2000) found the best-performing firms develop superior capabilities in marketing research, product development, distribution, pricing, promotion and strategic marketing management. Chapter Six will investigate Hollywood's marketing research capabilities, Chapter Seven will examine the Major studios' new product development strategies and processes, Chapter Eight will look at Hollywood's channel dominance in relation to its distribution capabilities over time, Chapter Nine will analyse the Major studios promotional capabilities, Chapter Ten will discuss Hollywood's pricing capabilities and Chapter Eleven will examine the strategic marketing management capabilities of the Major studios.

Chapter Twelve: The role of barriers to entry in Hollywood's dominance

This chapter will analyse the barriers-to-entry that the Major studios erected, to determine what role they may have played in Hollywood's enduring dominance for nine decades.

⁶ Kerrigan and Culkin (1999) state: "*It is not enough to enter into an examination of the current industry situation as the origins of America's domination extend back to the formative years of the industry.*" Jowett & Linton (1989) state: "*The history of the movie business and industry is a struggle for dominance between production, distribution and exhibition*" (Jowett & Linton 1989 pp 36).

Chapter Thirteen: Conclusion

The conclusion will draw together the key findings from Chapters Five-Twelve and an argument will be made to account for the origins and persistence of Hollywood's dominance of the movie industry thus addressing the central research question – how did Hollywood's dominance arise and how has it been maintained?

1.10 ORIGINAL CONTRIBUTION OF THIS THESIS

The literature review found *no existing theoretical model* in the economics, management and marketing literatures that could comprehensively explain origins and persistence of market dominance over prolonged periods of any industry's history. Well-known models that might possibly have provided that kind of framework such as Scherer's SCP or Porter's five forces were developed for purposes other than analysing origins and persistence of dominance over time and at best would only provide a static 'snapshot-in-time'. Consequently, this thesis *constructs its own theoretical framework to enable a comprehensive analysis of dominance in the movie industry* to be undertaken, by holistically integrating relevant foundational theories from the existing economics, strategic management and marketing literatures.

Following the method of Jones (2001), three relevant theoretical lenses were constructed as core components that link together to form an over-arching theoretical framework. Models were developed on the *acquisition of dominance* and then the *maintenance of dominance* based on key foundational theories drawn from the economics literature. A *strategic marketing management lens* was then constructed in order to resolve two elements of ambiguity contained within the foundational theories on acquisition and maintenance of dominance that were reflected in the two economic lenses. These are discussed in more detail in Chapter Three. This framework and its three component lenses are original contributions of this thesis.

The practical manifestation of that theoretical lens is *the formulation a set of guiding questions* that help to direct the research and facilitate efficient identification of relevant historical data drawn from literally hundreds of sources and covering a span of 100 years of industry history. These guiding questions are based upon the foundational theories located within the strategic marketing management lens, developed for this thesis, to enable analysis of Hollywood's historical dominance in the movie industry. These guiding questions could

also be used to assist managers and researchers to similarly analyse dominance in other industries. As such they represent an original contribution.

This thesis also represents the first comprehensive analysis of Hollywood's dominance from a strategic marketing management perspective. The literature review found no other study that has undertaken an analysis of Hollywood's dominance from a strategic management and marketing perspective. Scholars have previously developed theoretical explanations on dominance in the movie industry or on the global popularity of Hollywood movies from the perspective of their own disciplinary bias (film, media & cultural theory, economics, law, management), in some cases with a either a relatively superficial understanding of business and marketing or alternatively, possibly with little understanding of the movie business.

1.11 CHAPTER SUMMARY

This introductory chapter established the strategic context for this thesis, identified relevant gaps in the literature, stated the research questions, discussed the theoretical approach to be undertaken, briefly mapped out the content of each chapter and highlighted the theoretical and practical contributions of this thesis.

CHAPTER 2: LITERATURE REVIEW

2.0 INTRODUCTION

The purpose of this chapter is twofold - first, to review the literature on Hollywood's dominance to identify scholarly explanations for why the Majors dominate world cinema and second, to review the economics and business literature to determine how and why firms acquire dominance and how they maintain it. This will enable the construction of a theoretical framework in Chapter Three that will facilitate a rigorous examination of Hollywood's dominance over time.

After an extensive literature review of Hollywood's dominance, twenty different explanations have been identified (Table 2.1 below) and this is the first time that they have all appeared and been evaluated in one place (Appendix 6). This chapter proposes that a gap in the literature has been identified because none of these twenty explanations can individually account for Hollywood's rise and longstanding dominance for nine decades, although it is argued that each of these individual explanations were contributing factors to that dominance. Table 2.2 below provides a deeper 'root-cause analysis' of the twenty existing explanations of Hollywood's dominance and this chapter concludes that on closer analysis, each one can be attributed to either effective strategic management and/or the marketing capabilities of the Hollywood studios.

In this thesis, the focus is on the collective dominance, or oligopoly of the Major studios, which is referred to as dominance by the Majors. Oligopoly market structures exist when *"the market is controlled by a few large firms"* (Brown 1997 p. 67). Oligopolies of major firms can also be found in the oil industry (Sampson 1975) and in the global media industry (Oligopoly Watch 2006). The Majors, as an oligopolistic collective, are also referred to as 'Hollywood' during this thesis.

2.1 LITERATURE REVIEW: HOLLYWOOD DOMINANCE

Research on Hollywood's dominance is located in the film, media and culture, economics, law and business literatures. Consequently, a range of explanations have emerged that address different aspects of that dominance and the global popularity of Hollywood movies. There is general acknowledgment across these literatures that the movie industry is extremely complex and that the factors underlying Hollywood's dominance are manifold and

not easily understood.¹ Some scholars have advanced single factor causes of that dominance but most proposed multiple factors to explain the market dominance of the Majors studios. A review of these literatures identified twenty possible explanations for Hollywood's dominance and a critical analysis of those explanations appears in Appendix 6 and they are summarised below in Table 2.1, which also notes key weaknesses identified for each explanation that undermine its ability to explain Hollywood's longstanding dominance.

Table 2.1 Twenty explanations for Hollywood's dominance

#	Explanation for Hollywood's dominance	References	Key weakness as an explanation for enduring dominance
1	World Wars halted European production, Hollywood filled that void and established its foreign distribution infrastructure.	Kindem 1982; Puttnam 1997; Ulf-Moller 1998.	In six decades since World War Two, no serious rivals have emerged in world cinema.
2	Hollywood benefits from the U.S. domestic market's large size and demography.	O'Regan 1992; Sklar 1994; Hoskins et al 1997; Jacobsen 2001; Waterman & Lee 2002.	India has the world's largest film market, so 'large home market' theory cannot fully explain the Majors' enduring dominance.
3	U.S. Government has actively assisted Hollywood to penetrate foreign markets.	Kindem 1982; Guback 1985; Izod 1988; Segrave 1997; Waterman & Jakayar 2000; Klein 2003.	This is true but what stops other national governments from using similar lobbying tactics to benefit their film industries?
4	Hollywood's exploitation of new technologies enabled the maintenance of dominance.	Wasko 1994; Cowen 2000; Hanssen 2000; Waterman and Jayakar 2000.	Pre-Hollywood dominant firms Edison and Pathe exploited new technologies but declined. TV and video initially undermined Hollywood. No rivals emerged to displace Hollywood.
5	Industry structure - the Major studio oligopoly is too powerful to compete with.	Balio 2002; Klein 2003.	Pre-Hollywood the MPPC comprised the nine most powerful film companies in the world but failed. The Majors were bankrupt during the 1960s and vulnerable. Disney grew organically to become a Major studio despite industry structure.
6	Hollywood established movies as a legitimate business thus enabling access to capital.	Jones 2001.	Pre-Hollywood dominant firms Edison and Pathe had earlier legitimacy and access to large capital but declined as market-powers.
7	Major studios have access to significant resources that smaller rivals can't compete with.	Wasko 1982; 1994; Puttnam 1997; Frumes 1999; Cowen 2001.	Edison and Pathe were much larger than the early Hollywood studios but declined. Britain's Rank had larger financial assets than any Hollywood studio and owned 25% of Universal but did not become a globally dominant studio.
8	High barriers-to-entry block potential competitors.	Huettig 1944; Gomery 1986; Staiger 1985; Silver & Alpert 2003.	Pre-Hollywood MPPC erected seemingly insurmountable barriers but was usurped by the emerging Hollywood studios.
9	Industry clustering - Los Angeles is the entertainment capital of the world.	Veron 1999; Cowen 2001.	Other film industry clusters have existed but don't guarantee dominance (Paris, Rome, London, Tokyo, Sydney, Mumbai). Only France became globally dominant until 1914.
10	Hollywood waged deliberate political and economic war on rivals to weaken them.	Puttnam 1997; Klein 2003.	Large foreign conglomerates acquired some Major studios (News Corp; Sony, Vivendi, Matsushita) indicating Hollywood's periodic vulnerability but its dominance persists.
11	Economic theory of sunk costs explains Europe's decline and Hollywood's rise.	Bakker 2003.	Sunk costs theory cannot explain Hollywood dominance after 1950 after it reduced film output and significantly raised film budgets.
12	Vertical integration of Hollywood studios provided scale advantages over competitors.	Huettig 1944; Gomery 1986; Puttnam 1997; Silver & Alpert 2003.	The Majors vertically disintegrated after they had to sell their theatres from 1950s and went bankrupt yet no rivals usurped them. Pathe and Gaumont were dominant and vertically integrated in the pre-Hollywood era but still declined. Rank was vertically integrated with larger financial assets than any Hollywood studio but did not become dominant.

¹ Waterman and Jayakar (2000), for example note that scholars "have advanced a wide variety of cultural, political, economic and sociological factors that contribute to the United States historical dominance of world film trade in motion pictures."

#	Explanation for Hollywood's dominance	References	Key weakness as an explanation for enduring dominance
13	Persistence of Hollywood's domination is due to Hollywood's adaptability and flexible specialization.	Christopherson & Storper 1986; Storper & Christopherson 1989; Aksoy & Robins 1992; Storper 1993.	Flexibility and adaptability don't guarantee dominance. Most film industries also adhere to flexible specialization.
14	Cultural channel economics have favoured Hollywood.	Wildman & Siwek 1988; O'Regan 1992.	Pathe was globally dominant exploiting all cultural channels in the pre-Hollywood era but declined. All English speaking film industries enjoy the same cultural channel advantages but have not usurped Hollywood's dominance.
15	Mass manufacturing capabilities based on Old Hollywood's Studio Era system contributed to dominance.	Staiger 1985; Abel 1994; Puttnam 1997.	Pathe's mass manufacturing capabilities were superior to American firms but it declined. In the 1950s Hollywood reduced its output and has not mass-manufactured films since. India and Japan mass manufactured films but did not become dominant.
16	Hollywood's commercial orientation and production strategy to make movies designed to entertain.	Puttnam 1999; Balio 2002; Schatz 2002.	Pathe was commercially orientated and dominated world film but declined. From 1950-1974 the Major studios went broke - they lost their commercial orientation. They were under serious threat again during the early video boom from emerging Mini-Majors.
17	Hollywood controls the distribution channels.	Lees & Berkowitz 1981; Gomery 1986; Kerrigan & Culkin 1989; Abel 1994; Puttnam 1997; Hoskins, MacFadyen & Finn 1997; Frumes 1999; Klein 2003; Silver & Alpert (2003).	Pathe dominated global film distribution but still declined. Rank's worldwide distribution network did not facilitate dominance. Cannon Films bought Thorn-EMI's worldwide distribution network but went broke. Global distribution does not guarantee dominance.
18	Hollywood used export cartels to dominate foreign markets.	Kindem 1982; Izod 1988.	This option has also been available to rival film industries but was never exploited.
19	Hollywood strategically controlled exhibition (retail) during the Studio Era.	Huettig 1944; Gomery 1986.	The Majors were forced to sell their movie theatres in the 1950s and have not owned cinemas for over half a century.
20	Hollywood has consistently demonstrated superior marketing communications expertise.	Danan 1995; Puttnam 1997; Segrave 1997; Waterman and Jayakar 2000; Cowen 2002; Schatz in Turner 2002.	Promotional capabilities are one element of the marketing mix. In other industries, foreign firms compete on equal terms with America in promotion. Why not in film?

2.1.1 ROOT-CAUSE ANALYSIS OF EXPLANATIONS FOR HOLLYWOOD'S DOMINANCE

The literature review revealed a range of single and multiple factor-based explanations that attempt to account for American dominance of world cinema and the global popularity of Hollywood movies. However, none of them can be used universally, to convincingly explain Hollywood's persistent dominance for almost nine decades. The gap in the research on dominance in the film industry is the absence of a comprehensive or unifying theory accounting for the Majors' ongoing market leadership.

A critical analysis of each of the twenty explanations for Hollywood's dominance is provided in Appendix 6 and Table 2.2 below suggests that the root-cause for all explanations might actually be that the Major studios' strategic management and marketing capabilities exceeded those of their rivals.

Table 2.2 Root-cause analysis of the twenty existing explanations of Hollywood's dominance in the movie industry.

#	Existing explanations on dominance	Root cause analysis of existing theories
1	World Wars halt European production – Hollywood fills the product void	Environmental opportunity exploited by the Majors – this is about strategic marketing and channel strategy
2	Home market characteristics (market size and demography)	Environmental opportunity exploited by firm strategy – this is strategic marketing
3	Government assistance against trade barriers	Environmental opportunity exploited by the Majors' PR lobby in Washington – this is strategic P.R.
4	Technological change	Environmental opportunities exploited by firm strategy – this signals market-driven firms
5	Industry structure – the Major studio oligopoly	Environmental opportunity influenced by firms strategies – indicative of effective strategic management
6	Industry / corporate legitimacy	Environmental opportunity influenced by firm public relations strategies to establish legitimacy – this is strategic P.R. and effective marketing management
7	Access to capital	Environmental opportunity exploited by firm strategy – signals effective strategic management and superior marketing capabilities to convince lenders
8	Barriers to entry	Environmental opportunities exploited by firm strategy – signalling effective strategic management
9	Industry clusters	Environmental opportunity influenced by firm strategies – signals effective strategic management
10	Waging political and economic war on competitors	Firm strategy to eliminate threats by shaping the environment signalling strategic management
11	Sunk costs theory	Outcomes influenced by deliberate firm strategy – signalling effective strategic management and marketing capabilities
12	Vertical integration	Firm strategy – effective strategic management
13	Flexible specialisation	Firm strategy to adapt to change – signalling a market-driven firm
14	Cultural channels	Firm strategy to exploit cultural channels – success is a function of effective strategic marketing
15	Mass manufacturing capabilities	Firm strategy – core competency of the studios in the Studio Era – strategic management
16	Commercial production strategy	Ongoing success of Hollywood product signals the Majors have been market-driven firms responsive to changes in demand and audience tastes over time.
17	Control of distribution	Firm strategy – distribution capabilities / channel strategy
18	Export cartels	Firm strategy to exploit markets achieved through industry trade organizations involved channel strategy – a strategic marketing element
19	Strategic control of exhibition	Firm strategy – also distribution /channel strategy and therefore strategic marketing
20	Superior promotional expertise	Firm strategy to develop capabilities – this is about marketing capabilities

This root-cause analysis indicates a strong possibility that *effective strategic management and marketing capabilities may have played a significant role* in Hollywood's acquisition and maintenance of dominance in the movie industry. This is discussed further below.

Effective strategic marketing management by the Major studios is suggested by moves to 'shape' the business environment to their commercial advantage through the *exploitation of macro-environmental opportunities* as they emerge which is evident in:

Explanation #1 The Majors quickly moved in to supply new export markets when European competitors affected by wartime conflict could no longer supply those markets.

Explanation #4 Hollywood's strategies to invest in and exploit new technologies in the form of talking pictures, technicolour, wide-screen processes, and the selling movies to television, then to Pay TV, then to home video and recently video-on-demand via the Internet.

Explanation #9 The Majors nurtured the Los Angeles film industry cluster to provide them with competitive advantages.

Explanation #15 Hollywood's mass production of movies during an alpha-growth phase and exploding demand in the late 1910s and 1920s.

Effective strategic management is also suggested by *attempts to eliminate potential threats* as can be seen by:

Explanation #3 Hollywood lobbied Washington to act against foreign trade barriers and to help open up foreign markets for its movies.

Explanation #8 The Major studios erected barriers-to-entry to constrain or deter potential rivals.

Explanation #10 Puttnam's (1997) thesis that Hollywood wages deliberate political and economic war against rivals to eliminate potential competition.

Effective *strategic management* is also seen through specific corporate strategies by which the Majors' *strategies to enhance their competitive position* as can be seen by:

Explanation #5 Development of an oligopoly industry structure.

Explanation # 12 Vertical integration by the Big Five (1920s)

Explanation #19 Strategic control of exhibition from (1920s-1940s).

Effective *strategic marketing management* is suggested by:

Explanations #2 Successful exploitation of the large U.S. home market.

Explanation #14 Satisfying audience demand in receptive cultural channels.

Explanation #15 - the Majors' mass manufacturing capabilities during the Studio Era that matched growing market demand.

Explanation #16 Hollywood's seemingly endless ability to design commercially popular entertainment products indicates effective new product development capabilities.

Other explanations that are also indicative of the Major studios' possessing *effective strategic marketing capabilities* are evident in:

Explanations #17 and #18, which both relate to channel dominance and as such are distribution strategies.

Explanation #20 Superior promotional expertise that relates to effective communications strategy.

Explanation # 3 Establishment of an effective Washington lobby is a public relations strategy.

Explanation #6 Establishment of industry and corporate legitimacy achieved through strategic public relations and management of the movie industry's image facilitated by the trade association the MPA of which the Major studios are the only members.

Explanation #7 Ability to access significant capital for expansion involves strategic public relations in corporate image management and also salesmanship and negotiation skills.

Explanation #9 Relationship management within the Los Angeles entertainment industry cluster.

The latter three explanations strongly suggest deliberate strategies by the Hollywood studios for management of various 'publics' and therefore indicate that programs of strategic public relations and relationship marketing are likely to have been in-play.

In sum, *a root-cause analysis* of factors and motivations underlying the twenty explanations of Hollywood's dominance identified by the literature review *indicates that effective strategic management and superior marketing capabilities by the Major studios may have played a significant role* in the acquisition and maintenance of Hollywood's dominance of the movie industry. Thus it may be possible to formulate a unifying theory: - Effective

strategic management and marketing capabilities can account for Hollywood's dominance since the late 1910s.

2.2 LITERATURE REVIEW: DOMINANCE THEORY

The purpose of this section is to review and discuss the relevant literature on dominant firms to provide foundational theories that can be integrated into a theoretical framework for this thesis. First a brief overview of this section is provided. Section 2.2.1 below defines market dominance and related concepts that are necessary for a historical analysis of the movie industry. Section 2.2.2 is a literature review of the main theories on dominance and discusses the rival structuralist and efficiency paradigms, the resource based view in relation to the growth of the firm and the rival capabilities approach culminating in strategic intent theory. It also identifies the gap in the literature noted in chapter one relating to the inappropriateness using existing static models like Scherer's SCP to conduct a comprehensive analysis of dominance over time.

2.2.1 Market dominance – definition and discussion

This section defines market dominance and relates it to market power, it then discusses motivations for business dominance, government concerns about dominant firms impact on general economic welfare and finally it discusses the relationship between market structures and industry lifecycle. However this section begins by placing Hollywood's longstanding dominance into context through a general comparison to the turnover of large firms in other industries over the last half-century.

Hollywood's Major studios have dominated the global movie business since the end of the First World War (Gomery 1986, Guback 1985, Puttnam 1997, Balio 2002). How has the market power of the Hollywood oligopoly persisted for so long, when dominant firms in many other industries, have lost their leadership positions over time? Tables 2.3 and 2.4 below compare the relative stability of Major studios' dominance to other leading industries. Table 2.3 lists the Major Hollywood studios and shows the date each company was formed, dates of early merger activity and notes significant historical milestones in the ascension of those studios into the ranks of the Hollywood elite. It is seen that since the consolidation of an oligopoly comprising eight Major film companies was established by the start of the talking picture era (1927-1930) and since then only R.K.O. has fallen from grace with its place within the oligopoly of eight Majors by Disney. This *equates to an exit rate of only 12.5% (one firm: R.K.O.) over a 75-year period.*

Table 2.3 Key dates in the rise of the dominant Hollywood studios

Studio	Founded	Achieved Major studio status	Merged studio	Date of merger	Company Milestones in acquisition of dominance
Universal	1912	1912	Universal Film Manufacturing	1912	The first Major studio in Hollywood.
Paramount	1914	1914	Famous-Players-Lasky-Paramount	1917	The first dominant Hollywood studio
Metro	1915	1924	Metro-Goldwyn-Mayer	1924	The dominant Major in the Studio Era 1930-48
United Artists (U.A.)	1919	1919 (1950s)*	MGM-UA	1981	Member of Little Three during the Studio Era. Emerged as a market leader in 1950s.
Fox Film	1916	1920s	20 th Century-Fox	1935	Fox Film emerged as a Major studio in the early 1920s
20 th Century Pictures	1933	1935	20 th Century-Fox	1935	Became a Major through merger with Fox Film
Warner Bros.	1923	1927	-	-	Became a Major pioneering sound films.
Columbia	1924	1920s (1950s)*	-	-	Member of the Little Three during studio era. Emerged as a market leader in 1950s
RKO	1929	1929	Radio-Keith-Orpheum	1929	Became an instant Major through merger in 1929. Went bankrupt in 1950s
Disney	1925	1950s	-	-	Evolved into a true Major after Studio Era.

Sources: various studio histories see bibliography

* U.A. and Columbia emerged as market leaders in the early 1950s after decades as members of the 'Little Three'.

Comparatively, Table 2.4 below places Hollywood's longstanding dominance of the movie business into a global perspective by showing that in other industries, 72 firms (14%) that placed in the Fortune 500 largest industrials list from 1966-70 *lost their ranking in just five years. And in a twenty year period from 1982-2002 that number escalated to almost 50%*, with 25% of the Fortune 500 firms from 1993-2002 simply failing to keep pace with the growth of market leaders and exiting the list because of their comparatively smaller size.

Table 2.4 Large firms exiting the Fortune 500 Top Industrials Lists

Period	Total firms exiting Top 500	%	Exit due to mergers	%	Exit by going private	%	Exit due to smaller size	%
1966-1970	72	14%	?	?	?	?	?	?
1982-1993	201	40%	115	23%	17	3%	69	14%
1993-2002	244	49%	110	22%	8	2%	126	25%

Sources: Data drawn from Scherer (2005) and Samuelson (1983) The Modern American Corporation accessed online at <http://www.aliciapatterson.org/APF0505/Samuelson/Samuelson.html>

Causes of the stark differences in the stability of the dominant movie studios compared to the significant turnover of large firms in other industry over the last half-century is unclear. Hollywood was not isolated from the same environmental forces that facilitated a period of

dramatic geo-political change, technological innovation, globalisation and de-regulation that have impacted the world economy. To enable an investigation of Hollywood's longstanding dominance to proceed, it is first necessary to briefly describe relevant market structures, define and discuss dominance and then provide a theoretical context for the analysis of this issue.

Market structures – conditions for dominance

Monopoly, duopoly and oligopoly are terms typically used to describe industries with high concentration where one or a few firms dominate. Monopolies exist where one firm dominates and controls the market, has a high market share and is able to manipulate industry prices. In an oligopoly, a few firms have similar market shares but collectively dominate a market offering similar or identical products. 'Perfect competition' exists where no single firm or group of firms have enough market power to manipulate industry prices and control the market. This structure is believed to result in the most efficient balance of output and consumption and exists when many companies sell similar but not identical products (Scherer 1996 pp 5).

Dominance – what is it?

There is no universally recognised standard definition of '*market dominance*' (Singh 2002 p. 6). Leading scholarly works consulted on this subject, often discussed but rarely defined the term. However, two common themes run through a series of definitions from varying sources – economics and management literature, government and law are: a) that dominant firms possess sufficient market power to act independently and unrestrained by competitors, controlling prices and outputs, and consequently, b) competition is reduced.²

Dominance is the "*ability of a firm to pre-commit itself to a strategic position which narrows the range of replies open to rivals. Dominant firms have access to a differential movement advantage (DMA) which can be exploited by making some credible commitment which pre-empts rivals, and thus restricts the scope of their activities*" (Geroski and Jacquemin 1983).

² Definitions of dominance included: "A dominant firm in economic theory is generally a single large seller facing many small price taking rivals, while a monopoly is the only seller of some good or service. In anti-trust policy, both terms are generally used to refer to the seller that is able to exercise substantial market power unilaterally, without the need for collusive arrangements. Firms that pass this test are usually appreciably larger than their closest rivals, since tacit or overt collusion is typically required for the exercise of appreciable market power in oligopolistic markets" (Schmalensee 1987). The European Commission (2006) defines 'market dominance' as: "A position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained in the relevant market by affording it the power or behave, to an appreciable extent, independently of its competitors, customers and ultimately consumers".

This definition is based on the premise that pre-emptive competitive strategy plays a critical role in acquisition and persistence of market dominance. Geroski and Jacquemin (1983 p. 4) note Scherer (1980) when criticising “*the common practice of defining dominance in terms of relative firm size*” on the basis that firm size is a ‘likely consequence’ of those dominators having created a competitive advantage rather than being a cause of dominance.

To summarise, in an economic context, dominance implies unchallenged power and control of markets that enables the largest firms to manipulate prices to optimise their own profitability (Shepherd 1990 pp 13-14, Rosenbaum 1998 p 5). “*The essence of market dominance is the ability to control the market in such a way that prices can persistently be raised above costs, leading to excessive profits*” (Utton 1995 p 24).

Market power and market share

Indicators of market power include a dominant market share, large economies of scale, vertical integration, collusion and other forms of cartel behaviour, erection of high barriers to entry due to exclusive ownership of unique resources, patents and copyrights and overwhelming marketing force (Shepherd 1977).

Dominant firms that control the manufacturing sector and therefore the flow of product are said to have horizontal power and can therefore leverage their position to manipulate industry prices to their advantage. As long as sufficient demand exists, and only a few manufacturers control supply, they can manipulate industry prices. Vertical power exists when the dominant firm(s) are vertically integrated and operate in two or more industry sectors (production and distribution; distribution and retail or in all three sectors). This strategy based on vertical power is termed ‘vertical integration’ and provides these firms with “*the ability of an existing firm to erect barriers to entry or to otherwise shift costs and revenues among affiliates in ways to distort efficient market operation*” (Shepherd 1997 p. 2).

Vertical integration is most appropriate when: a firm seeks to create or exploit market power, or as a defensive move against competitors that possess significant market power or when the firm faces a risky and unreliable market. Alternatively, in an emerging industry (or market) the firm may need to forward integrate in order to develop that market (Stuckey and White 1993). In vertically integrated industries, Rosenbaum’s research found that market challengers succeeded by targeting segments where the leader was weak or did not have total dominance. From there, these challengers grew their business to achieve the scale necessary

to mount a serious market challenge on a wider front. Rosenbaum cited Fuji's challenge to Kodak as a case in point (Rosenbaum 1998 pp 89-107).

Measurements of market power are typically based upon market share held by industry leaders. The higher the share, the greater the market power (Schmalensee in Hay and Vickers 1987 p. 63). Market share is a comparative measure of firm performance relative to rivals, and is often calculated on the basis of a firm's total sales or on the volume of units sold relative to sales in a market (Kotler 2000 p. 697). Two common measures used by governments to determine industry concentration are the four-firm concentration ratio that combines the market shares of the leading firms - four-firm concentration of 50% market share signals control (Kwoka 1979 p. 101) and the HHI (Hefindahl-Hirschmann Index) a formula based approach also based on market share.

Business motivations for dominance

One motivation for large firms to seek growth and increase share may be that market share is strongly correlated to profitability (Gale 1972, Shepherd 1972, Porter 1979, Buzzell and Gale 1987). *"Both economic theory and empirical evidence suggest that profitability increases with market share"* (Bloom and Kotler 1975 p.65). Dominant firms are able to *"manage the market and the competition and ultimately to generate higher levels of profitability – (they) usually have the highest market credibility and acceptance - and can also significantly influence competitive evolution"* (Brown 1997 pp 92).

However, in large publicly listed companies where ownership equity is widely dispersed among shareholders, unless executive compensation in the firm is directly linked to profitability, it may be more in the managements' personal interests to restrict dividend payments to the minimum level necessary to satisfy investors and reinvest firm profits to facilitate further growth, particularly if success enhances individual reputations and if their compensation is linked to key performance indicators (Penrose 1972 pp 27-28). *"Capturing a dominant share of the market, is likely to mean enjoying the highest profits of any of the companies serving that market. It can also mean winning the leadership, power and glory that go with such dominance"* (Bloom and Kotler 1975 p. 63).

Clearly, management and strategy play a critical role in firm growth.

Government policy and industry concentration (dominance)

The policy debate on what is appropriate government action when industrial concentration is found to be too significant and therefore detrimental to general economic welfare, has polarised into four basic positions: 1) Dissolve dominant corporations, 2) restrict mergers to prevent dominance; 3) a *laissez-faire* approach – *do nothing and let the market determine business size* or 4) to facilitate the growth of large firms that can compete internationally (Brozen 1982 pp 5).

U.S. Government policy towards anti-trust action has fluctuated over time. The early decades of the 20th century in America saw a shift from encouraging growth of firm size and industry concentration to the Trust-busting administrations of Presidents Roosevelt and Wilson. A policy of rigorous anti-trust enforcement continued in the United States until the Reagan administration, but since then “*U.S. policy now chooses to leave dominant firms alone*” (Shepherd, Shepherd and Shepherd 2001 Proquest Abstract).

However, the market power and corporate behaviour of the largest film companies in the American market, has twice in movie industry history, prompted the U.S. government to take aggressive anti-trust action on a major scale against the dominant firms, forcing these corporations to dissolve or to exit an industry sector. In 1915, Thomas Edison’s attempt to monopolise the film industry was terminated when the MPPC (Motion Picture Patents Company) – the Trust company that he initiated was ordered to dissolve for contravening anti-trust laws under the provisions of the Sherman Act. Again in 1948, after a decade long anti-trust case, the Major Hollywood studios were found guilty of anti-trust violations under the provisions of the same legislation and were ordered to divest their American theatre chains in order to reduce their market power. Both anti-trust actions resulted in massive restructuring of the movie industry, however with the exception of R.K.O., the same line-up of Major studios still dominates the film industry today (Table 2.3).

Foreign government attitudes towards size and industry concentration vary. In Japan, the government through MITI actively assists development of large corporations that can compete internationally through organic firm growth and by merger. Various European governments (Britain, France, Germany, Switzerland) have also adopted similar positions at different times (Brozen 1982 pp 3-9).

Industry lifecycle and its relationship to market dominance

The movie industry experienced an initial period of pure competition that was followed by Edison's attempted monopoly of the American market from 1909-1915. This triggered a competitive response resulting in the emergence of the Hollywood oligopoly that has dominated the movie business since the First World War.

Industry lifecycle theory helps to explain structural transitions in the evolution of the movie industry because "*the stage of the lifecycle can influence market structures, business strategy and firm performance*" (Hofer 1975). Lifecycle theory emerged during the 1960's in the form of "*a four-phase international trade cycle for most products – introduction, growth, maturity and decline*" (Ayal 1981). Mirroring this development, Anderson and Zeithaml (1984) proposed the same four stages could be applied to the lifecycle of an entire industry. For analytical purposes this thesis will adopt and refer to the four-stage industry lifecycle model proposed by Baum and Gahan (2004) comprising *fragmentation-shakeout-maturity-decline* because these four descriptors reflect an accurate picture of the four major evolutionary stages that have transpired in movie industry history and conceptually they are identical to the better known introduction-growth-maturity-decline model.

In the movie industry, Baum and Gahan's (2004) initial fragmentation stage when many small entrants try to exploit potential opportunities in the young and emerging industry, occurred from 1895-1908 when despite Pathe's dominance globally, industry sectors were still evolving, demand was increasing and barriers to entry were still low. In that environment, thousands of small film companies existed (AFI Catalog), as Pathe and a few rivals increased the size of their companies.

The second stage of the Baum and Gahan lifecycle model is a period of *industry shake-out* characterised by mergers and acquisitions that firms intend will facilitate rapid growth, increased market share and perhaps even market leadership. This occurs because the merged entities enjoy a size and scale that enable them to better exploit the opportunities resulting from the rapid growth as products diffuse and markets expand.

In the movie business this shakeout stage can be seen to occur from 1909-1929 after Edison's MPPC tried to monopolise the American market and triggered a competitive response from rival independent studios leading to a series of mergers and acquisitions and resulting in the rise of the Hollywood oligopoly, first with the 'Big Three' studios - Universal, Paramount and M.G.M. (Sperling and Millner 1994 p. 85), and later during the

transition to talking pictures with the widening of that oligopoly to include eight 'Majors' - the 'Big Five' comprising Paramount, M.G.M., 20th Century-Fox, Warner Brothers and R.K.O. and the 'Little Three' - Universal, United Artists and Columbia Pictures (Gomery 1986 pp 2).

The third stage of the Baum and Gahan model is an often prolonged and stable period of industry maturity when a concentration of market power exists in the hands of just a few firms that dominate the industry. This corresponds directly to the 'Studio Era' (1930-1949) in 'Old Hollywood' after talking pictures were introduced and the vertically integrated Majors controlled production, distribution and exhibition and dominated the movie business around the world (Gomery 1986 pp 2).

Finally, in the fourth stage of the model the industry begins to decline. This corresponds with a twenty five year period of movie industry decline in the 'TV era' from 1950-1974, triggered by the anti-trust action against the Major studios that undermined their fundamental business model in a turbulent business environment and ultimately resulted in the takeover of the Major studios by larger business conglomerates during the 1960's.

Schumpeter (1975) proposes that such industry decline can be avoided through a process he calls 'creative destruction' in which dominant firms innovate and reinvent products and markets. From 1975-2004 the Major studios, aided by innovations in technology, have reinvented their business model with the development of theatrical after-markets for movies – television, home video and other digital delivery channels that have significantly altered the economics of the industry to Hollywood's competitive advantage.

To summarise, economic theory proposes that market dominance exists when one firm (monopoly) or a few firms (duopoly or oligopoly) have grown so big and possess such market power that they can determine industry price structures, regulate output and control the flow of product. These dominators operate almost unchallenged by smaller rivals in their industry, competition is significantly reduced and consequently consumers pay inflated prices to ensure high profitability for the big players in the industry. Typically, large firms that become dominant, emerge during the first and second *fragmentation* and *shakeout* stages of the industry lifecycle (Baum and McGahan 2004) and "*all three types of firms possess some degree of power over price, so we say that they possess market power*" (Scherer 1970 pp 10).

2.2.2 Critical review of dominance theory

The next section critically reviews key theories on market dominance, how it originates and why it persists and then examines conflicting paradigms within the economics literature on industry structure and its relationship to market dominance. The theories of acquisition and maintenance of dominance are each briefly described and then critically evaluated to ascertain their strengths and weaknesses. It examines two opposing economic theories about how firms of different sizes perform within an industry.

The structuralist paradigm contends that industry structure determines firm conduct and performance and that firms behave atomistically (Scherer 1996, Porter 1980, Srivastava 2000). However, this proposition has two fundamental weaknesses: Firstly, it ignores differences between firms emanating from competitive strategy and from firm-specific capabilities (Hay and Vickers 1987, Kay 1997); and secondly, it fails to account for how dominant firms arise in a new industry before market structures have fully evolved. The rival paradigm proposed by the Chicago school theorises that *dominant firms are more efficient than their rivals* over the long term, in their use of available resources. Dominance relates to the ability of the firm to grow relative to its rivals and rests upon its ability to nurture and deploy its resources more effectively than rivals (Penrose 1971). Whilst the resource based view contends that firms should 'fit' resources to match environment opportunities (Rosenbaum 1988), small firms acting with a clear *strategic intent* have risen from relative obscurity by their stretching resources in pursuit of a desired market position to successfully challenge dominant firms in their industries (Hamel and Prahalad 1989). Strategic intent implies that a particular strategic orientation, an effective competitive strategy and specific firm capabilities play a critical role in firm growth and in acquisition of market dominance. These two opposing paradigms are discussed further and critically evaluated below.

Structuralist paradigm: - industry structure determines firm conduct

'Structuralists' argue that dominance occurs when there is a high level of concentration among a few large firms that wield enough economic clout and market power that they may behave in ways detrimental to the general economic welfare by manipulating industry prices to optimise their own profitability (Rosenbaum 1998 pp 1-3). In this paradigm, it is proposed that market structure determines firm conduct which in turn determines industry performance as can be seen in Scherer's (1980 p.5) SCP model (structure-conduct-performance). It is also illustrated by Porter's (1991 p. 90) view that: "*At its root, strategic thinking involves asking two critical questions. First, what is the structure of your*

industry, and how is it likely to evolve over time? Second, what is your company's relative position in the industry?" The contention that market structure determines firm conduct and not vice versa, implies that a firm's performance is ultimately determined by its starting position within the industry.

Two key weaknesses are apparent in the structuralist paradigm. The first is the tacit assumption that non-dominant firms are essentially captives of a fixed industry structure with little ability to influence their market position. Srivastava (2000) observed "*in the neoclassical theory of the firm, and in the technological view of the firm, firms had no control over industry structure as they behaved atomistically.*" She noted that in America during the 1960's in a Cold War environment, a strategic management philosophy of top-down, centralised command and control predominated and that firms were viewed in terms of products and as strategic business units (SBU's). However, "*Chandler (1962) in Strategy and Structure established how executives employing strategic management achieved remarkable performance outcomes*" (Srivastava 2000).

The second problem with the structuralist paradigm is that it provides only an after-the-event perspective on market leader behaviour within an existing monopolistic or oligopolistic market structure. It simply fails to account for scenarios in emerging industries like the fledgling movie business from 1895-1918, where industry trajectory and profitable business models were still unclear, industry and market structures were still evolving and the possibility that superior performance by some movie studios may actually have determined the shape of market structures. Brozen (1982 p. 118) argues that in new industries "*exceptional performance and competitive conduct lead to a concentrated (industry) structure. Where no exceptional performance occurs or, even with exceptional performance but no competition in the industry, a diffused structure remains. Structure is a result, not a cause.*"

The SCP model is therefore, too abstract to facilitate a sufficiently comprehensive picture of the role of the firm that can lead to insightful explanations of how leading movie studios initially became dominant and then maintained that dominance over time. Hay and Vickers (1987 p. 2) criticised "*familiar textbook models that are static and typically treat the firm as a black box*" and Kay (1997 p. 1) pinpointed this issue as a fundamental weakness of the SCP approach because it "*fails to explain, or even address, the central problem of business strategy. Why do some firms do better than others, operating in the same environment?*"

Efficiency paradigm: - superior capabilities drive firm performance

The Chicago school developed an opposing view contending that dominant firms are those companies that have been *more efficient than their rivals* over the long term (Rosenbaum 1998). This implies that the competitive strategy of these dominant firms played a critical role in their growth to market leader status and acquisition of substantial market power. Unlike the structuralist view, the efficiency paradigm focuses on the critical importance of dynamic business strategy to firm growth.

Penrose's seminal work on the theory of the growth of the firm proposed that firms were "*dynamic collections of capabilities*" (Kay 1997 p. 2). "*Capabilities are the means by which firms convert resources into products and services to gain competitive, and sustainable advantage*" (Jones 2001 p. 915). Penrose (1972) argues that a relationship exists between firm resources and the size of the firm, and that firm growth was contingent upon the nature of management decisions to productively acquire, develop and employ those resources. Therefore strategic orientation, strategy and capabilities are critical success factors in firm growth and acquisition of dominance.

The resource-based view (RBV) of the firm contends that companies need to 'match' environmental opportunities and threats through effective deployment of resources to optimise growth (Fahy and Smithee 1999, Hamel and Prahalad 1989, Vorhies and Harker 2000). However, lack of resource availability can place limits to growth on potential expansion (Penrose 1972 pp 44-45). It can be seen that RBV theory provides support for the structuralist view that firm conduct is determined by industry structure. Those firms with greater resources (i.e. dominant firms) available to exploit market opportunities should logically therefore, outperform lesser rivals.

An opposing view is that the RBV 'strategic fit' paradigm actually hinders firm performance by focusing too much on the short to medium term profits at the expense of a deeper commitment to a longer term market position. Hamel and Prahalad (1989) studied the unexpected rise of companies like Toyota and Honda in markets that American firms had dominated for decades and contend that many firms waste resources imitating cost and quality advantages enjoyed by market leaders. In their view, a copy-cat strategy is transparent and futile, because "*successful competitors rarely stand still and companies that have risen to global leadership over the past 20 years (1969-89) invariably began with ambitions that were out of all proportion to their resources and capabilities*". They argued that it is a firm's *strategic intent* that drives its resource allocation by creating a desired

longer-term leadership position, an organisational obsession to achieve it and establishment of criteria by which progress can be charted, so that the pursuit of the vision can be driven and monitored by management. For example, Komatsu set out to “encircle Caterpillar” and Honda envisioned becoming an automotive pioneer like Ford (Hamel and Prahalad 1989).

If RBV matches resources to ‘fit’ environmental opportunities, then firms employing a capabilities-based approach remain focused on their long-term vision and ‘stretch’ their resources as required to match their strategic intent. This paradigm is based on the concept that people not structures are what really counts and that strategic orientation, management decisions and firm capabilities are what ultimately determines the growth of the firm.

The strength of the capabilities-based efficiency argument is confirmed with reference to ‘real world’ financial decision-making criteria for investment in start-up firms. An American study by Tyebjee and Bruno (1984) of venture capital firms revealed five factors that are most-used by providers of capital to make investment decisions in start-up firms. They were market attractiveness, product differentiation, potential for investors to cash-out, capabilities of the key management team and resistance to environmental threats (e.g. barriers to entry). A study by Ernst and Whinney showed that banks and financiers also considered the firm’s profit history, its balance sheet, sales performance, the feasibility of any proposed growth strategy, the level of capital requirements to facilitate growth, the value of firm assets as security and the risk profile of the firm (Golis 1998). These examples clearly demonstrate the role of firm strategy - Tyebjee and Bruno’s market attractiveness, product differentiation and barriers to entry and Ernst and Whinney’s five criteria all relate to strategy and the importance of firm capabilities with Tyebjee and Bruno’s key management team and Ernst and Whinney’s balance sheet sales performance reflecting financial and marketing capabilities.

In a new industry, a unique opportunity exists for firms to establish dominance before market positions become well established. Dominant firms with size and scale either do not exist or they are just emerging during the earliest stage of the lifecycle when markets are fragmented and populated mostly by small businesses, and during the second ‘shake-out’ stage, when firms seek to establish their market position through mergers and acquisitions (Baum and Gahan 2004). So, market structure and economies of scale are yet to be created and it is the firm’s commercial track-record and credibility with its financiers and investors that is the key to leveraging the necessary capital required for firm growth which implies the critical role of strategy and capabilities in firm growth in new industries.

To summarise, the efficiency paradigm proposes that firm growth rests on strategic orientation; strategic intent; effective management of firm resources and development of appropriate capabilities. Within that paradigm two opposing views of strategy were reviewed – the first was the resource based view (RBV) that proposes matching firm resources to ‘fit’ market-product opportunities in order to optimise firm profitability. The second view was *strategic intent* contending that superior firm performance occurs when firms are strategically committed to achieve a desired market position and ‘stretch’ their resources and develop the necessary core capabilities to achieve that desired vision.

Acquisition of market dominance

The next sections review the literature on acquisition and maintenance of dominance. Table 2.5 below summarises key economic theories on *attainment of dominance*. It should be noted that Chandler (1977) studied the origins of large American corporations prior to the First World War and that Rosenbaum (1998) conducted case research of dominant firms in ten U.S. industries finding six commonalities whilst Schumpeter (1975); Brozen (1982); Schmalensee (1987) and Hay and Vickers (1987) propose theories on origins of dominance.

Table 2.5 Acquisition of market dominance

Study	Acquisition of dominance
Schumpeter (1975)	Innovation utilising technology and driven by entrepreneurs creates and sustains dominant firms.
Chandler (1977)	Innovation played a key role in the growth of large firms in the U.S. in the early 20 th century
Brozen (1982) pp. 118 pp 11-12	Outstanding performance by a few firms “produce the concentrated structure” <i>Causal factors:</i> 1. Product innovation (with patent protection) can facilitate monopoly 2. Accumulated experience 3. Superior management 4. Development of economies-of-scale 5. Reduction in less-than-optimum size plants 6. Use of capital-intensive technology 7. Lower cost of capital to large firms 8. Risk reduction to firms and customers 9. Greater investment in training improves customer service
Schmalensee (1987)	1. Mergers provide short term dominance unless the firm has a sustainable competitive advantage 2. Most dominant firms innovate
Hay and Vickers (1987)	<i>Causal factors:</i> 1. Dominance acquired through superior skill, greater foresight and industry. 2. Dominance acquired through corporate mergers and acquisitions 3. Dominance by government grant e.g. nationalised industries 4. Dominance through collusion (explicit and implicit) 5. Dominance through predatory pricing
Rosenbaum (1998)	<i>Common factors:</i> 1. First movers or first to consolidate in new industries achieved dominance. 2. Guided by a visionary leader. 3. Created competitive advantage e.g. cost, vertical integration, economies of scale, experience etc. 4. Stimulated demand through promotion. 5. Used technology to advantage. 6. Created advantages that made further dominance more likely

Analysis and discussion on theories of origins of dominance

The following observations, though not very startling, emerge as common themes from the theories shown above in Table 2.5 and therefore logically represent *critical success factors* in the acquisition of dominance. Superior firm performance exhibited by dominant firms accounts for their growth and acquisition of market dominance. (Schumpeter 1975, Chandler 1977, Brozen 1982, Schmalanese 1987, Hay and Vickers 1987, Rosenbaum 1998).

Superior performance can be observed in a number of areas in Table 2.5:-

a) Superior leadership and strategic management capabilities were critical success factors in establishment of dominance as can be seen in Schumpeter's driven entrepreneurs taking heroic actions to innovate; in Brozen's 'superior management' capabilities including development of economies of scale, reduction in less-than-optimum size plant; use of capital intensive technology to erect barriers-to-entry; in Hay and Vickers acquisition of dominance through greater foresight, superior skill or by merger (which also requires foresight and skill to be successful); and by Rosenbaum's observations that many dominant firms were guided by visionary leaders and these firms were first movers that created advantages that made further dominance more likely.

b) Innovation was a key factor in growth of dominant firms in the 20th century (Schumpeter 1942, Chandler 1977, Brozen 1982) and they often exploited technology to advantage (Schumpeter 1942, Brozen 1982; Rosenbaum 1988). Innovation and utilisation of new technology relate to firm strategy.

c) Mergers can create dominant firms (Hay and Vickers 1987) but may only provide short to medium term gains that are unsustainable over the longer term unless those dominant firms enjoyed a sustainable competitive advantage (Schmalanese 1987). Dominant firms created *sustainable competitive advantages* that enabled them to outperform their rivals (Brozen 1982, Hay and Vickers 1987, Schmalanese 1987, Rosenbaum 1988).

d) Superior capabilities (competencies) were critical to acquisition of dominance. This can be seen in Rosenbaum's observations that dominant firms possessed the ability to create competitive advantages in terms of cost, economies-of-scale, vertical integration and that they were able to stimulate demand, implying strategic management and marketing capabilities. Similarly, Hay and Vickers (1987) attribute *superior skill, foresight and industry* as one of their five routes to dominance.

Successful innovation also implies that specific capabilities were developed and utilised by dominant firms to create popular new products. Brozen specifically identifies *accumulated experience* ('know-how' capabilities) as a critical success factor in achieving dominance as well as *risk reduction to firms and customers* by which he means the development and effective marketing of branded products reduces risks for both the firm and customer.

Brozen (1982) argued that *superior performance* by a few firms created industry concentration and he identified nine factors that facilitate dominance. Some industries 'are born concentrated' when one, or a few firms innovate and develop proprietary products that are first to market enabling them to establish dominance from the outset as occurred in the rayon and aluminium industries. They maintain dominance through patent protection that blocks entry. This scenario is however rare and typically industries concentration evolves as dominant firms emerge during the shakeout stage of the industry lifecycle. *Superior firm performance* is implied by all of Brozen's eight other causal factors: superior management, accumulated experience used strategically to improve firm efficiency and reduce costs - through development of economies-of-scale, use of capital intensive technology, closure of uneconomical plant, effective risk management, risk reduction for customers (through branding) and improved service delivery through heavy investment in staff training (Brozen 1982 pp 11-12). The final factor - lower cost of capital available to large firms occurs because financial institutions view market leaders as representing less risk to the lender because they have already demonstrated superior performance and they also own more assets as security on loans.

Summary on acquisition of dominance

The common underlying factor to emerge from these theories on acquisition of dominance is that it seems to have more to do with strategic orientation, competitive strategy and with a specific set of the firm's capabilities, than it does with industry or market structures as proposed by structuralist economists. With the exception of dominance awarded by government grant, the four other causes of dominance attributed by Hay and Vickers (1987) - dominance through *skill, foresight and industry*; by *mergers, collusion* or *predatory behaviour* all stem from quite deliberate management decisions and from firm strategy. Brozen's (1982) argument that superior performance by a few firms creates industry concentration is also linked directly to management decisions and to firm capabilities. Similarly, Rosenbaum's six common factors of dominant firms - *first mover advantage, visionary leadership, cost advantages, the experience curve, effective marketing* and *anti-competitive business practices* all relate to a firm's strategic orientation towards market

opportunities and customers, to its competitive strategy or to its management capabilities. Innovation also is a deliberate strategy employed by entrepreneurs (Schumpeter 1975, Chandler 1977, Schmalenensee 1987). To summarise, common factors in firms that become dominant are visionary leadership, superior firm competencies that enable creation of competitive advantage through effective strategic management, innovation and marketing expertise that together deliver superior firm performance and more rapid growth than rivals.

How is dominance maintained?

This section examines theoretical explanations for persistence of dominance and determines that maintenance strategies are either offensive or defensive in nature (which are not mutually exclusive) and that persistence of dominance ultimately relies on the firm's strategic orientation, competitive strategy and marketing capabilities. There is significant consensus in the management and economic literature that barriers-to-entry play a key role in maintaining market dominance (Bain 1956, Stigler 1968, Scherer 1970, Porter 1980, Hay and Vickers 1987, Schmalensee 1987, Utton 1995, Baldassari 1993, Rosenbaum 1998). *“To maintain a dominant position, it is essential to limit the entry and growth of rival firms”* (Vickers and Hay 1987), and *“long run market power – the ability to control price in the face of investment decisions of actual and potential rivals – requires the ability to restrict or exclude competition”* (Schmalensee 1987). Other major theories on persistence of dominance are variants of superior firm performance (Brozen 1982, Penrose 1972 pp 247-249, Simon 1992). Major theories on maintenance of dominance are listed in Table 2.6 below.

Table 2.6 Maintenance of market dominance

Study	Maintenance of dominance
Schumpeter (1975)	<i>Theory of creative destruction</i> 1. Entrepreneurs must innovate to stay ahead 2. Economic leadership must be distinguished from invention – innovation doesn't just happen it is a strategic choice. 3. They deliberately exploit new technology to deliver superior performance
Penrose (1972)	Persistence of dominance is a function of relative growth rates of large and small firms. If dominant firms are able to optimally exploit legitimate market opportunities they will grow at a faster rate than smaller rivals. However, if they have limits to growth and are unable to exploit such opportunities at the same rate as those opportunities arise, then smaller rivals will do so. Then industry concentration begins diminishing as the rate of growth of those smaller firms increases, exceeding the growth rate of dominant firms.
Bain (1956)	Barriers to entry constrain new entrants. Barriers include: 1. Economies of scale, 2. Absolute cost advantages 3. Product differentiation
Brozen (1982)	High industry concentration (market dominance) remains only as long as largest firms continue to perform outstandingly.
Scherer (1984)	1. Innovative activity increases with industry concentration (i.e. market domination) 2. High concentration is built upon patent know-how and barriers to entry 3. technological vigour increases with industry concentration – mainly at low levels 4. Forced to innovate to maintain market position or get left behind must develop viable substitute products which increases rivalry

Study	Maintenance of dominance
Schmalensee (1987)	<ol style="list-style-type: none"> 1. Operating advantages – costs, patents, product differentiation 2. Strategic advantages – first mover, scale economies 3. Dominance may persist for if firms have a sustainable competitive advantage
Hay and Vickers (1987)	Strategic entry deterrence: <ol style="list-style-type: none"> 1. Ongoing innovation 1950 Extensive advertising 1951 Brand proliferation to deter entry 1952 Predatory pricing
Utton (1995)	<ol style="list-style-type: none"> 1. Technical barriers to entry e.g. scale economies, vertical integration 2. Legal barriers to entry e.g. patents, tariff protection 3. Price barriers e.g. predatory pricing, loyalty rebates, exclusivity discounts 4. Distribution e.g. vertical restraints, tying arrangements, heavy advertising
Simon (1992)	Success factors: <ol style="list-style-type: none"> 1. Combined narrow product focus with broad geographic scope. 2. Excelled in areas considered most important by customers. 3. Balanced closeness to customers with deep technical complexity. 4. Self-reliance in R&D 5. Close management-staff relationships
Baldassari (1992)	<ol style="list-style-type: none"> 1. Market leaders will maintain their position if they continually increase efficiency 2. Produce enough output to keep prices unattractive to deter new entrants
Rosenbaum (1998)	Common factors: <ol style="list-style-type: none"> 1. Had cost advantages 2. Used process-improving technologies 3. Economies of scale 4. Learning by doing 5. Innovated e.g. new technology 6. Vertical or horizontal integration 7. Locked-in customers 8. Patent protection

Analysis and discussion on theories of persistence of dominance

Persistence of dominance occurs because dominant firm continue to grow more rapidly than smaller competitors and to do so, they must continue to perform outstandingly to retain their market position (Penrose 1972, Brozen 1982). Analysis of Table 2.6 above reveals that theories on maintenance of dominance fall into two basic realms. The first is an *offensive* orientation based on the firm possessing capabilities that deliver superior performance. This is achieved through effective strategic management, superior strategic marketing and ongoing innovation (Schumpeter 1975, Scherer 1984, Baldassari 1992, Simon 1992, Rosenbaum 1998). The second is a *defensive* orientation exhibited by entry deterrence strategies (Bain 1956, Schmalensee 1987, Hay and Vickers 1987, Utton 1995, Baldassari 1992, Rosenbaum 1998). These two themes logically represent *critical success factors* in the maintenance of dominance and are discussed below.

Offensive orientation (delivering superior firm performance)

This section examines theories on maintenance of dominance that are essentially offensive in nature, enabling dominant firms to grow more rapidly than smaller rivals and concludes that such strategies require firms to possess a range of strategic marketing management skills and

capabilities that are superior to their competitors. Brozen (1987) highlights the central role of superior firm performance achieved through effective strategic management and distinct marketing capabilities in the persistence of dominance in a competitive environment.³ Reference to other theories shown in Table 2.6 supports his central premise by emphasising the critical role that strategic management and marketing play in the persistence of dominance.

Superior leadership and strategic management were observed to be critical success factors by Rosenbaum (1998) in his study of market dominance across ten industries. He identified common factors among dominant firms that are indicative of astute leadership and strategic management and provide competitive advantage i.e. accumulation of knowledge (learning by doing), development of cost advantages, strategic choices to vertically integrate, strategies to 'lock-in customers', to innovate and to introduce process improving technologies. Schumpeter (1942, 1975) distinguished economic leadership from invention arguing that innovation doesn't just happen, it is a deliberate, and therefore a strategic choice taken by entrepreneurs in order to stay ahead of competitors. For the purposes of this thesis innovation is therefore deemed to be an element of a firm's corporate strategy to be or to remain competitive. Delbono (1992) inferred the importance of strategic leadership arguing that market leaders only maintain their position if they continue to improve efficiency and manage industrial output to strategically suppress prices and potential profitability to deter new entrants.

A marketing orientation is implied as a necessary pre-condition for maintenance of dominance by Penrose (1972), who argued that persistence of dominance is a function of the relative growth rates of large and small firms. If internal limits to growth (i.e. allocation of resources) restrained those dominant firms from exploiting market opportunities at the same rate as those opportunities emerge, then smaller rivals will move in and exploit them. If that occurs, then industry concentration begins to diminish as the rate of growth of those smaller firms increases and comparatively exceeds the growth rate of the dominant firms. This relative growth rate theory hinges on the premise that dominant firms outperform smaller rivals through comparatively superior firm performance and implies that dominant firms need be externally focused to be able to identify and to rapidly exploit potential market opportunities. Logically, this indicates that dominant firms must possess a marketing orientation and superior strategic marketing management capabilities than their rivals.

³ "What we actually find in the history of many concentrated industries is that outstanding performance by a few firms, rapid expansion of their capacity and output, whether by merger or by construction, and competitive conduct produce the concentrated structure. An industry structure remains concentrated only as long as its largest firms continue to perform outstandingly, do not stagnate technologically and conduct themselves competitively" (Brozen 1982 p. 118).

Strategic marketing capabilities were also deemed to be critical success factors in maintenance of dominance by Simon (1992) in his study of German companies that dominated their markets with world market shares ranging between 70%-90%. He found five practices contributing to their success. They combined a narrow product focus with a broad geographic scope which indicates that they employed specific strategies of product specialisation and market segmentation. They excelled in areas that customers considered most important and they balanced “*closeness to customers with deep technical knowledge*”. Both practices indicate that these firms were customer-centred and possessed strong relationship marketing and client service capabilities. They were also self-reliant in research and development and considering their demonstrated ongoing market success, it is also likely that they possessed strong market sensing capabilities and excelled in new product design to be able to have continually satisfied their customers. These firms also nurtured close management-staff relationships within their own firms signalling that they were people-centred organisations, a typical indicator of firms that deliver superior customer service.

Deliberate strategies to ‘lock-in’ customers were one of eight common factors found among dominant firms by Rosenbaum (1998) and are indicative of effective strategic marketing management. And Brozen (1982) also argued that effective customer service delivery was a key factor in persistence of dominance: “*The continuing existence of dominant firms is evidence of lower costs and better customer service than can be provided by new entrants or smaller firms. It is evidence of competitive behaviour that depresses prices to levels unattractive to entry or to the continuance of many small scale operations*”.

The theories discussed above (Schumpeter 1942,1975, Penrose 1972, Brozen 1982, Delbono 1992 and Simon 1992) and Rosenbaum’s (1998) case study research all converge on the premise that *superior firm performance* underlies the persistence of dominance and that a marketing orientation and strategic marketing management plays a critical role in the ability of dominant firms to maintain their market position.

Defensive orientation (using entry deterrence to constrain competition)

This section begins by explaining why entry deterrence is important. Following that is a brief discussion on the disagreement in the literature on what actually constitutes barriers to entry from any form of deterrent (Bain 1956, Porter 1980), to barriers that only affect new entrants (Stigler 1968). The discussion concludes that barriers to entry take one of two different

forms - unintentional operational advantages or strategically engineered advantages (Salop 1979, Schmalensee 1987).

Porter's (1980) five forces model highlights the significance of the threat of new entrants as a factor in determining the intensity of market rivalry. The mix of buyer-power; supplier-power; threats of substitutes and new entrants affects the degree of competition between firms "*which ranges on a continuum from outright warfare in a purely competitive market through to tempered rivalry and even gentlemanly accommodation in a mature oligopoly*" (Porter 1990). "*The competitiveness and performance of an industry are usually considered to be strongly affected by its entry conditions*" (Delbono in Baldassari 1992 p. 144). Consequently, "*if the minimum efficient scale of production is large with respect to market size, (then) entry at the appropriate scale would depress price through output expansion*" suppressing industry profitability (Delbono in Baldassari 1992 p. 141). So, the strategic purpose of barriers-to-entry is to make it so costly that potential challengers become convinced that more rewarding opportunities can be found elsewhere (Bain 1956, Stigler 1968, Porter 1980, Scherer 1984).

Disagreement on entry barriers

Scholars disagree about what actually constitutes a barrier to entry. Porter (1980) contends that entry barriers are wide ranging and include government policy; economies of scale; capital and resource requirements; absolute cost advantages; proprietary product differences; access to distribution channels; customer loyalty, brand preferences and switching costs. However Stigler (1968) argued that all firms in an industry have to contend with potential barriers like government policy and having to access capital, so a barrier to entry exists only when it affects new entrants and not incumbent firms. Examples might include special supplier relationships with preferential access to resources or inability to access required technology because incumbents hold the patents. Stigler's approach is adopted in this thesis.

Two forms of entry barrier

Entry deterrence can take one of two forms, it can be built upon 'innocent' *operating advantages* that firms develop e.g. absolute cost advantages, product differentiation and patents, or it can be based upon deliberate attempts to shut out potential rivals and gain longer term *strategic advantages* (Salop 1979, Schmalensee 1987) from economies of scale or from being the 'first-mover' which places new entrants at a considerable disadvantage because unlike patents or diffusion of knowledge, this type of advantage remains with

incumbents and is not eroded over time. Entry may therefore become too expensive and “*if a dominant firm has operating advantages (absolute cost, product differentiation) it is simply not feasible for an entrant to match its cost/demand position*” (Hay and Vickers 1987).

2.3 CHAPTER SUMMARY

This chapter reviewed the literature on Hollywood dominance and identified twenty possible explanations for Major studio dominance of world cinema but none could explain both the acquisition and maintenance of that dominance. *This is a gap in the literature.* A root-cause analysis of those twenty explanations indicated to the author that all of them could possibly be explained by the Major studios’ strategic orientation and marketing capabilities which raised the possibility that Hollywood’s strategic marketing management capabilities might provide a unifying theory that could explain the rise of the Major studios and their enduring market dominance.

This chapter then defined market dominance and discussed opposing economic theories about the acquisition and persistence of dominance. It identified that the structuralist position proposes *market structures determine firm conduct* and that in turn determines industry performance, whilst the rival efficiency paradigm proposes that it is the competitive strategies and core competencies of dominant firms that account for their growth to market leader status and acquisition of substantial market power. Legal acquisition of market dominance is achieved mainly through a firm’s skill, foresight and industry or by growth through merger (Hay and Vickers 1987). Persistence of dominance is achieved when dominant firms continue to grow by outperforming their rivals (Penrose 1950, 1972, Brozen 1982) by being more alert to market opportunities, through ongoing innovation and by possessing strategic marketing capabilities that deliver superior products and superior customer service. Dominant firms also construct barriers to entry to constrain potential challengers (Bain 1956, Stigler 1968, Porter 1980).

After defining market dominance and a critical review and discussion of the economics and management literature on the acquisition and maintenance of market dominance, this chapter concludes that a marketing orientation, competitive strategy and effective strategic marketing management capabilities are key ‘drivers’ of firms that become and remain dominant. These findings will be used in the next chapter to construct a theoretical framework that will facilitate an effective historical analysis of Hollywood’s dominance of the movie business since the First World War.

CHAPTER 3: THEORETICAL FRAMEWORK

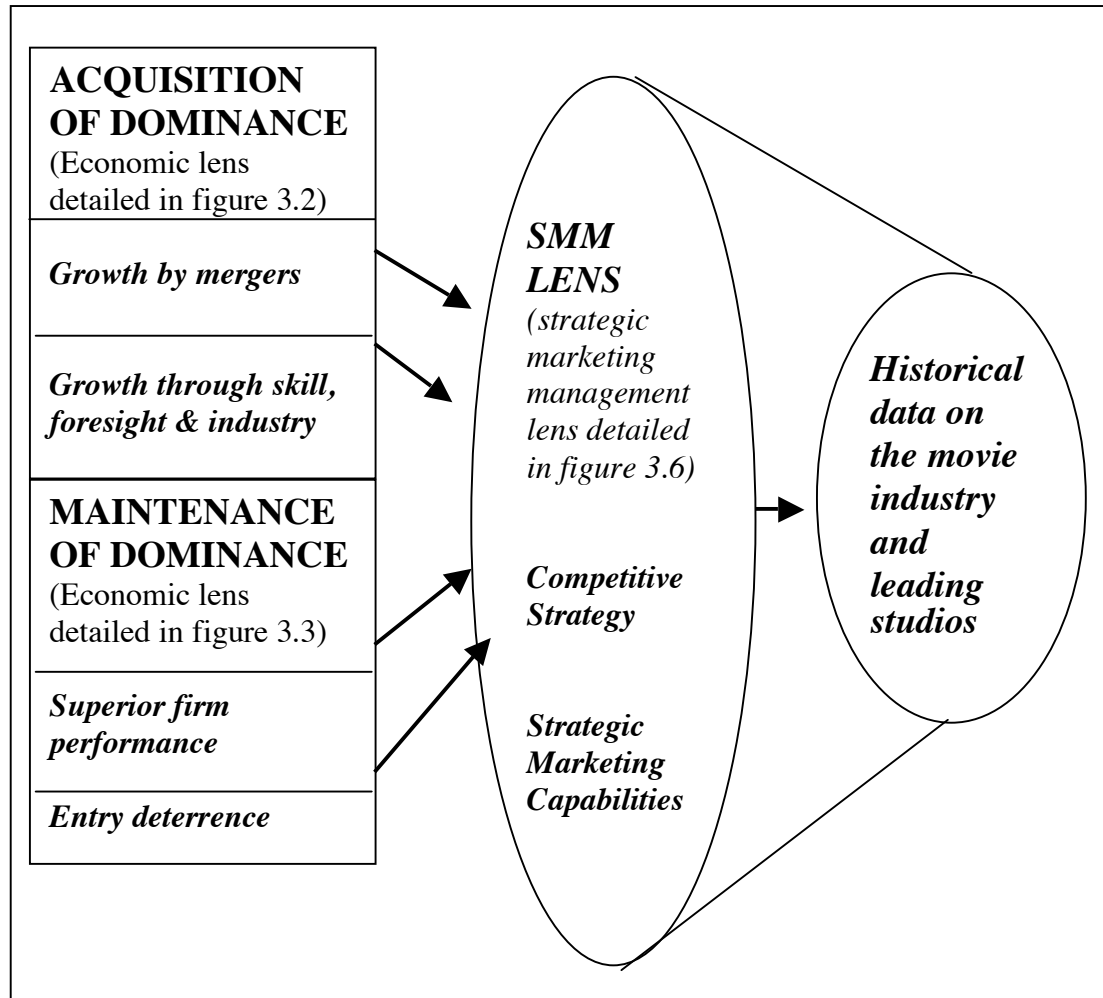
3.0 INTRODUCTION

Chapter Two contained a multi-disciplinary literature review that identified twenty different explanations for why Hollywood has dominated the movie business. It also reviewed the economics and management literature defining market dominance, it discussed rival economic theories on why it occurs and why it persists and reviewed studies that propose that a range of strategies and capabilities are commonly found in dominant firms. Patterned after Jones (2001) method, the purpose of this chapter is to establish a theoretical lens appropriate for an investigation of how Hollywood's dominance arose and how it has been maintained. This task is necessary because the review of the economics and management literatures on dominance failed to identify a theoretical model that would facilitate a systematic historical analysis of acquisition and persistence of dominance in a real industry over time.

Well-known models closely related to industrial organization and market structures such as Scherer's SCP model and Porter's five forces are too abstract to analyse the origins and persistence of market dominance and do not provide a comprehensive enough framework for analysis of dominance in a dynamic industry like the movie business that has undergone significant changes due to the impact of environmental forces and like the fashion industry, where markets are dynamic and consumer tastes can change very rapidly. Scherer's model was designed for a different purpose and the key problem is that it *"fails to explain, or even address, the central problem of business strategy. Why do some firms do better than others, operating in the same environment?"* (Kay 1997 p. 1). Porter's (1980) five forces model is similarly 'static' because it focuses on a market at one snapshot-in-time and was intended to provide a means to evaluate market attractiveness for new entrants or to aid incumbent firms in their strategic planning, not for the purpose of identifying the causes and persistence of market dominance, which is the goal of this thesis.

The absence of an appropriate existing theoretical lens through which the historical data can be analysed, necessitated the construction of a theoretical framework shown below in Figure 3.1. It is a 'soft model' that integrates existing theories relating to the acquisition and persistence of dominance and comprises two economic lenses and a strategic marketing management lens, through which the author can then examine the historical data and determine the causes underlying Hollywood's longstanding dominance of the movie business. This model represents an original contribution of this thesis and is explained further below.

Figure 3.1 Theoretical framework for analysis of market dominance



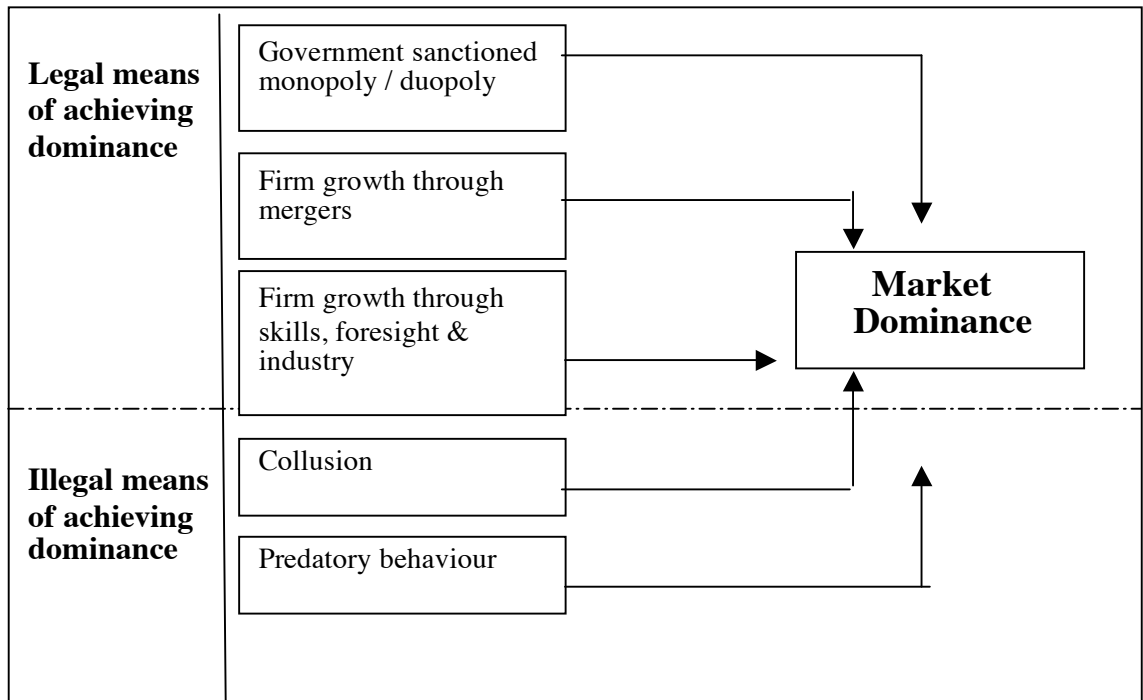
Source: Model developed by the author for this thesis that integrates existing theories shown in Figures 3.2; 3.3 and 3.6

The model holistically integrates existing economics, management and marketing theories that are specifically relevant to this study and uses them to develop the two economic lenses and the strategic marketing management lens (SMM lens) that ‘fit together’ within the framework to provide a simple means by which the author can gain qualitative insights into the origins and persistence of market dominance. The practical manifestation of this framework is a series of *guiding questions* that enable efficient identification of relevant material among an abundance of rich historical data from literally hundreds of sources. The purpose of this model is to provide a theoretical lens that facilitates the historical analysis of dominance that follows.

3.1 THE FIRST ECONOMIC LENS: ACQUISITION OF DOMINANCE

The first of two economic lenses that are components of the theoretical framework shown in Figure 3.1 above relates to how market dominance is acquired. This component is illustrated below in Figure 3.2, which the author constructed based on the work of Hay and Vicker's (1987) who proposed five routes market dominance.

Figure 3.2 Five routes to market dominance



Source: Figure 3.2 was constructed by the author based on Hay and Vickers (1987) p. 10-14.

Route 1: Government sanctioned monopoly

The first route to the acquisition of dominance identified by Hay and Vickers (1987) was government-sanctioned monopoly/duopoly e.g. nationalised industries that provide social gain. This category is not applicable to this study because the U.S. government has at no time in history sanctioned the Hollywood oligopoly's market dominance.

Route 2: Dominance through corporate mergers

A second cause of market dominance was rapid firm growth achieved through merger, which is “*unquestionably one of the main possible routes to a dominant position*” (Hay and Vickers 1987 p. 12). The role of Government anti-trust agencies is to ensure that fair competition is

maintained and consequently they closely scrutinise corporate mergers involving market leaders because: “*Market structures can be changed fundamentally and at great speed by a series of acquisitions*” (Utton 1995 p. 203). Government ‘watchdog’ agencies responsible for corporate and consumer affairs often have the legal authority to prohibit undesirable mergers on the basis that they would reduce competition. Chapter Five examines the role, if any, that mergers may have played in the acquisition of dominance by the Major studios.

Route 3: Dominance achieved by skill, foresight and industry

The third route to dominance was ‘*skill, foresight and industry*’.¹ This implies that firms become dominant because they compete more effectively than their rivals, exhibiting superior skills and capabilities, demonstrating greater foresight in terms of identifying market opportunities and satisfaction of customer demand and succeed through hard work (industry). Hay and Vickers (1987) emphasise that dominance acquired by this means is legal as well as desirable in terms of general economic welfare. The key problem with attributing dominance to growth acquired through “*skill, foresight and industry*” is that the concept is too abstract. Exactly what skills and capabilities proved to be critical in the rise of the Hollywood studios? How can foresight be identified and evaluated?

The logical implication is that dominance is attained through strategically managed growth or to put it another way, that deliberately managed marketing strategies result in the organic growth of firm sales which could be due to increased sales of existing products or related products, introduction of new products, entry into new markets or perhaps other reasons but all would relate to deliberate strategies and to a set of specific capabilities that yield such a result.

Therefore, to determine the role that the *skill, foresight and industry* of the Major movie studios played in their acquisition of dominance will require use of additional guidelines. This issue is addressed and resolved later in this chapter.

¹ “The phrase was used in a very famous US anti-trust case involving the Aluminium Company of America (ALCOA) which had long dominated the market. Judge Learned Hand pointed out that in the competitive process those firms which showed these characteristics in the greatest degree would very likely achieve a prominent position. It would be inconsistent for the law to acknowledge, on the one hand, the efficiency-enhancing properties of competition, while on the other hand, condemning firms which achieved dominance precisely because of their efficiency. Probably few would disagree with the view that firms which win a large market share, by their skill and foresight should not be deprived of their position because of a misunderstanding of the notion of market dominance” (Utton 1995 p. 30).

Route 4: Firms become dominant through collusion

A fourth cause of dominance identified by Hays and Vickers (1987) was collusion (either overt or implicit), which is both illegal and undesirable. Anti-Trust investigations by the U.S. government in 1948 found the Majors were guilty of collusion in the maintenance of their market dominance but a comprehensive review of the historical data for this thesis found no evidence exists to prove that collusion *played any role in the acquisition of dominance* by the Major studios in Hollywood. In fact, during the period when the Hollywood studios began emerging as market powers, it was the rival MPPC (Motion Picture Patents Company) – a Trust company established to monopolise the American film industry by nine of the most powerful film companies, that was ordered to dissolve by the U.S. government in 1915 under anti-trust laws.

Route 5: Dominance through predatory behaviour

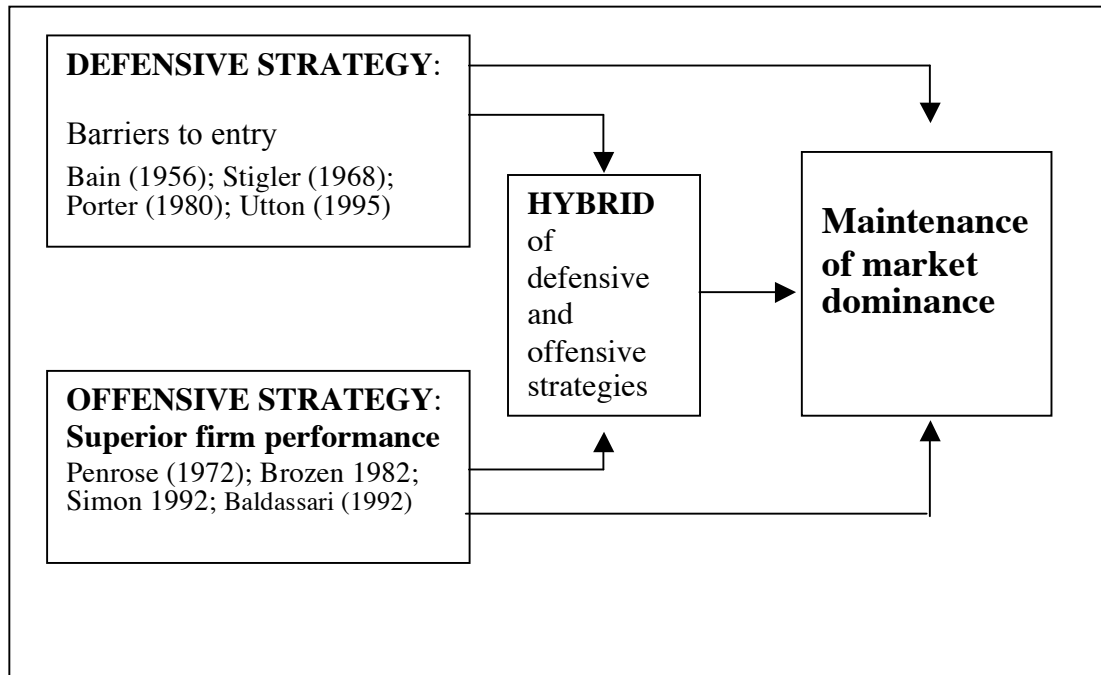
The fifth route to acquisition of dominance was predatory behaviour,² which is generally deemed undesirable and is illegal. However, Hay and Vickers (1987) also contend that predatory pricing is more likely to be a factor in maintenance of dominance rather than it is in acquisition of dominance. In the review of the historical data for this thesis, no evidence was found that predatory pricing contributed to *the rise and later persistence* of the dominant firms. The discussion now shifts focus from reviewing theories on acquisition of dominance to theories on maintenance of dominance.

3.2 SECOND ECONOMIC LENS: MAINTENANCE OF DOMINANCE

Figure 3.3 below was constructed to encapsulate economic theories on persistence of dominance shown earlier in Table 2.6 and discussed in the review of the economic literature in Chapter Two which showed that dominant firms seek to maintain their leadership status by adopting either an offensive or a defensive position, or a combination of both. Defensive strategies are based on construction of barriers-to-entry that restrict opportunities for potential competitors new to the industry (Bain 1956, Stigler 1968, Porter 1980, Utton 1995) whilst offensive strategies result from the dominant firms delivering superior performance compared to smaller rivals (Penrose 1972, Brozen 1982, Simon 1992, Baldassari 1992).

² “A firm that deliberately sets out to destroy competing firms by say, predatory pricing may not only succeed in creating for itself a position of market dominance, but by the precedent this establishes in the minds of potential entrants, help bolster its position in the long term” (Utton 1995 p. 34).

Figure 3.3 Theoretical approaches explaining maintenance of dominance



Sources: Bain (1956); Stigler (1968); Porter (1980); Utton (1995) Penrose (1972); Brozen 1982; Simon (1992); Baldassari (1992)

Searching the historical data to determine the role of barriers-to-entry in the persistence of dominance is a relatively straight-forward exercise and is addressed in Chapter Twelve. However, analysis of historical evidence to detect offensive strategies based on ‘*superior firm performance*’ presents the same set of difficulties as identified in the prior discussion on acquisition of dominance through ‘*skill, foresight and industry*’ in the previous section. Once again, the notion of *superior firm performance* is simply too abstract to enable effective analysis of the historical evidence and a tighter set of criteria are needed. In this thesis, both terms are taken to mean the same thing.

3.3 WHAT DRIVES SUPERIOR BUSINESS PERFORMANCE?

A marketing orientation is positively correlated to superior performance (Day 1994, Deshpande, Farley and Webster 1993, Jaworski and Kohli 1992, Narver and Slater 1990) and market-driven firms possessing superior marketing capabilities outperform less market-driven rivals on four dimensions – profitability, firm growth, customer satisfaction and adaptability (Vorhies and Harker 2000). They achieve this outcome by leveraging-off distinctive capabilities that create competitive advantage based on provision of superior customer value (Porter 1980, Day 1994, Cravens 2000) - see figure 3.4 below.

Figure 3.4 Marketing orientation delivers superior performance

This figure is not available online.
Please consult the hardcopy thesis
available from the QUT Library

Source: Cravens (2000) p. 5.

Strategically orientated firms seek to shape their environment and to create a sustainable competitive advantage by providing superior performance and value to customers. To achieve that result, as Hay and Vickers (1987) proposed, they need to demonstrate strategic *foresight*. This requires them to be outwardly focused and attuned to the trends and shifts in the business environment and to changes in consumer tastes and market demand. Development of sustainable competitive advantage depends upon formulation of appropriate competitive strategy after a careful strategic evaluation of markets, competitors and consumers (Porter 1980). Ultimately, success in the marketplace is often determined by a company's orientation towards the market and towards its customers (Aaker and Mills 2005 pp. 4-7, Cravens 2000 p. 5).

The early market leaders in the movie industry were film equipment manufacturing companies (Edison, Biograph and Pathe) that were usurped by the emerging Hollywood studios, so it is pertinent to briefly review Kotler's (2000) four fundamental company orientations before establishing linkages between a marketing orientation and superior strategic marketing capabilities to firm growth and market dominance.

A *production orientation*, based upon low-cost advantage is founded on a belief that provision of goods on the widest possible basis at low cost will satisfy consumers.³ The

³ "In manufacturing-driven companies everything is done to ensure smooth production and low costs - they prefer simple products, narrow product lines, and high volume production. Customers on back order have to wait" (Kotler 2000 pp. 17, 691).

competitive strategy of *product-orientated* firms is also inward looking and based upon differentiation through product quality, performance or innovative features. Often, engineering ‘drives’ product development with limited marketing or customer input (Kotler 2000 p. 18). This can lead to *marketing myopia*, evidence of which can be seen in the demise of an industry and firms as buyers switch allegiance to new products that satisfy the same needs but provide customers with better value. Television is an example where adult audiences that had regularly attended movie theatres began staying home to watch small-screen entertainment (Levitt 1960).

Firms with a *sales orientation* seek to aggressively promote and sell their products or services, usually focusing on carefully selected market segments to optimise available marketing resources. It is primarily driven by the needs of the seller to shift product and is used mostly by companies creating unsought goods or by firms with over-capacity with the aim to sell what they make rather than what the market wants.

However, a *marketing orientation* is based on the belief that in a competitive market, the ultimate winners will be those companies that most effectively create, deliver and communicate superior customer value to their target segments. A marketing orientation positions customers as central to the firm’s viability with business strategy and organisational culture directed towards achieving ongoing customer satisfaction.⁴

What then are the core marketing capabilities that provide ongoing customer value resulting in superior firm performance? “*Strategic marketing creates competitive advantage*” (Rosenthal and Brown 2000 preface). It is a coordinated process, through which successful firms understand customers and cohesively manage new product development, pricing, distribution and communications strategies to provide superior value and thus optimise customer satisfaction (Kotler 2000).⁵

⁴ “Marketing is so basic that it cannot be considered a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer’s point of view. Business success is not determined by the product but by the customer” (Kotler, et al 2004: p 5, pp 18-19). “Market-driven companies begin with an understanding of the market and the customers that form the market. The characteristics of market-driven strategies include developing a marketing orientation, leveraging distinctive capabilities, finding a match between customer value and organisational capabilities and obtaining superior performance by providing superior value” Cravens (2000 p. 18).

⁵ “More than any other organisational activity, strategic marketing defines and maintains the desired relationship between the organisation and its environment. Strategic marketing specifies the customer base, develops an understanding of customer needs and behaviours, accounts for activities and initiatives of competition, and evaluates the economic, social and cultural, international, legal and political, and technological environments. In response to the conditions external to the organisation, strategic marketing moulds the organisation, determines the product and production specifications, pricing, promotional activity, and distribution, indicates financial requirements and dictates needed human skills. Strategic marketing defines the role of the organisation” (Rosenthal and Brown 2000 preface). Hay and Vicker’s (1987) reference to a firm’s foresight being a significant factor in acquisition of dominance is supported Day’s (1994) argument that market-driven firms have superior market sensing - the ability to sense events and trends ahead of competitors. “Market orientation is the organisation-wide generation of market intelligence pertaining to current and future customer needs and dissemination of the intelligence across

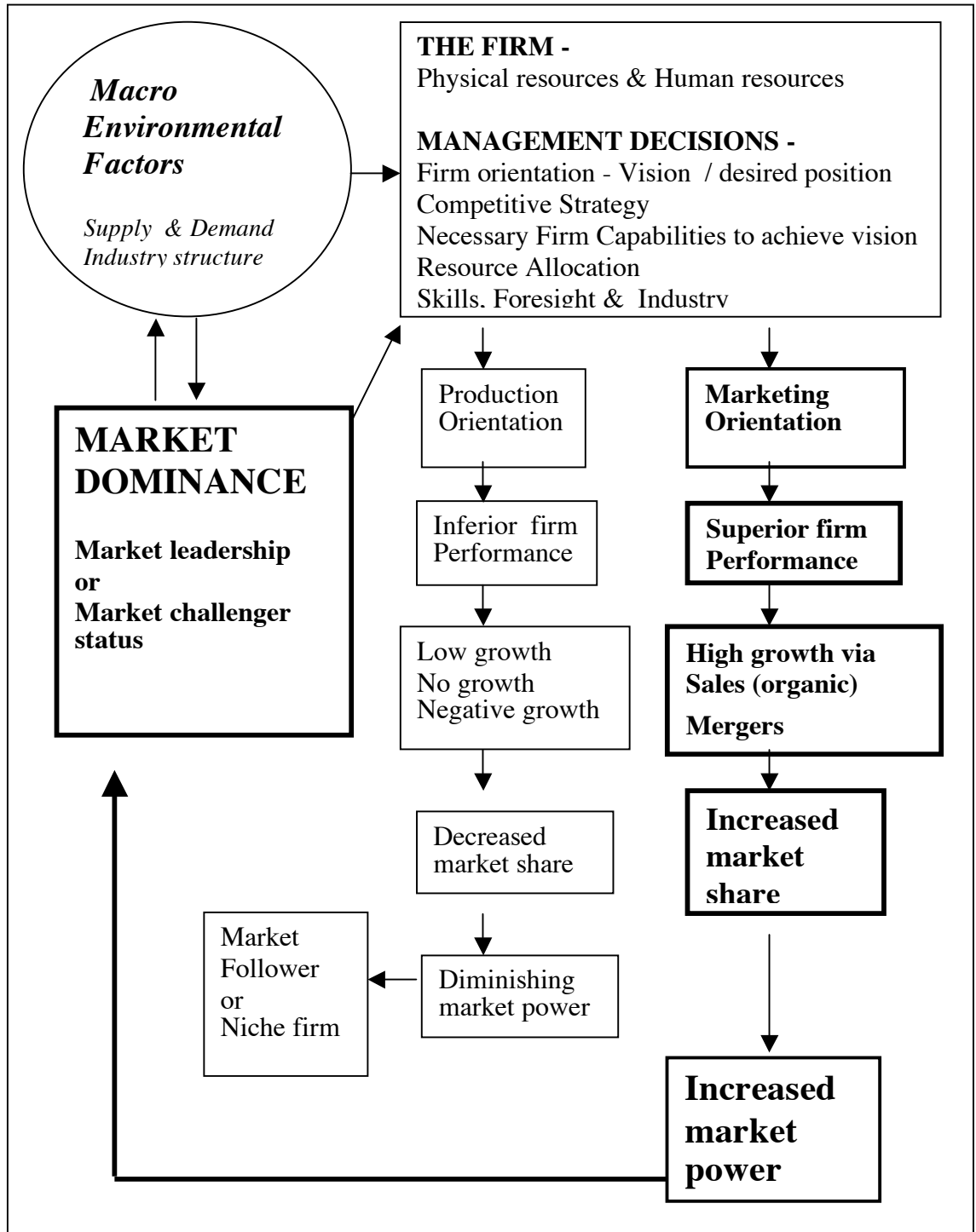
Common core capabilities of marketing-driven firms

Field research by Vorhies, Harker & Rao 1999; Vorhies and Harker (2000) and a benchmarking study by Vorhies and Morgan (2005) identified six key marketing capabilities that typically characterised the best-performing market-driven firms: a) systematic and strategic use of marketing research to optimise exploitation of market potential. b) Development of new products that match consumer needs and outperform competitor offerings. c) Strategic use of competitive pricing. d) Effective distribution strategy and relationship management of channel partners. e) Implementation of promotional / communication strategies that convince consumers to buy and f) effective leadership that maintains a responsive strategic orientation, nurtures a customer centred culture and cohesively manages the firms marketing mix to satisfy existing and potential customers and markets. Four of those six key marketing capabilities – product, price, place and promotion comprise elements of the marketing mix a concept was first proposed by Borden in 1940, who argued firms needed to strategically manage their key marketing capabilities to optimally exploit their marketing resources and the full market potential of their products. The “four P” marketing mix was a term first used by McCarthy in 1960.

The purpose of this discussion was to clarify what constitutes a firm’s growth to dominance through *skill, foresight and industry* (Hay and Vickers 1987) and what constitutes maintenance of dominance through *superior firm performance* (Penrose 1972, Brozen 1982, Delbono 1992, Simon 1992, Rosenbaum’s 1998). It was argued that answers to these questions can be found in strategic management and marketing literature. Dominant firms grow more rapidly relative to smaller rivals (Penrose 1972) due to *marketing orientation which is positively correlated to superior performance* (Day 1994, Deshpande, Farley and Webster 1993, Jaworski and Kohli 1992, Narver and Slater 1990, Vorhies and Harker 2000). This enables a conclusion to be drawn that dominant firms are more likely to possess superior strategic management and marketing capabilities than smaller rivals. Figure 3.5 below was constructed to illustrate two extreme firm orientations and demonstrate logically how a marketing orientation is more likely to result in superior firm performance, higher growth rates and ultimately in market dominance. The key strategic insights to emerge from analysis of Figure 3.5 are that the market dominance hinges upon a firm’s strategic orientation, upon its competitive strategy and on the development of superior strategic management and marketing capabilities that satisfy customers and provide ongoing value.

departments and organisation-wide responsiveness to it” (Kohli and Jaworski 1990). Market-driven firms also have strong customer-linking (buyer-seller relationships) and channel bonding capabilities (Day 1994).

Figure 3.5 Marketing orientation is the key to market dominance

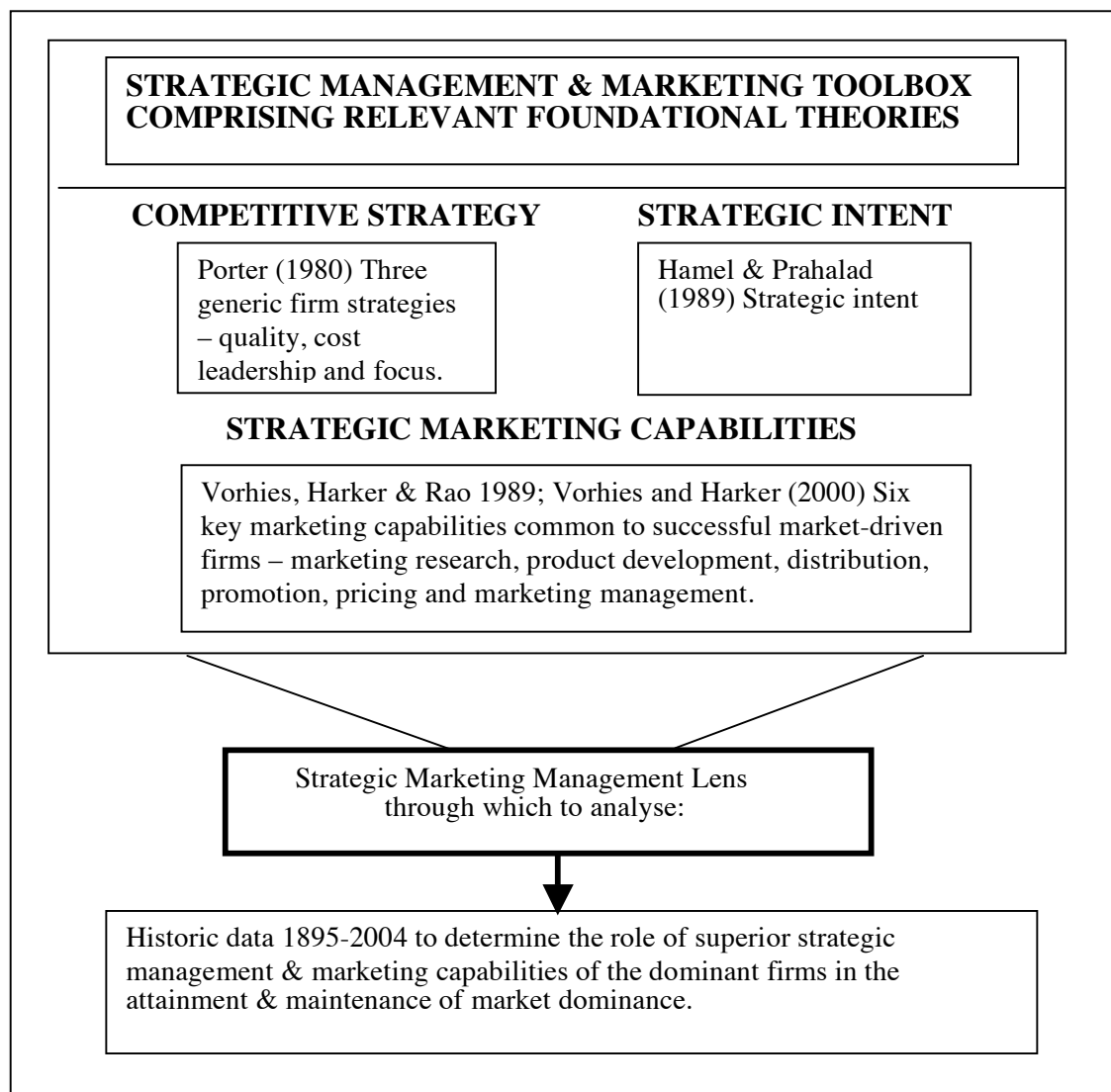


Source: Flow chart constructed by the author for this thesis.

3.4 STRATEGIC MARKETING MANAGEMENT LENS

The theoretical framework illustrated above in Figure 3.1 comprised two economic lenses (shown in Figures 3.2 and 3.2) pertaining to the acquisition and maintenance of dominance that were integrated with a third component within that framework - an SMM lens, that incorporated relevant strategic management and marketing theory. It is shown below in Figure 3.6 and provides a side-view or cut-away view of that SMM lens and the relevant theories identified in the literature review.

Figure 3.6 Strategic Marketing Management (SMM) Lens



The theoretical model developed for this thesis and shown in Figure 3.1 will enable the author to determine whether the Hollywood studios became dominant through mergers and/or by being market-driven firms that had superior competitive strategies and marketing

capabilities to rival firms and rival film industries overseas. Similarly, it will enable the author to determine if it was possession of superior strategic marketing management capabilities and/or use of deterrence strategies that has enabled Hollywood to dominate the movie business for nine decades. This will be achieved through the formulation of a set of *guiding questions* that will be used to direct the research to interrogate the historical data from an economic and strategic marketing management perspective. The formulation of these guiding questions will be based upon the relevant economic and strategic management theories that are incorporated into the theoretical framework for this thesis and into the SMM lens i.e. Hay and Vickers (1987), Porter (1980,1991), Hamel and Prahalad (1989) and Vorhies and Harker (2000).

Development of the SMM lens

The SMM lens places relevant strategic management and marketing theories into a ‘toolbox’ that can be drawn upon to aid analysis of historical data and determine causes and persistence of market dominance. The ‘toolbox’ comprises Porter’s three generic competitive strategies (quality, cost leadership and focus) with Hamel and Prahalad’s (1989) theory on strategic intent and with Vorhies and Harker’s six key marketing capabilities that underlie the success of market driven firms.

Porter 1980: Theory of three generic competitive strategies

It was determined in earlier discussion that a firm’s marketing orientation, competitive strategy and strategic marketing management capabilities were key drivers of firm growth. Therefore, in terms of analysis of competitive strategy, Porter’s well-known theory of three generic strategies provides a simple framework (described below) that will be used to help determine key causes of acquisition and maintenance of dominance in the movie business.

The competitive strategies of the Major studios in Hollywood will be analysed during the various historic eras using Porter’s (1980) framework of three generic strategies 1) quality via product differentiation, 2) cost leadership based on cost advantages or 3) focus via market segmentation and based on either a quality or cost strategy. The analysis of the Major studios competitive strategies will use both quantitative and qualitative data to construct any case.

Hamel and Prahalad 1989: Strategic intent

Hamel and Prahalad (1989) studied the unexpected rise of companies like Toyota and Honda in markets that American firms had dominated for decades. They observed that many firms waste resources imitating cost and quality advantages enjoyed by market leaders. In their view, a copycat strategy is transparent and futile, because “*successful competitors rarely stand still and companies that have risen to global leadership over the past 20 years (1969-89) invariably began with ambitions that were out of all proportion to their resources and capabilities*”. They argued that it is a firm’s *strategic intent* that drives its resource allocation by creating a desired longer-term leadership position, an organisational obsession to achieve it and establishment of criteria by which progress can be charted, so that the pursuit of the vision can be driven and monitored by management. For example, Komatsu set out to “*encircle Caterpillar*” and Honda envisioned becoming an automotive pioneer like Ford.

Strategic intent is included within the SMM lens as a foundation theory because it is likely to be particularly relevant to the emergence of the Hollywood studios during the silent era of film. The core concept of the theory centres on firms becoming market leaders by stretching their available resources in pursuit of a desired corporate vision and market position. This may be exactly what occurred in the early years of Hollywood when the Major studios emerged, and it therefore warrants investigation for the reasons discussed below.

The Edison-inspired Motion Picture Patents Company attempted to monopolise the American film industry from 1909-1915 and comprised the world’s largest seven film companies that enjoyed access to far greater resources than the newly created Hollywood studios. Yet by 1917, Paramount and Universal had become the dominant movie studios. Since then, the industry has witnessed dramatic change over time. Whilst the Hollywood oligopoly has comprised eight major companies, the individual fortunes of all of the Major studios within that oligopoly have risen and fallen in different time periods for a variety of reasons and one Major (R.K.O.) went bankrupt and was replaced within the oligopoly by a later entrant (Walt Disney). During the analysis of the dominant firms’ competitive strategies, the historic data will also be interrogated *to determine if any of the major studios acted with strategic intent* as seems likely, in their pursuit of achieving or regaining market leadership, or in Disney’s case gaining membership to the Hollywood oligopoly that dominates the film industry.

Vorhies and Harker (2000): Six critical marketing capabilities

Finally, the historic data will be interrogated to determine if the dominant film companies possessed superior strategic marketing management capabilities to their rivals. Vorhies and Harker's (2000) research identified six critical marketing capabilities that were typically common among market-driven firms that outperformed rivals. The six capabilities were superior marketing research, customer-orientated product design that matched market-needs, competitive pricing, superior distribution strategies, highly effective promotional / marketing communications and the cohesive and insightful strategic marketing management of these five capabilities. The outcome was development of a sustainable competitive advantage, effective market segmentation and positioning of the company, its products and brands, and effective customer management and market responsiveness.

3.5 FORMULATING THE GUIDING QUESTIONS

The next section describes how this theoretical framework will be practically applied to the historical data in the chapters that follow. It comprises a set of questions to guide the researcher in locating relevant evidence among a wealth of historic data that will enable a comprehensive analysis of the market dominance of the Major studios to be undertaken.

a) Guiding questions on attainment of dominance (based on figure 3.2)

What historical evidence exists that *mergers* played a significant role in acquisition of dominance by leading firms in the movie business?

To what extent did *skill, foresight and industry* play a significant role in acquisition of dominance by major movie studios? (See Guiding questions c) – e) below). It is also taken that all dominant firms worked hard (*industry*) to achieve their market positions thus a search to determine whether dominant studios were industrious *will not be undertaken* in this thesis.

b) Guiding questions on persistence of dominance (based on figure 3.3)

To what extent has *entry deterrence* played a significant role in maintenance of dominance by leading firms in the movie business?

To what extent did *superior firm performance* play a significant role in persistence of dominance by the Major movie studios since 1930? The SMM lens will also guide the research on determining the role of superior firms performance in maintenance of dominance. This will include the role of innovation. See guiding questions c) – e) below.

c) Guiding questions on Porter's Three Generic Strategies

What strategies did the dominant firms' employ and why? What role did innovation play in firm growth and the acquisition and maintenance of dominance? What evidence exists in the historical data to support or counter any case?

d) Guiding questions on Hamel and Prahalad's Strategic Intent

To what extent did dominant firms in the movie business act with strategic intent to create capabilities that yielded a sustainable competitive advantage?

What evidence exists in the historical data to support or counter any case?

e) Guiding questions on Vorhies and Harker's Marketing Capabilities.

To what extent did the dominant firms employ *marketing research* (marketing intelligence, intelligence gathering systems and formal market research studies). What evidence exists in the historical data to support or counter any case?

To what extent did the dominant firms design products to meet customers' needs and match market conditions? What evidence exists in the historical data to support or counter any case?

To what extent did the dominant firms effectively manage distribution channels? What evidence exists in the historical data to support or counter any case?

To what extent were the dominant firms effective with their promotional / communications strategies? What evidence exists in the historical data to support or counter any case?

To what extent did the dominant firms employ an effective process for competitive pricing? What evidence exists in the historical data to support or counter any case?

Did the dominant firms strategically market their business? Were they externally focused on customer acquisition? Did they effectively co-ordinate and strategically manage their marketing? What evidence exists in the historical data to support or counter any such case?

3.6 CHAPTER SUMMARY

During the course of this chapter it was argued that well-known models related to industrial organization and market structures such as Scherer's SCP model and Porter's five forces model were not designed as tools by which a comprehensive analysis of market dominance could be undertaken and consequently were too abstract for this purpose. A critical review of the economic literature revealed no model was available to enable a systematic analysis of the acquisition and persistence of dominance.

The literature review identified that there were two legal routes to the acquisition of market dominance - by merger or through *firm skill, foresight and industry* (Hay and Vickers 1982) and that persistence of market dominance "*was a function of the relative growth rates of large and small firms*" (Penrose 1972 pp 247-249) that is achieved through *superior firm performance* (Brozen 1982, Delbono 1992, Simon 1992 and Rosenbaum's 1998) or through deterrence strategies (Bain 1956, Stigler 1967, Porter 1980, Utton 1987). However the two phrases that firms acquire and maintain dominance through "*skill, foresight and industry*" and "*superior firm performance*" whilst generally understood, were deemed to be too ambiguous. These phrases prompt questions such as what skills? What processes enable foresight? What specific firm capabilities deliver superior performance?

Answers to these questions were needed to guide the research effort to locate data among the historical sources that was relevant to understanding how and why Hollywood became dominant.

This chapter then drew upon strategic management and marketing literature and identified that market-driven firms outperform non-market driven rivals and that dominant firms that were strategically focused, possessed a marketing orientation and superior marketing capabilities were more likely to achieve rapid growth relative to their rivals (Vorhies and Harker 2000). Consequently, it was concluded that market-driven firms with an effective competitive strategy (Porter 1980), that acted with strategic intent (Hamel and Prahalad 1989) and possessed a specific set of six superior marketing capabilities to their rivals (Vorhies and Harker 2000) were more likely to grow in market power and attain and maintain market dominance than poorer performing rivals.

The final part of the chapter constructed two economic lenses and a strategic marketing management lens that holistically integrated these theories into an overall framework that then enables a comprehensive analysis of Hollywood's dominance to be undertaken using a series of guiding questions that were also devised in this chapter.

Original contribution of this thesis:

The author found no other source or model that integrates the range of relevant management theories into a cohesive explanation of how firms become dominant and how they maintain that dominance. The theoretical framework and the SMM lens (figures 3.1 and 3.6) are 'soft' models that can practically achieve that purpose. The framework and SMM lens are original theoretical contributions of this thesis.

The outcome of this chapter is the development of a framework that incorporates relevant theories and research findings into a 'theoretical lens' through which dominance in the movie industry can be analysed. This qualitative 'strategic marketing management lens' differs from traditional quantitative based economic tools such as firm concentration ratios and the HHI in that it enables the development of greater strategic insights into the role of the strategy of dominant firms. The final outcome of the theoretical framework is a set of guiding questions, based on these foundational theories listed above, that can be used practically by analysts to efficiently guide the search for data relevant the acquisition and maintenance of market dominance, particularly when dealing with voluminous historical data or with complex literatures.

The literature review on dominant firms revealed that existing models relating to analysis of dominance are not comprehensive enough to capture strategic marketing and management factors in dynamic industries that are in fact critically important to understanding how and

why dominance is acquired and maintained. Instead, a holistic model like this framework, emphasising strategic marketing management, is what is needed to practically apply relevant theory to analysis of dominance dynamics in a real industry such as the movie business. Thus the theoretical framework shown conceptually in figure 3.1 and in more detail in figure 3.6 provides a useful tool to analyse dominant firms in the movie business – an industry that has over time experienced significant shifts in market dynamics due to a range of environmental factors. The model and its resulting guiding questions could also be useful for a broader variety of major industries.

After discussion of the economics and management literature on the acquisition and maintenance of market dominance, this chapter concluded that a marketing orientation, competitive strategy and effective strategic marketing management capabilities are key “drivers” of firms that become and remain dominant. The result of this discussion was the development of the theoretical framework comprising three components (two economic lenses and a strategic marketing management lens) that are used as a foundation theories to formulate a series of guiding questions to enable efficient identification of relevant data relevant to Hollywood’s acquisition and maintenance of dominance among a wide range of available historical data from thousands of potential sources. The literature review in Chapter Three, identified no other source that has ever comprehensively reviewed Hollywood’s dominance from a strategic management and marketing perspective which also indicates this thesis is breaking new ground.

CHAPTER 4: HISTORICAL METHOD

4.0 INTRODUCTION

The previous chapter constructed a holistic model in Figure 3.1 that integrated economic, strategic management and marketing theories into a theoretical lens through which dominance in the movie business can be examined. This chapter describes the historical method adopted by this thesis and explains why it is appropriate. It describes the primary and secondary sources that the thesis draws upon to provide the historical evidence required to determine the causes of dominance. It also highlights some gaps, inconsistencies and weaknesses of the data. The difference between this thesis and most other historical research on the movie industry is that it investigates dominance from a strategic business and marketing perspective. As indicated in Chapter Two, scholars have previously developed theoretical explanations on dominance in the movie industry or on the global popularity of Hollywood movies from a single disciplinary bias, in some cases with a relatively superficial understanding of business and marketing theory.

This thesis is patterned after the empirical method used by Candace Jones (2001) in her study of the co-evolutionary processes of entrepreneurial careers, institutional rules and competitive dynamics in emerging industries in which she used the American film industry from 1895-1920 as a case study. She compared two different periods of industry development that were driven by entrepreneurs from different business backgrounds and had different institutional rules and competitive dynamics. She traced how those entrepreneurial careers, firm capabilities, institutional rules and competitive dynamics co-evolved. She integrated a co-evolutionary perspective with institutional and resource based theories to explain how the industry emerged on an initial trajectory with certain competitive dynamics and institutional rules but it then changed as it transitioned from a technology-led era to a content-led era.

Jones (2001) began with a general introduction to the study including a statement of the research question. It was followed by a “*brief overview of the relevant theoretical lenses and literature*” (p. 913). Jones then described the methods used to collect data and the sources of that data. She emphasised that her study was primarily inductive, evolving out of her immersion into the details of the industry’s history. She then developed a case study, presented her findings, highlighting and discussing the key issues and ended the study with a conclusion and recommendations for further research.

Similarly, Chapter Three of this thesis established a theoretical business framework and constructed a strategic marketing management lens through which historical data can be interpreted in order to answer the research question how did Hollywood's dominance arise in the movie industry and how has it been maintained? This chapter describes historical method and then the sources of data from which the evidence has been drawn.

4.1 HISTORICAL METHOD

Kantrow (1986) argued that history was important to management. Scherer (1996) contended: "*Real world industries are complex organisms whose evolution can be understood only through careful attention to historical dynamics*" and the practical value of history is suggested by Schriefer (1998) citing Winston Churchill: "*The further back you look, the further forward you will see*". Neumann (2000) outlined six steps in conducting historical research: 1) Conceptualise the inquiry. 2) Locate the evidence. 3) Evaluate the quality of the evidence. 4) Organise the evidence. 5) Synthesise evidence linking it with an abstract model or causal mechanisms and 6) Report writing. He also stated that historical analysis involves four types of evidence or data – primary sources, secondary sources, running records and recollections. *Primary sources* in historical studies include newspapers, the industry's trade press, letters, diaries, photographs, films, newsreels and novels of the period under study. Primary sources used for this thesis are discussed below. *Secondary sources* include written works and audio-visual works that were created after the period under study and are also described below.¹ *Recollections* include autobiographies, sanctioned biographies, memoirs and interviews and these were a rich source of data. *Running records* consist of statistical records and files maintained by organisations relating to the period under study. Only a few major sources of this type were available to the researcher for this thesis but provided significant insights about Major studio thinking and business processes during two different stages of the industry lifecycle.

Precedent for use of historical method in business research

The use of historical method in marketing and business disciplines has considerable precedent. CHARM (Conference on Historical Analysis and Research in Marketing) is an annual conference for scholars involved in this field of research and quality journals exist

¹ Neumann (2000) contended that "*primary sources have realism and authenticity but the practical limitation of time can restrict research on primary sources to a narrow time frame or location. To get a broader picture, many historical-critical researchers use secondary sources, the writings of specialist historians who have spent years of studying primary sources.*" This study located valuable primary sources but generally adopted Neumann's approach and sourced the most-cited film histories.

that are dedicated to this field of inquiry - *Business History*; and the *Journal of Historical Research in Marketing*. In the *Journal of Marketing*, Fullerton (1988) used historical method to analyse the evolution of modern marketing and to argue the myth of the production era.

In the *Journal of Marketing*, Nevett (1991) analysed the nature of historical evidence by drawing distinctions between historical and scientific investigative methods and noted that “the process of historical investigation was first formalised by nineteenth century German historian Ranke” (p. 14). It involves four stages: assembling the evidence; internal criticism (establishing the quality / authenticity of the evidence collected); external criticism (testing the credibility of the authentic evidence by comparing it with other evidence available) and finally synthesis (organising the credible evidence into a logical and meaningful account).

In the *Journal of Marketing Research*, Golder (2000) recommended a five step approach for use of historical method in marketing research: Select a topic and collect evidence; critically evaluate the sources of the evidence; critically evaluate the evidence; analyse and interpret the evidence and finally present the evidence and conclusions.

In the *Journal of Marketing Research*, Low and Fullerton (1994 p. 174) stated that historical phenomena: “can be rich and complex and that they can be best understood by investigating the time(s), place(s), context(s) and conditions in which they arise and develop.” They conducted a critical-historical evaluation of brand, brand management and the brand manager system and “trace its development in the context of the marketing environment over 125 years from 1870 to the present day (mid-nineties)”. They used historical method “to assess causation – why things have happened as well as what happened.” This was done, by examining analogous situations “to see if any potentially causative factors were consistently present and judiciously applying theories or models of behaviour (Roger’s diffusion of innovation) developed by social scientists”. They then presented six theses regarding the evolution of brand management and implications and substantiate them using a historical approach prior to evaluating the likely fate of brand management in a rapidly changing environment.

Approach adopted by this thesis

There are essentially two methods for writing a historical account – a narrative account and a comparative history. Neumann (2000) stated that narratives tell a story chronologically involving plots and sub plots. Whilst often rich in detail, the chronological structure tends to present events as unpredictable and focuses on individual “actors” playing out their roles in

the story rather than focusing on structures and abstract ideas. As such, they tend to mask causal theories and concepts they rarely build upon the existing knowledge base and can often ignore the normal or the ordinary. This thesis adopts Neumann's second approach and analyses historical data on Hollywood's dominance drawn from different eras by comparing 'snapshots-in-time'. This thesis also adopts the Neumann's (1991) six-step approach to historical method.

However, to understand how and why dominance occurred when the industry structure, market dynamics and business models evolved slowly and were transformed dramatically over time, is an inductive process, and like Jones (2001) it was first necessary for the author to become immersed in the history of the movie business. Comprehensive narrative notes with analytical observations were made on movie industry history from 1893-2004 through the different stages of industry lifecycle. It should be noted that no business history of the movie industry existed for the period 1990-2004, so in order to understand the contemporary industry, the author first had to construct that history drawing upon a wide range of primary and secondary sources.

These comprehensive historical notes with appropriate references to relevant sources formed the basis upon which analysis of dominance in this thesis could be undertaken. These notes became a centralised location for references and sources that were used as evidence for arguments made throughout the analytical chapters that follow. This thesis does not attempt to include the narrative history of the movie business for two reasons: it would exhaust the 100,000 word limit allowable and as Neumann (2000) stated above, a narrative approach to history does not lend itself easily to analysing complex causal relationships. Instead, this thesis adopts the alternative - the comparative-historical method used by Jones (2001) and described above by Neumann (2000).

4.2 HISTORICAL SOURCES AND DATA RELIABILITY

This thesis draws upon a wide range of primary and secondary sources including recollections in the form of autobiographies and biographies of leading personalities in the industry that are summarised below in Table 4.1.

Table 4.1 Sources of evidence for this thesis.

HISTORICAL SOURCES	SOURCES CONSULTED AND CITED
<p>Primary sources – film catalogues, industry trade publications, newspapers and other media, letters, diaries, photographs, films, newsreels and novels created in the period under study (Neumann 2000)</p>	<p>Catalogues: <i>American Film Institute Catalogue</i> – all films released in USA 1893-1920. Trade publications: – numerous statistics and articles from <i>Film Daily Yearbook</i>, <i>International Motion Picture Almanac</i>, <i>Moving Picture World</i>, <i>Variety</i>, <i>Hollywood Reporter</i>, <i>Screen International</i>, <i>Screen Digest</i>, MPAA, Newspapers: ad hoc articles from around the world listed in bibliography. Letters and diaries: some included in books listed in recollections below.</p>
<p>Secondary sources – written and audio-visual works created after the period under study (Neumann 2000).</p>	<p>Worldwide feature film production data 1906-1999 (Robertson 2001). Media and journal articles - hundreds are listed in the bibliography. 26 studio histories covering all nine Major studios and key overseas rivals listed in bibliography. Numerous scholarly books e.g. Dick(1997), Sklar (1994), Puttnam(1997) Also consulted were documentaries shown on TV or available on DVD: <i>MGM: When the Lion Roared</i> (1992 Director Frank Martin); <i>The Universal Story</i> (1995 Director: David Heeley); <i>The Warner Brothers Story</i> (1998 Directors: Richard Goldstone & Keith R. Clarke); <i>The Lady With The Torch</i> (1999 – The Columbia Pictures Story – Director: David Heeley);); <i>20th Century Fox: The First Fifty Years</i> (2000 Director: Kevin Burns); <i>Goldwyn</i> (2001 Directors: Peter Jones Mark Catalena); <i>Cecil B. De Mille: American Epic</i> (2003 – Director: David Brownlow).</p>
<p>Running Records – statistical records and files maintained by organisations relating to the period under study (Neumann 2000).</p>	<p>Selection of 20th Century-Fox financial records in Solomon (2002). Internal memorandums for Warner Brothers in Behlmer (1985) and for 20th Century Fox in Behlmer (1993). Some financial records for Pathe Freres in Pathe (1939)</p>
<p>Personal recollections – autobiographies, sanctioned biographies, speeches, memoirs, and interviews.</p>	<p>Famous Players-Paramount: - Autobiography by Adolph Zukor (founder) –Zukor (1953); article by Zukor in <i>Variety</i> (1956); speech by Zukor in Kennedy (1927); speech by Sydney Kent – General Manager, Distribution and Marketing in Kennedy (1927); speech by Jesse L. Lasky – Executive Vice President in Kennedy (1927); speech by Samuel Katz – President Paramount-Publix Theatre chain in Kennedy 1927; speech by Cecil B. De Mille – producer at Paramount in Kennedy (1927); biography of Budd Schulberg (Publicity director – Famous Players-Paramount) written by son – Schulberg (1981).</p> <p>Fox Film/20th Century Fox:- Autobiography of William Fox (founder) - Sinclair (1970); speech by Fox in Kennedy (1927); memos and letters from Darryl Zanuck (Fox President) - Behlmer (1993); recollections by Sol Wurtzel (Fox producer) - Wurtzel-Semonov and Winter (2001); corporate and financial history of Fox studio by Aubrey Solomon (Fox producer / writer) – Solomon (2002).</p> <p>Universal:- Sanctioned autobiography of Carl Laemmle (founder) by Drinkwater (1978); article on studio marketing in 1927 by Laemmle from <i>Saturday Evening Post</i> reprinted in Balio (1976); speech by Robert Cochrane – Vice-President – Universal in Kennedy (1927).</p> <p>Warner Brothers:- Autobiography by Jack Warner (co-founder) - Warner (1965); studio history based on family letters, interviews and recollections by co-founder Harry Warner’s grand daughter Cass Warner Sperling and Millner (1994); speech by Harry Warner in Kennedy (1927).</p> <p>Loews-M.G.M:- Speech by Marcus Loew (founder Loews-M.G.M.) in Kennedy (1927); biographies of L.B. Mayer (President- M.G.M) - Higham (1993); Eyman (2005). Autobiography by Howard Dietz (MGM Director of Publicity and Advertising) – Dietz (1974).</p> <p>United Artists: Autobiography by Charles Chaplin (co-founder U.A.) – Chaplin (1964). Biography of Mary Pickford (co-founder U.A.) – Whitfield (1997).</p> <p>Columbia: Biography of Harry Cohn (founder) – Dick (1993).</p>

	<p>R.K.O.:- Speech by Joseph Kennedy (President – F.B.O. that merged to become R.K.O. in 1929) in Kennedy (1927).</p> <p>Edison Film:- Biography by former executives Dyer & Martin (1910)</p> <p>Pathe Freres:- Autobiography by co- founder Charles Pathe - Pathe (1939)</p> <p>Also consulted were filmed documentaries on the studios: <i>MGM: When the Lion Roared</i> (1992 Director Frank Martin); <i>Goldwyn</i> (2001 Directors: Peter Jones Mark Catalena); <i>The Universal Story</i> (1995 Director: David Heeley); <i>The Warner Brothers Story</i> (1998 Directors: Richard Goldstone & Keith R. Clarke); <i>The Lady With The Torch</i> (1999 – The Columbia Pictures Story – Director: David Heeley); ; <i>20th Century Fox: The First Fifty Years</i> (2000 Director: Kevin Burns); <i>Cecil B. De Mille: American Epic</i> (2003 – Director: David Brownlow).</p> <p>Numerous other interviews given by leading movie industry personnel in various media outlets are listed in the bibliography.</p>
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Primary Sources - data gaps or inconsistencies

The *American Film Institute Catalogue* (AFI Catalog) is a rich source of high quality data that comprises chronological lists of every motion picture produced in the United States since cinema began in 1893. It categorises films by film title and by company name in its credit and subject indexes. This thesis draws heavily upon raw data from the AFI Catalog, following the approach of Jones (2001), to calculate the Major studios market shares based on their annual output of number of units (films) produced. ²

The same principle that Jones (2001) used for calculating market share, was also applied to the rest of the silent era and to the studio era from 1930-1945. The rationale for this was that even after the introduction of the longer more expensive feature films, only the larger studios could afford to make the bigger production slates required to meet growing market demand. Hence volume of annual output, in the absence of sales (annual box office) data, is a fair proxy for each studio's market power and a legitimate basis for measuring market share. Using annual production output as a measure of market power becomes problematic after 1950 after the Majors were forced to sell their theatre chains and cutback their production slates making fewer but much bigger budget movies because they no longer needed to feed their own theatre chains with fresh weekly product.

From 1946 onwards, trade paper *Variety* began producing end of year lists showing individual movies box office grosses or film rentals, so from that point the author was able to calculate annual market share for each studio using sales data.

² In the silent era, nickelodeon theatre programs comprised a package of short films, it was an era when audience demand could not fully be satisfied, so the volume of production by the biggest movie studios is logically therefore an accurate reflection of the major studios market power.

Primary sources – the trade press and data reliability issues

Comprehensive statistical data for the global industry and national box office was not readily available prior to the 1980s, however American film trade publications did produce articles providing a range of statistics on the industry. This issue is discussed further below.

From 1928-1969, leading movie industry trade paper *Film Daily* produced an end-of year annual compendium. The *Film Daily Yearbook* published a section on motion picture statistics. The title of this section changed over the years. It began as three pages covering the year 1927 and stated the total annual box office was U.S. \$750 million but provided no detailed sales (box office) data for any studios. In that first year it provided nine other “big picture” statistics on the movie industry, two pie charts showing industry production expenditure and five bar charts showing numbers of theatres throughout the world. As time progressed this section became larger and considerably more statistics were published. However, provision of the same type of statistics was inconsistent. An example is that a statistic such as the percentage of world motion picture playing-time for U.S. films appeared in 1938 but did not appear the following year or thereafter until the statistic reappeared in 1952 and was then published each year in the *Film Daily Yearbook* until 1969.

The *Film Daily Yearbook* did however provide raw data on the annual number of films that each Major Hollywood studio produced and released in the United States from 1927 (the beginning of the sound era) through to 1969. Trade paper *Variety* from time to time also provided similar statistics on Major studio production output. However, comparative analysis revealed slight discrepancies in the studio-by-studio statistics provided by *Variety* and the *Film Daily Yearbook*. For example, in 1940 *Film Daily* lists Columbia Pictures annual output at 51 films, whereas *Variety* lists it as 55. Paramount, Fox and M.G.M. have the same figures in both publications while *Film Daily* lists R.K.O. with 53 films while *Variety* credits RKO with 54 films. The likely cause of such discrepancies is probably the release dates of a few movies because a film released in New York in December might not be released in the mid-west until January or even later the following year. Such raw data was used to construct tables comparing studio market shares.

This thesis also draws upon articles published in a range of movie industry trade papers and business journals of the time such as *Variety*, *Hollywood Reporter*, *Screen Digest*, *Screen International* (*Screen Daily*), *The International Motion Picture Almanac*, *Moving Picture World* and business magazines – particularly *Fortune* and *TIME*, all of which occasionally

featured statistical data on the American and global movie business. In *Film Facts*, which later became *The Guinness Book of Film Facts*, Robertson (2001) published a table of raw data “*World wide feature film production 1906-1999*” which lists the total number of movies made in each country year-by-year over that time period. This thesis draws upon that raw data and subsequent analysis by the author enabled construction of tables that identified the world’s top ten producer-nations in each decade so that America’s world market share (based on production output) could be calculated and the relative strength of competitor nations could be assessed.

Secondary sources – film and business scholars, industry and studio histories and movie executive biographies and recollections

A wide range of significant journal articles and books on the movie business were consulted.

³ Books and articles written by movie industry ‘insiders’ or drawing upon insider-interviews were also consulted in the search for historical evidence relevant to this study. ⁴ Another rich source of historical data came from recollections, autobiographies, sanctioned biographies, film industry histories of and histories of the Major studios. ⁵ All works consulted appear in the bibliography.

³ Scholarly works by the world’s leading film industry scholars consulted included: Huettig 1944, Gomery 1985, 1986, 1978, 1998, 1999, Austin 1984, 1989, Allen 1985, Staiger 1985, 1995, Balio 1985, 1996, 2002, Thompson 1985, Wasko 1982, 1994, 2003, Kindem 1982, 2000, Litman 1983, 1998, Guback 1985, Donahue 1987, Izod 1988, Jowett & Linton 1989, O’Regan 1992, Abel 1994, 1999, Sklar 1994, Danan 1995, Segrave 1997, Wyatt 1994, 1998, 2002, Ullf-Moeller 1998, Lewis 1933, Miller 1999, Miller et al 2001, Semati & Sotirin 1999, Bjork 2000, Cowen 2001, 2002, Hozic 2001, Kerrigan & Culkin 2001, Wasser 2001, Turner 2002, Waller 2002 and Schatz 2002. For full references see thesis bibliography. The thesis also draws upon film industry research by scholars from business and other disciplines including – Lewis 1933, Lehmann & Weinberg 2000, Hoskins, MacFadyen & Finn 1997, Waterman 1997, Waterman & Jayakar 2002, Bakker 2002, 2004, Christopherson & Storper 1986, Aksoy & Robbins 1992, Jones 2000, De Vany et al various articles from 1999-2003, Silver & Alpert 2003, Silver & McDonnell 2007 and Vogel 2004. For full references see bibliography.

⁴ Works by movie industry ‘insiders’ or authors who accessed interviews with insiders included:- Ramsaye 1926, Dyer & Martin 1910, Rothafel 1925, Barry & Epps 1927, Cochrane 1927, De Mille 1927, Fox 1927, Halsey Stewart & Co 1927, Katz 1927, Kennedy 1927, Kent 1927, Laemmle 1927, Lasky 1927, Loew 1927, Warner 1927, Zukor 1927, Franklin 1928, Lewis 1930, Hampton 1931, Ricketson 1938, Pathe 1939, Handel 1950, Zukor 1927, 1953, 1956, Dietz 1974, Hurst & Storm 1975, Picker 1975, Mayer 1978, Lees & Berkowitz 1981, Robertson 1981, Squire 1983, Litwak 1986, Goldberg 1991, Maltin 1991, Dale 1997, Puttnam 1997, Cones 1992, 1997, 1999, Luuk 1997, Eisner 1998, Heston 1998, Schamus 1998, Daniels, Leedy & Sills 1998, MacDougall 1998 on Lew Wasserman (MCA-Universal), Bart 1999, 2000, Bart & Guber 2002, Lieberman and Esgate 2002, Dekom & Sealey 2003, Epstein 2004, Hayes & Bing 2004, Shone 2004, Crabb 2005 and Marich 2005. For full references see thesis bibliography.

⁵ Sanctioned biographies and autobiographies of the movie moguls and other senior executives, movie studio histories and books and articles by journalists that were consulted for this thesis included Dyer & Martin 1910 (Edison His Life & Inventions); Pathe (Pathe Freres) 1939; Zukor 1953 (The Public is Never Wrong) and Schulberg 1981 (Famous Players-Paramount); Sinclair 1970, and Wurtzel-Semonov and Winter 2001 (William Fox/Fox Film); Drinkwater 1978 (Laemmle at Universal); Sperling-Warner and Millner (Hollywood Be Thy Name: The Warner Brothers Story); Warner 1965 (My First Hundred Years in Hollywood); Higham 1993 and Eyman 2005 (L.B. Mayer / MGM); Hirschhorn 1983 (The Universal Story); Dick 1997 (City of Dreams: The Making and Re-making of Universal Pictures) Hirschhorn 1979 (The Warner Brothers Story); Edmonds & Mimura 1980 (Paramount Pictures and the People Who Made Them); Eames 1985 (The Paramount Story); Dick 2001 (Engulfed: The Death of Paramount Pictures and the Birth of Corporate Hollywood); Eames 1979 (The MGM Story); Bergen 1986 (The United Artists Story); Balio 1976 (United Artists;The Company Built By The Stars); Balio 1987 (United Artists: The Company That Changed the Film Industry); Thomas & Solomon 1985 (The Films of 20th Century Fox); Solomon (Twentieth Century-Fox: A Corporate and Financial History); Belhmer 1993 (Memo from Darryl F. Zanuck – the Golden Years of 20th Century Fox); Dunne 1970 (The Studio); Jewell & Harbin 1982 (The R.K.O. Story); Lasky 1984 (R.K.O.); Hirschhorn

Exclusion of historical data and legitimacy of sources used

Four years of extensive research on Hollywood and the wider film industry unearthed significantly more historical source material than it was possible to use in this thesis. The decision to include particular material to the exclusion of other data was based entirely on the direct relevance of the material to this study and that was determined by the guiding questions formulated in Chapter Three. Triangulation was used to verify historical accuracy.

The guiding principle used to determine the legitimacy of historical sources is demonstrated clearly in Table 4.1 above. Primary sources used were widely recognized film industry trade papers and magazines that have been previously cited in many scholarly works e.g. *Film Daily*, *Variety* and *Hollywood Reporter*; general newspapers and magazines of recognised stature e.g. *New York Times*, *TIME* magazine, *Fortune Magazine*, *Sydney Morning Herald* etc. Similarly, the vast majority of secondary sources used were drawn from scholarly and general articles and histories of the movie studios and the film industry. Running records used were legitimate because they were drawn from the Major studio own corporate records. Recollections used included a mix of autobiographical works, sanctioned and unsanctioned biographies both in print and drawn from television / DVD documentaries.

Dealing with bias (overt and by omission) is an integral part of any historian's job. Unlike a scientific experiment, there is no specific formula to deal with bias. Ultimately, it comes down to the judgement of the historian in weighing up the evidence. For example, in the sanctioned biography of Universal's founder Carl Laemmle by John Drinkwater, it became obvious to this author from the writing style, that the book was pro-Laemmle propaganda. Drinkwater has been cited in this thesis but only as a means of verifying factual events rather than using his pro-Laemmle / anti-MPPC rhetoric to justify the author's argument.

1989 (The Columbia Story); Dick 1992 (Columbia Pictures); Dick 1993 (The Merchant Prince of Poverty Row); Schickel 1969 (The Disney Version); Holliss & Sibley 1988 (The Disney Story); Maltin 1984 (The Disney Films); Eisner 1998; Stewart 2005 (The Disney War); Falk 1987 (Rank - The Golden Gong); Yule 1987 (Hollywood a Go-Go: The True Story of the Cannon Film Empire); Warren 1988 (Elstree The British Hollywood); Behlmer 1985 (Inside Warner Brothers 1935-1951) Fernett 1988; Finler 1988; Gabler 1989; Bach 1985. Also consulted were film documentaries on the studios: *MGM: When the Lion Roared* (1992 Director Frank Martin); *The Universal Story* (1995 Director: David Heeley); *The Warner Brothers Story* (1998 Directors: Richard Goldstone & Keith R. Clarke); *The Lady With The Torch* (1999 – The Columbia Pictures Story – Director: David Heeley);); *20th Century Fox: The First Fifty Years* (2000 Director: Kevin Burns); *Goldwyn* (2001 Directors: Peter Jones Mark Catalena); *Cecil B. De Mille: American Epic* (2003 – Director: David Brownlow); Chaplin 1964 (United Artists). For full references see thesis bibliography.

Some sources contained obvious elements of bias for example John Drinkwater the biographer of Carl Laemmle who founded Universal and describes Laemmle in heroic terms while main competitor – Edison's MPPC is painted as villainous. Some quotations from Charles Pathe's autobiographical account of his film studio Pathe Freres may not be entirely accurate. The book was written in French and the researcher had to type the original French text into the website GoogleTalk (www.google.com) to obtain a reasonable translation of what Pathe wrote.

4.3 CHAPTER SUMMARY

This chapter describes the methodology used in this thesis, which is patterned after Jones (2001), and states that the thesis will use the comparative-historical approach advocated by Neumann (2000) and the four-stage methodology proposed by Nevett (1991). The chapter also describes a wide range of primary and secondary sources, some internal running records from two Major studios and a large body of autobiographies, sanctioned and non-sanctioned biographies and other recollections from Major studio executives over time that will be used to develop an argument during the historical analysis of Hollywood's dominance. Chapter Five begins that process and seeks to determine what role corporate mergers may have played in the acquisition of dominance by the Major studios in Hollywood.

CHAPTER 5: MERGERS AND HOLLYWOOD'S RISE TO DOMINANCE

5.0 INTRODUCTION

A review of the economics literature determined that there are five routes by which firms grow to become market leaders and achieve dominance (see Chapter Three Figure 3.2) however only two applied to the movie business – mergers and growth by skill, foresight and industry. This chapter begins to apply the SMM lens developed in Chapter Three and will examine the role that corporate mergers may have played in the acquisition of dominance by of the Major studios in Hollywood. The guiding question formulated in Chapter Three was: What historical evidence exists that *mergers* played a significant role in acquisition of dominance by leading firms in the movie business?

5.1 MERGERS AND HOLLYWOOD'S DOMINANCE 1914-1929

A historical context that accounts for the role that mergers played in the rise of French firm Pathe - the first internationally dominant film company and a discussion on Edison's failed attempt to monopolise the large American market from 1909-1915 through the MPPC appear in Appendices 7- 9.¹ The period under study in this chapter is the last part of the silent film era from around 1911 until 1929 when the Hollywood oligopoly of eight Major studios that have since then dominated world cinema became firmly established. The first four Major studios within that oligopoly emerged between 1912 and 1919 (Universal, Fox, Famous Players-Paramount and United Artists), in a political climate under the Wilson Administration of trust-busting and "*the federal government was actively prosecuting all corporations suspect of trust tendencies and Wall Street looked with disfavour on mergers that might have to face the Sherman (anti-trust) law*" (Hampton 1970 p. 154). Edison's MPPC was ordered by the courts to dissolve in 1915.

Emergence of the first Major studios in turbulent market conditions

In response to Edison's attempted monopoly through the MPPC, American independent filmmakers formed their own alliance in 1910 and began releasing films through the Motion Picture Distribution and Sales Company (known as the Sales Company), which released 760 short films to take an immediate 17% share of the U.S. market. However, rivalries soon

¹ A case study on Pathe appears in Appendix 8.

emerged between factions within the Sales Company, resulting in a split and the formation of two distribution combines – Universal and Mutual Film – the first two Hollywood Majors. Both distributed a weekly program of short films to independent theatres (Hampton 1970 p. 116). Universal survived and prospered but Mutual Film collapsed within a few years of formation as the market transitioned to longer feature films between 1911-1914.

Longer features carried much higher risks because they had bigger budgets and producers resources were invested in a smaller number of pictures. During this transitional phase, many east coast film studios migrated to Hollywood to take advantage of cheaper land for their studios, lower labour costs, a more favourable climate for filming in terms of weather and available sunlight, and a wider variety of exotic locations in close proximity to Los Angeles (Sklar 1994; Puttnam 1997).

Permanent theatres and theater chains were also evolving because “*enough pictures were now being made to encourage exhibitors to build new theatres*” (Zukor 1953 pp 126). Market demand grew as theatres and studios targeted the growing middle class audience with higher quality movies featuring increasingly popular movie stars, in addition to the core working class audience that had populated cinemas since the nickelodeons.² After the outbreak of the First World War in 1914, European studios were unable to continue supplying their home markets and traditional export channels and international demand for Hollywood product escalated.

It was in these dynamic conditions that a wave of merger activity occurred in the American market and the Major studios emerged in Hollywood as the dominant force in world cinema. Table 5.1 below lists the largest Hollywood-based film companies and any merger activity, corporate acquisitions or joint ventures in which they were involved that might have facilitated any significant growth in size or scale leading to increased market power. Where historic data is available, this table also indicates the nature of the financial backing for those studios and their status within the industry over this time period. The table tells the story of the ultimate winners and losers in the battle for dominance in the movie industry during this era. It introduces the winners – the eight film companies that ultimately became members of the Hollywood oligopoly - *The Big Five*: Paramount, M.G.M., Fox, Warner Brothers and R.K.O.) and the *Little Three*: Universal, Columbia and United Artists. Appendix 9 lists the losers - a number of once-promising Hollywood studios that were well capitalised but had a

² One of Universal's founding companies was the N.Y. Motion Picture Company run by Fred Balshoffer who told his two partners Adam Kessel and Charlie Bauman during a meeting in February 1912: “*The number of theatres are growing. Making pictures has become a very profitable business as well we three know*” (Edmonds 1977 p. 13).

short corporate life and went bankrupt – Mutual Film, World Film, Triangle, Superpictures Inc. and First National, and also briefly accounts for the fate of Pathe’s two main European rivals – Gaumont and Nordisk.

Table 5.1 Leading Hollywood film studios 1912-1929

Founded	Name of film company	Merger, acquisition, Partnership, J.V.	Parties / companies involved	Financial backing	Success or Failure
1912	Universal	<u>Merger</u> to create studio – distributor Formed by Carl Laemmle	IMP, Pat Powers, Rex, NYMP /101 Bison, Nestor, Champion, Centaur, Eclair <u>Distributed films for:</u> Joker, Itala, Victor, Sterling, Crystal, Gem, Ambrosia, L-KO, Republic, Frontier, Gold Seal.	Initially self-financed Shields & Co. investment bank financed theatre expansion in 1924 (Conant in MacCann 1987 p. 180)	Major studio from 1912 Initially the market leader until early-1920s Highly profitable until 1930s 1933 Sold theatres in receivership
1912	Mutual Film	Independent distribution combine formed by Harry Aitken	<u>Distributed films:</u> Thanhauser, Lux, Gaumont, Éclair American, Great Northern, Sloax, Reliance, Comet, Majestic, NYMP, Kay-bee, Broncho, Domino, Keystone, Continental	\$2.5 million Wall Street backing from Kuhn, Loeb Bakker 2003 pp 43 Slide 1998 p. 137	Failed - 1919
1912	Famous Players	Studio formed by Adolph Zukor	-	Self-financed and distribution advances	Successful independent studio
1913	Jesse L Lasky	Studio formed by Jesse Lasky	-	Self-financed and distribution advances	Successful independent studio
1914	Paramount Pictures Corp.	Distributor formed by W.W. Hodkinson	<u>Distributed films:</u> Famous Players Jesse L. Lasky Oliver Morosco Pallas/Bosworth		Major U.S. distributor
1914	World Film	<u>Merger</u> to create Major studio and distribution network	World Special Films Corp. Schubert Theatrical	\$3 million from Wall Street. Slide 1998 p. 235	Market challenger to Paramount from 1915-16. Failed - 1919
1914	Fox Film	-	Film companies owned by William Fox and backed by N.Y. investors	N.Y. investor group led by John F. Dryden President – Prudential Life invested in Fox Film (Conant in MacCann 1987 p. 180)	Major studio from 1914
1915	Triangle Films	Joint venture film studio	Harry Aitken Mack Sennett Thomas Ince D.W. Griffith	\$5 million Slide 1998 p 209	Failed - 1919
1916	Triangle Distribution	Joint Venture distribution company 22 film exchanges	Triangle Films Superpictures <u>Distributed</u> Superpictures Triangle Kay-Bee Keystone	\$9 million company float Bakker 2003 pp 38	Failed 1917
1916	Superpictures	-	W.W. Hodkinson	\$9 million	Failed 1917
1915	Metro Pictures Corp	JV producer-distributor	<u>Distributed films:</u> Dyreda, Popular Plays, Rolfe, Quality, Columbia	Self financed Bank loans.	Initial success. 1920 acquired by Loews Inc
Founded	Name of film company	Merger, acquisition,	Parties / companies involved	Financial backing	Success or Failure

		Partnership, J.V.			
1916	Goldwyn Pictures	Independent film studio Acquired 30 theatres in 1921	Samuel Goldwyn	Bank loans. Commercial National Bank. Berg 1989 p. 114 Duponts and Chase National on Goldwyn board (Conant in MacCann 1987 p. 180)	1924 acquired by Loews Inc
1917	Famous Players-Lasky-Paramount Inc.	<u>Merger</u> or Joint Venture formed in 1917 producer-distributor then vertically integrated into exhibition	Famous Players Jesse L. Lasky Paramount	Public company. \$10 million preferred stock issue from Kuhn Loeb on Wall Street to buy build theatres Bakker 2003 pp 37-38	Dominant market leader and Major studio after 1917
1917	First National	Joint-venture film booking combine and film studio	Numerous theatre circuits and independent theatre owners	Self-financed by exhibitors. Bank of America loan. Goldman Sachs (Bakker 2003 pp 38.) Float issue of preferred shares by Hayden Stone & Co. (Conant in MacCann 1987 p. 180)	Initial success undermined by Paramount. Failed. Acquired by Warner Brothers in 1925.
1919	United Artists	Joint venture distribution company	Mary Pickford Douglas Fairbanks Charles Chaplin D.W. Griffith	Private company. Self-financed. Bank loans.	Major independent distributor after 1919
1923	Warner Brothers	Independent producer-distributor	Family company	Line of credit from Goldman Sachs Spelling-Warner & Millner 1994 pp 79	Became a Major studio in 1927-29
1924	Loews-M.G.M.	<u>Merger</u> producer-distributor-exhibitor	Loews Theatres Metro Pictures Goldwyn Pictures L.B. Mayer Pictures	Loews Inc. Public company - equity stocks. General Motors and Liberty National Bank on the board. (Conant in MacCann 1987 p. 180)	Major studio from 1924
1924	Columbia Pictures	Formed as a producer-distributor	C.B.C. Sales Corporation -Cohns & Brandt	Bank loans. Poverty row studio.	
1929	R.K.O.	<u>Merger</u> to create producer-distributor-exhibitor	R.C.A. F.B.O. K.A.O. Keith-Albee-Orpheum theatres	Merrill Lynch / RCA Bakker 2003 pp 38	Major studio from 1929-1946.

Analysis of Table 5.1 shows that only half of the Hollywood oligopoly was involved in a corporate merger that may have contributed to attainment of a dominant position within the industry – Famous Players-Lasky-Paramount, M.G.M. and R.K.O. (Big Five studios) and Universal (Little Three). The remaining four Majors in the oligopoly – Warner Brothers, Fox Film (Big Five) and Columbia and United Artists (Little Three) did not engage in any merger activity during the silent film era.

5.2 THE HOLLYWOOD MAJORS THAT MERGED

The next section examines the four studios that undertook mergers. Universal (1912), M.G.M. (1924) and R.K.O. (1929) all became ‘instant’ Major studios at inception, however this chapter argues that the companies involved in the Famous Players-Lasky-Paramount merger were already the dominant force within the movie industry and had been so for three years prior to the merger of 1917. Thus the merger did not add any new resources that facilitated market dominance through increased size and scale.

Universal: Created by merger

Universal was formed in 1912 when eight independent film studios merged as a competitive response to the MPPC monopoly and its policies. Chicago-based producer-distributor and nickelodeon owner Carl Laemmle, was the driving force behind the new studio and became its first President (Drinkwater 1931 pp. 145-160; Puttnam 1998 p. 67; p. Dick 1997 p. 33).

The U.S. Supreme Court ruled against Standard Oil in 1911, finding it guilty of restraint of trade under the Sherman Act and ordering the oil Trust to dissolve within six months (Clifton 1982 p. 150), Laemmle correctly calculated that the political climate in Washington towards Trusts was changing and that a new presidential administration elected in 1912 would be more likely to strictly enforce the anti-trust laws and take action against the MPPC, which set the scene for the formation of Universal through which the new studio would draw financial strength from the combined assets of the founding companies in the anti-trust case against the MPPC (Edmonds 1977 pp. 13, 22).

At formation, although based on the east coast (until 1915 when it relocated to California), Universal became the first of the Major Hollywood studios to emerge. The combined output of films from the eight small studios that merged become available for Universal’s distribution operation, which further increased its size and scale by becoming distributor for a number of other independent film companies also excluded by the MPPC, including two of the major Italian studios Ambrosia and Itala (see Table 5.1 above).

Universal was self-financed by its founding member companies and enjoyed significant commercial success and profitability. In 1915 it opened Universal City in Los Angeles – the world’s state-of-the-art movie studio at that time (Drinkwater 1931 pp. 161-177; Dick 1997 pp. 37-41). Universal remained one the largest and most profitable studios until the Great

Depression, when like other Major studios in Hollywood, it went into receivership. Universal was forced to sell-off its theatre circuit and after that the first member of the *Big Three* Major studios was relegated to membership of the *Little Three* studios within the Hollywood oligopoly.

The case of Universal would seem partly to support Hay and Vicker's (1987) theory that corporate mergers can account for a firm's rise to market dominance. This was the first Major Hollywood studio and was created by a merger of eight smaller film studios, which immediately provided Universal with the scale of distribution to claim Major studio status. However, the merger of the eight small independents did not provide an immediate critical mass of production sufficient to compete on a level playing field with the overwhelming market dominance of the MPPC. Whilst production data is unavailable for 1911, the year prior to the merger, because independents were forced to make 'underground' films to escape MPPC litigation (Drinkwater 1931 pp. 145-160).³ Table 5.2 below was constructed from raw data in the American Film Institute Catalog and shows that at the end of 1910, the number of films released by MPPC company members won a 41.7% share of the total American market, whilst the combined output of the eight small companies that would form Universal eighteen months later provided a combined market share of only 12.3%. This indicates that the companies that would soon merge to create Universal lacked the size, scale and financial resources to compete on even terms with the MPPC.

Whilst the merger did create a Major studio, it could be argued that the merger creating Universal did not provide a sufficient critical mass of resources to guarantee Universal's growth and ascendancy to become part of the dominant Hollywood oligopoly. This leads logically to the conclusion that competitive strategy and marketing capabilities are likely to have played the defining role in Universal's ascendancy to market leadership: "*From the beginning Laemmle promised distributors he would give them quality 'products'Until about 1920, Big U's stars competed with the entire industry...The fact is that Universal was more than just a film factory. It was a major studio playing a major role in the development of the motion picture industry*" (Edmonds 1977 p. 10).

Table 5.2 MPPC vs future Universal founders number of releases in 1910

³ "Early in 1911...the storm of litigation raised by the Trust had for the moment succeeded in making independent production in the States virtually impossible. Injunctions, patent blockades, and terrorism, while leaving Laemmle's determination unshaken, did effect a temporary paralysis of his activities. He was confident that the pressure would relax, but in the meantime the necessity of maintaining his scheduled rate of releases was being hampered by New York conditions....it was clear something had to be done....Calling the company together he informed them of Laemmle's decision that producing operations must be transferred to Cuba, beyond the zone of Trust authority" (Drinkwater 1931 pp. 145-146).

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: AFI Catalog data

Famous Players-Paramount – a Major player prior to the merger

By 1917, Adolph Zukor's Famous Players-Lasky-Paramount had succeeded Pathe as *the dominant film company in the movie industry*.⁴ It was the product of a merger of three already successful film companies – two studios and the industry's largest film distributor. The merger created a vertically integrated corporation that was the dominant force in the movie business and would remain the unchallenged market leader until the Great Depression

⁴ "By his consolidations and acquisitions, Zukor had made himself the largest producer and distributor of features in the world" (Hampton 1970 p. 174).

when it was overtaken by Loews-M.G.M. Adolph Zukor engineered the merger and became President of Paramount – a position he held for over thirty years.

Zukor had formed his own production company Famous Players in 1912 to produce feature length films. It was immediately successful in a market where demand for longer films was escalating (Hampton 1970 p. 22). Famous Players was self-financed by Zukor, who had become independently wealthy owning nickelodeon theatres prior to moving into production (Zukor in Kennedy 1927 p. 61). Prior to the Paramount merger, Famous Players had the largest annual output of any studio in the U.S. market and was capable of producing about fifty movies per year (Edmonds & Mimura 1980 pp 21). A second company involved in the Paramount merger was the Jesse L. Lasky Feature Play Company originally formed in 1913 by producers Jesse Lasky, his brother-in-law Samuel Goldwyn and director Cecil B. De Mille. The third company in the merger was Paramount itself, formed in 1914 by W.W. Hodkinson who created the firm to become a nationwide distributor in America of high quality films.

Based on his experience as branch manager of one of the General Film Company (MPPC) film exchanges, Hodkinson reasoned that audiences would pay more for longer, movies of the 'highest class' and his bankers agreed to finance the new start-up Paramount, if it could contractually secure a steady flow of quality films from successful studios (Dick 2001 p. 10). Hodkinson intended to supply product-hungry exhibitors with 104 films per year - enough to change their programs twice weekly.

Paramount targeted four studios that produced high quality movies, offering them each an advance of \$35,000 per five-reel feature film and 65% of the total receipts after the advance had been recouped plus advertising expenses, at a time when average movie budgets were \$30,000 per film (Zukor 1953 p. 125; Hampton 1970 p. 119; Donahue 1985 pp. 14-16; Solomon 2002 p. 5). *“Zukor was the principal manufacturer of features, and as the distributors who organised Paramount had (previously) handled his Famous Players output, they looked to him as the cornerstone of their producing edifice”* (Hampton 1970 p. 119).⁵

⁵ “Zukor had risen from obscurity in 1912 to the position of leading producer in 1915. He was steadily making the best program of features of all manufacturers and was making more money than any other producer” (Hampton 1931 reprinted in 1970 p. 153). Paramount signed a 25-year deal with Famous Players and with Lasky, whereby the producer gave exclusive rights to the distribution company for the term of the 25-year contract. In return, Paramount would provide an advance guarantee of \$20,000-\$25,000 for each five-reel negative film that either studio produced. Paramount also agreed to advance the cost of advertising and the distributor also charged a 35% distribution fee (25% to cover company overhead plus a 10% profit margin). The gross film rentals for Paramount averaged about \$100,000 per movie from the domestic release in the US market. Film rental was to be split on a revenue sharing basis with 65% to the producer and 35% to the distributor. From the producer's 65%, production costs averaged \$35,000 per picture so Famous Players/Lasky's net profit was \$30,000 per movie. Foreign sales averaged \$10,000-\$20,000 film rental per film. (Hampton 1931 reprinted in 1970 pp. 119, 122; Donahue 1985 pp 14-16)

Zukor signed a 25-year contract for Famous Players to supply Paramount with 52 films annually. Lasky contracted to provide 30 films and Howard Bosworth's Pallas Pictures and Oliver Morosco would supply the balance of 22 films (Zukor 1953 p. 125).

No merger was involved at the time of Paramount's formation yet Zukor was still able to negotiate a 10% shareholding in the new company (Edmonds & Mimura 1980 pp 22). However, he became dissatisfied with the level of film rentals being achieved for Famous Players movies and with the prospect that the increasingly powerful distribution company under Hodkinson, could determine the kind of films that his studio made (Zukor 1953 p. 125).⁶ Zukor devised a strategy to control Paramount through acquisition and quietly acquired majority control of Paramount's stock and staged a boardroom coup taking full control of the distribution company at the first annual general meeting (AGM) in 1915, forcing Hodkinson out (Hampton 1970 pp. 161-162). One week later, Zukor and Lasky agreed to merge their two studios and used that new entity Famous Players-Lasky to buy out the remaining Paramount shareholders in a \$25 million cash and stock deal (Puttnam 1998 p. 70). Table 5.2 below is based on AFI catalog data and shows the total annual output of the largest Hollywood studios from 1913-1920. Analysis of this data reveals that Paramount (with movies contractually supplied by Famous Players, Lasky, Morosco and Bosworth-Pallas) had already achieved market leadership as the largest film company in 1914 – *three years before* the Famous Players-Lasky-Paramount merger took place in 1917.

Thus, in real terms the 1917 merger did not automatically enlarge the size of the existing assets of each of the three separate companies but by combining them under one corporate umbrella, industry perceptions of Paramount's perceived market power altered dramatically and Zukor achieved total control. He was then able to determine company policies on production and distribution to extract better film hire terms from movie theatres and increase company revenues. Lasky stated that by pooling their resources through merger, they would become the most powerful force in the industry and would then be able to access increased bank finance to make more ambitious movies (Lasky in MacCann 1987 p. 128).

Donahue (1985) states that Paramounts films were so successful that it was able to charge the biggest theatres premium weekly film rentals ranging from \$500-700 for its five-reel features down to \$100-300 for lesser theatres and that this soon escalated to rentals of \$125,000 per picture. Comparatively, the General Film Company weekly theatre rental charges ranged from a high \$100-150 per film to a low \$10-15. (Donahue 1985 pp.14)

⁶ "Zukor's coup at Paramount was in some respects a response to the growing protection system. If someone was going to assign pictures to theatres at different rental rates, a producer might drive a harder bargain for his own pictures than a distributor would" (Sklar 1975 p. 145)

Table 5.2 Annual feature film output of top 8 firms in U.S. market from 1912-1920

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source data: AFI Catalog Feature Films 1911-1920

N.B. raw data on the annual feature film output of all film companies was totalled and the top eight firms identified.

After Zukor took control, Paramount's block booking strategy and increasingly higher film rental terms, provoked a hostile response from exhibitors alarmed at its market power stemming from its massive, high-quality production slate and from what they perceived to be exploitative business practices. Angry exhibitors formed the First National theater booking combine in 1917, to enhance their buying power and also created First National Pictures to make movies for their theatre circuit.

Zukor's response: Vertical integration into theatrical exhibition

Zukor was then able to leverage significant Wall Street investment and bank finance in order to acquire movie theatres to counter the emerging competitive threat posed by First National. He retaliated and Paramount vertically integrated into exhibition buying a small number of prime location theatres in New York and Los Angeles (Puttnam 1997). From 1919-21 Paramount then rapidly embarked upon a massive program of theatre acquisition and bought over 600 prime location first run theatres. It owned only 5% of the exhibition market but controlled the most profitable theatres (Sklar 1994 pp 146). Paramount now had certainty that its movies would play in the very best theatre locations in the major cities in America. As a vertically integrated business, owning theatre portfolios reduced the risk of the business for the movie studios and provided a greater sense of security to its bankers.

In what became known as the ‘theatre wars’, First National and Paramount became engaged in a life-or-death struggle to dominate the exhibition sector. Many smaller studios that were not vertically integrated could no longer secure releases for their movies in the most profitable movie theatres because Paramount and First National films dominated those screens (Huettig 1944). In 1923, Adolph Zukor used a strategy of stealth to slowly acquire First National stock, steadily buying out individual members of the exhibition combine one by one until its market power was undermined. First National’s strategy collapsed when Zukor eventually bought Balaban Katz Chicago theatres, the most powerful independent chain within the combine. Katz had been the ‘guiding spirit’ of the First National movement and when he and his partner joined Paramount, First National was a depleted force (Huettig 1944 pp 40).

To summarise, in terms of applying Hay and Vickers (1987) theory on merger’s facilitating growth and leadership positions of the dominant firms, to the case of Paramount is arguable. The companies involved in the merger were already market leaders through the distribution combine prior to the merger, although they were temporarily challenged by the short-lived studios, World Film and Mutual, in terms of annual production output from 1916-1917. However, after the merger, industry perceptions of Famous Players-Lasky-Paramount dominance were enhanced. Zukor was then able to leverage \$10 million preferred stock issue from Wall Street in 1919 to buy and build movie theatres in response to the emerging competitive threat posed by the rapidly expanding First National - an exhibitor combine that blocked Paramount movies access to the most profitable theatres in the American market (Bakker 2003 pp 37-38). By 1929 Paramount had developed the largest cinema chain in the U.S. market (1200 theatres compared with 500 for Fox and Warner Brothers).

This chapter concludes that mergers did not play a defining role in the acquisition of market dominance by Famous Players-Paramount.⁷ As in the case of Universal, the logical conclusion to be drawn is that strategic intent, competitive strategy and marketing capabilities are likely to have played a defining role in Paramount’s rise to market dominance.

⁷ “The common method of building the large corporations known as trusts, from approximately 1890-1910, when the Supreme Court became active in enforcing the Sherman anti-trust law, was by consolidation of competing companies. Oil, steel, sugar, railroads and other industrial trusts had grown by mergers of many companies into one. Zukor did not merge other producing and distributing companies with Famous Players-Lasky, but followed a system introduced by himself, of absorbing the strength of his competitors. The power of film corporations could be measured only by the popularity of their stars. Investments in studios, equipment, branch offices might present an imposing set of figures, but such assets were of little value without box office attractions...Zukor patiently went through the motions of negotiating a merger with Triangle, and no-one but he could tell whether he was considering a consolidation or was merely analysing Aitken’s methods of finance and learning the value of various properties in Triangle’s possession” (Hampton 1970 p. 162-163).

Future market leader M.G.M. created through acquisition & merger

Metro-Goldwyn-Mayer (M.G.M.) was born of a merger in 1924. Loews Inc. was a publicly listed movie theatre company that in 1920 acquired Metro Pictures (then a financially ailing producer-distributor) to provide its own guaranteed line of supply of films for its theatres. From 1915-1919, Metro had been commercially successful producing a large annual release schedule ranging between 41-58 movies per year (see table 5.2 above). However, during the increasingly competitive environment of the theatre wars, access to first run theatres became difficult for many producers as the First National circuit grew rapidly giving booking priority to its own movies from First National Pictures. When Paramount embarked on its rapid theatre acquisition program to guarantee screens for its own product, Metro was forced to cut back its production output because of difficulty getting access to first run theatres (Koszarski 1990 pp 80-81). Strategically, Metro needed its own theatre circuit to survive and the acquisition by Loews was a good strategic-fit for both creating a vertically integrated film company.

Four years later, Loews acquired another financially ailing independent studio that produced quality films - Goldwyn Pictures and merged it with Metro and with Louis B. Mayer Productions to form Metro-Goldwyn-Mayer. By the early 1930s under the leadership of Mayer, M.G.M. would surpass Paramount and become largest of the five Major Hollywood studios.⁸

In the case of Loews-M.G.M. - a corporate merger was clearly responsible for creating a vertically integrated film company that would quickly rise to become the dominant studio in Hollywood. However, when Loew's theatre chain merged the three studios, the goal was to create a corporate channel top guarantee a regular supply of product for its circuit, as a protective measure against being denied movie product by larger competitors during the 'theatre wars'. Loews Inc. was already a massive company so whilst the merger did add resources, it did not greatly enhance Loews already formidable asset base and whilst it did create an instant Major studio, it did not guarantee M.G.M. market leadership. That would come within a decade, so once again, it can be argued that firm strategy and marketing capabilities are

⁸ "By the end of its second year M.G.M. had delivered a hundred features to eagerly welcoming Loews and other theatres, which prospered mightily. The studio was already achieving prestige as well as profits, especially with *Ben-Hur*, which had been rescued from a Goldwyn impasse, and *The Big Parade*, an M.G.M. enterprise from start to finish" (Eames 1982).

likely to have played a defining role in M.G.M.'s rise to the market leadership that evolved during the early 1930s rather than the corporate merger.⁹

R.K.O. – the creation of an “instant Major” through merger

R.K.O. was quite literally created as a vertically integrated studio in 1929, to take advantage of the introduction of sound movies. R.C.A. had developed rival talking picture technology but despite earlier agreements with Loews and Paramount to supply them with sound equipment, the company had been shut-out of the race to sign up the Major Hollywood studios by Western Electric's E.R.P.I. Strategically, R.C.A. desperately needed theatre outlets as a market for its Photophone sound equipment or its massive R&D investment would be wasted (Lasky 1984 pp. 23-24; Puttnam 1998 p. 130).

R.C.A. chief David Sarnoff also needed a movie studio and paid \$500,000 for a 50% interest in Joe Kennedy's F.B.O. production company. It was a low budget studio that primarily produced westerns but it also had its own distribution network of film exchanges across America. Sarnoff next acquired theatres by purchasing the Keith-Albee-Orpheum national circuit of 100 theatres (Gomery 1986 pp 124-146).

At inception, R.K.O. thus became an instant Major studio in Hollywood ranking fifth in size behind Paramount, Fox, Loews-M.G.M. and Warner Brothers. It also became the distributor for films from the independent studio Walt Disney Productions as well as for the new Samuel Goldwyn Productions.

Summary on Majors that merged

Analysis and discussion above has shown that Hay and Vicker's (1987) theory that merger is one route to attainment of dominance was clearly a contributing factor in the rise of Universal, M.G.M., and R.K.O. In all three cases, an “instant Major” was created. However, it can also be argued that Universal did not gain sufficient resources from the merger to immediately compete on even terms with the MPPC and that it was the firm's competitive strategy and marketing capabilities that contributed significantly to its market position among the emerging Hollywood oligopoly during the 1910s.

⁹ “Loew warmed rapidly to the idea. Not only could he add two new chains to his already massive empire, but he could obtain control of the world's largest movie house, the magnificent Capitol Theatre in New York. By combining the two lame production companies, he could revitalise them under strong leadership, and he could compete with First National...The theatre chains were greedy monsters, hungry for product. Marcus Loew knew his days on Earth were numbered and he wanted to make a splash in the world with his new combine.” (Higham 1993 p. 73, 76).

Similarly, Loews Inc. already had a considerable asset base when it merged two financially ailing studios with a third smaller production company to create M.G.M. The goal of the merger was to create a vertically integrated channel to guarantee continuity of supply of movies to Loews theatre screens. It is debatable whether the merger itself, although creating a Major studio, played a defining role in M.G.M.'s subsequent rise to market leadership within the Hollywood oligopoly by the early 1930s.

In the case of Famous Players-Lasky-Paramount, it was argued that the merger did not play a defining role in this combine's rise to market leadership because by 1917, all three companies were already successful businesses and whilst the new entity then leveraged its enhanced corporate status to access Wall Street funds for expansion, the merger alone cannot explain why it was Paramount and not Universal or M.G.M. that became the dominant force in the industry. Why did Paramount outperform its rivals? This remains unexplained and is examined and discussed in the thesis conclusion.

5.3 HOLLYWOOD MAJORS THAT DID NOT MERGE

Four of Hollywood's Major studios were not involved in merger activity yet were still able to achieve growth sufficient to enable them to become part of the Hollywood oligopoly, which indicates that their attainment of dominance must have been due to factors other than merger. Their corporate history is briefly profiled below.

Fox Film grew organically into a Major studio

William Fox opened his first nickelodeon in 1904 and increased his theatre holdings to become a second-tier vaudeville circuit that also exhibited films and over time it evolved into a small movie theatre chain with 26 lower class houses. Fox vertically integrated into distribution by establishing a film exchange the New York Rental Company in 1908 in order to guarantee a supply of films to his theatres. He continued his backward integration in 1913 when he began producing films and in 1914 established his first film company the Box Office Attractions Company that was renamed in 1915 as the Fox Film Corporation, operating studios in New York and California. Whilst Fox was majority shareholder of Fox Film, his other investors included a group of New Jersey businessmen led by John F. Dryden, the President of Prudential Insurance (Koszarski 1990 pp 83-84). Fox Film achieved Major studio status in terms of feature film output by 1915-16 (Table 5.2 above) and "*all*

through the war Fox Film prospered even in the panic year of 1920, it broke all records” (Sinclair 1933 p. 62).

In a response to Paramount’s dramatic expansion into movie exhibition, Fox Film undertook a public share issue to raise the necessary investment capital in 1925 to expand its own theatre circuit (Slide 1998 p. 799). By 1929, the Fox theatre circuit had grown to over 500 theatres in the U.S. market and also owned substantial overseas theatre holdings. Fox also profited greatly from the introduction and rapid diffusion of talking pictures after it invested in the Movietone system using an optical soundtrack on side of the film strip next to the picture frames which became the industry standard. In 1930, Fox launched an unsuccessful attempt to take over M.G.M. that was thwarted only by intervention from the U.S. Justice Department on anti-trust grounds (Eyman 2005 p. 143-146).

First mover advantage elevates Warner to Major studio status

Like the other independents during the theatre wars between Paramount and First National, the Warner studio found it increasingly difficult getting first run releases for its movies and faced a precarious financial situation needing to repay one million dollars in bank loans that had funded its movies (Warner-Sperling and Millner 1994 pp. 71, 78-79).

To survive the Warners realised that they needed their own exhibition circuit to screen their own films and they began buying theatres in 1924 creating a small circuit of 14 theatres within a year.¹⁰ *“Forming a close association with Waddill Catchings and the firm of Goldman Sachs, Warner floated a \$ 4 million stock issue. On 23 April, 1925 they acquired control of the Vitagraph Company of America. Nearly moribund as a producer, Vitagraph did operate thirty four domestic and twenty foreign film exchanges, as well as large studio facilities on both coasts. The brothers were now directly involved in exhibition, but they needed an edge of some sort if they intended to compete with the larger, better financed, and longer entrenched chains of their rivals. To this end they formed the Vitaphone Corporation of America”* (Koszarski 1990 pp 90).

Warner Brothers invested \$800,000 in sound recording research with the Bell telephone company through their new Vitaphone subsidiary and in 1926, Warner Brothers premiered a short film *Don Juan*. It had no dialogue, only sound effects but the novelty of a sound movie

¹⁰ *“Faced with extinction as their films disappeared from first run theatres, (Warner Brothers) seized upon talking pictures as an economic straw. All of the other major companies, except Fox, had seen and rejected the Bell Telephone company experiments with sound”* (Huetig 1944 pp 42).

drew large audiences. “*In late spring 1926, Warners introduced their new Vitaphone ‘talkies’ even as William Fox entered the market with a sound-on-film system called Movietone*” (Fernet 1988 pp 248).

Warner Brothers movie *The Jazz Singer* was the first all-talking picture and premiered in 1927 and was a huge box office success. Made for \$500,000 it grossed over \$2.5 million and the attitudes of the Major studios changed overnight as they became convinced sound was more than a passing fad. Warner Brothers had an exclusive licence from Bell to sub-licence the new sound equipment for a one-year period. After that, Western Electric - a Bell subsidiary company that manufactured the technology set up its own exclusive licensing subsidiary company ERPI Inc.

For the duration of 1927 however, Warner Brothers and its sub-licensee Fox Film enjoyed a first-mover advantage over the other Major studios in Hollywood with sound movies. The major theatre chains wanted *The Jazz Singer* and needed the new sound equipment. This gave Warners the leverage to negotiate access to first run theatre screens for its other movies in exchange for the right to use Vitaphone and Western Electric equipment. Huettig (1944 p. 45) reported that Warner Brothers financial fortunes changed almost overnight from losses in 1926-27 to \$17 million profit in 1929. Its stock price rose from \$39 - \$139 in the spring of 1929 and the Warner family that owned the majority of the common stock in the company sold their shareholdings and the money loaned back to the company. The value of the company grew from \$ 16 million in 1928 to \$230 million two years later as it acquired major theatre holdings – the Stanley company, a powerful regional theatre chain operating 250 theatres and merging it with Warner’s existing theatres to create a much larger circuit (Huettig 1944 pp 45).

Warner Brothers also acquired a one third stake in First National Pictures, the film studio established by First National, the independent theatre combine that had produced significant output of high quality movies. Warners quickly acquired the remaining two thirds of First National and rapidly transformed itself into one of the largest studios in Hollywood (Sperling-Warner and Millner 1994 pp 143-144).

By achieving that size and scale through innovation and acquisition, Warner Brothers joined Paramount, Loews-MGM and Fox Film as a Big Five studio within the Hollywood oligopoly. Whilst the acquisitions of Vitagraph, First National and Stanley Theatres gave Warner Brothers size and increased the company’s size and scale of operations, corporate mergers played no part in Warner Brothers rise to dominance.

Columbia Pictures – organic growth to Major studio status

Columbia Pictures, was formed in 1924 by three former Universal executives. After leaving Universal four years previously, to establish a distribution company, they also decided to move into production. Columbia began corporate life on Hollywood's 'Poverty Row', owning no studio, no theatres and making low budget 4-6 reel movies financed by bank loans. *"While this arrangement removed the financial burden of having to invest in and maintain upkeep of real estate, it meant that the product being churned out by Columbia had to maintain a consistently high quality otherwise exhibitors would refuse to book it"* (Hirschhorn, Clive 1989 pp 9-10). Columbia grew organically to become one of the Little Three Majors during the Studio Era and its rise to membership of the Hollywood oligopoly resulted from producing and distributing commercially successful films not from growth through corporate mergers or acquisitions.

United Artists (U.A.) - evolved into a Hollywood Major

In 1919, United Artists was a new film company formed by a group of the industry's leading film personalities Charlie Chaplin, Douglas Fairbanks, Mary Pickford and D.W. Griffith. It was established as distribution vehicle and a production co-operative. Each of the partners agreed to supply films from their own companies to U.A. The planned annual production output was to be 12 films per year but studio histories of United Artists indicate that the company released only three movies in 1919 and seven films in 1920 (Balio 1976 p. 245; Bergen 1986 pp. 10-12). The inability of the principals to supply U.A. with enough movies was an ongoing problem that plagued the company, which then had to acquire pick-ups (completed movies) from other producers to feed its distribution pipeline and keep the company afloat. U.A. was a distribution company rather than a studio. It owned no studio facilities and had no significant theatre holdings. U.A. became a member of the Little Three within the Hollywood oligopoly and was 'home to the independents'. The principals financed the company, specifically avoided external financing arrangements and the conditions that are attached to loans and investments by banks and financiers. U.A. was not involved in any merger activity and grew organically over three decades to eventually become a market leader in the early 1950s.

Summary on the Majors that did not merge

Fox Film, Columbia and United Artists all grew organically over long periods of time. William Fox was the majority owner of Fox Film during its first decade until he floated the company in 1925, to access sufficient capital to expand the company's theatre holdings. During the silent era, the company evolved under its original management and ownership. Columbia and U.A. both began corporate life as film distribution companies owning no studio assets or movie theatres and neither made any significant corporate acquisitions or was involved in any merger activity, yet like Fox they also evolved into smaller Majors within the dominant Hollywood oligopoly.

Warner Brothers rise to Major studio status and industry dominance was a different story. The brothers had almost twenty years experience as independent distributors and exhibitors before establishing a small independent film studio. Faced with bankruptcy they gambled on investing in the future potential of talking pictures through the acquisition of the old MPPC company - Vitagraph that held patents for talking picture technology and owned an international distribution network (Izod 1988 pp. 72-73). Warner also borrowed heavily to finance acquisition of theatres and film exchanges from the declining First National corporation. With the immediate commercial success of their first talking picture *The Jazz Singer* Warner Brothers value increased dramatically and it was able to acquire the prestigious Stanley Theatre circuit and within a two year period had joined the ranks of the Hollywood elite as one of the Big Five Major studios. As in the case of Columbia, U.A. and Fox, Warner Brothers growth was not due to corporate mergers but rather due to its commitment to innovating in sound technology, the success of which enabled it to make strategic corporate acquisitions that further facilitated its growth. Clearly other factors relating to business strategy and competitive performance were behind the rise of Warner Brothers, Fox Film, Columbia and United Artists rather than attainment of dominance through mergers. These factors are discussed below.

5.4 CHAPTER SUMMARY: DID MERGERS FACILITATE DOMINANCE?

This section applied economic theory that one route to market dominance is achieved by growth through corporate mergers (Hay & Vickers 1987). Table 5.3 below provides a comparative analysis between the pre-Hollywood era and the rise of the Major studios in Hollywood which shows that corporate *mergers did play a role in the rise of some of the Major film companies* during the silent film era when market structures that persist to this day were first established. However, this chapter concludes that *mergers played no*

significant role in the rise of dominant firms in either the pre-Hollywood era prior to the First World War and from 1917-1929 because only half of the Major Hollywood studios were found to have been involved in corporate mergers and of the four that did merge, it is debatable whether mergers were a defining factor in their rise to dominance.

Table 5.3 Summary analysis of how dominance arose 1895-1929

	Pre-Hollywood	Pre-Hollywood	Hollywood
Five routes to dominance	Pathe (France) 1904-1914	MPPC (Edison's 'Trust') 1909-1915	Paramount & other Major studios 1916-1929
Government sanctioned monopoly	No	No. Dissolved under anti-trust laws.	No.
Firm growth by merger	No	MPPC was a monopoly owned by the largest film companies that pooled patents – <i>Edison Biograph</i> <i>Lubin</i> <i>Selig</i> <i>Essanay</i> <i>Vitagraph</i> <i>Kalem</i> <i>Kleine (distributed Gaumont)</i> <i>Pathe (distributed Melies)</i>	Famous Players-Lasky-Paramount – Famous Players-Lasky merger then growth through acquisitions. Loews-MGM – Yes. Created by a merger. Fox Film – No. Organic growth and later by acquisition. Warner – No. Growth through acquisitions. RKO – Yes. Created by a merger. Universal – Yes. Created by a merger. United Artists – No. Columbia – No.
Skill, foresight & industry (superior business performance)	Yes – organic growth through a clear vision & superior strategic marketing capabilities	MPPC failed – did not adapt to market shift to longer films	Yes – the Majors studios in Hollywood each developed their own strategic vision & superior competitive strategy & strategic marketing capabilities to their rivals
Collusion	No	Yes	No
Predatory behaviour	No	Yes	Paramount – yes Others - no
OUTCOME	Global market dominance 1904-1914	Attempted dominance 1909-1915. Market failure by 1913 prior to dissolution under U.S. anti-trust laws in 1915.	Global market dominance after the First World War

This chapter concludes that mergers were a factor, but not the defining critical success factor, contributing to the rise of Universal, Loews-M.G.M. and R.K.O. to become 'Big Five' members within the Hollywood oligopoly of eight Major film studios. Factors other than merger activity were at play in the rise of Famous Players-Paramount, Warner Brothers, Fox Film, United Artists and Columbia Pictures. The historical evidence also shows that other large Hollywood studios that there were other well capitalised - Mutual Film, World Film, Triangle and First National, some of which had engaged in merger activity, did not survive into the Studio Era (Appendix 5.3). Clearly, issues of strategy and firm capabilities were involved in the rise of the Major studios in Hollywood and the demise of others.

CHAPTER 6: THE MAJORS' MARKETING RESEARCH CAPABILITIES

6.0 INTRODUCTION

Chapter Five applied the first economic lens within the theoretical framework that was constructed for this thesis in Chapter Three and in the light of the historical evidence, it discussed the role that mergers played in the acquisition of dominance by the Hollywood studios. It found that only four of the eight Major studios were involved in merger activity at the time of their formation and concluded that merger activity was unlikely to have played a defining role in the rise to market leadership of one of those four – Paramount, because its merger was an internal reorganisation of companies within its already formidable corporation. The other four Major studios grew organically to become part of the Hollywood oligopoly indicating that growth was likely due to superior business performance compared to rival firms because there is no historical evidence of collusion, predatory pricing or a government sanctioned monopoly (three other routes to dominance) in the rise of Hollywood.

This chapter begins by defining marketing research and then undertakes an investigation of the historical evidence pertaining to acquisition of dominance through superior performance or *skill, foresight and industry* (Hay and Vickers 1987). It focuses on the first of the six key marketing capabilities that Vorhies and Harker's (2000) research found common to the high performing firms - the systematic use of marketing research which they defined as: "*the set of processes needed to discover broad-based marketing information and to develop information about specific customer needs*".

This chapter will examine the evidence to determine if Hollywood's Majors possessed comparatively superior marketing research capabilities to their rivals since 1912. The guiding question for this chapter that was formulated in Chapter Three is:- To what extent did the dominant firms employ *marketing research* (marketing intelligence, intelligence gathering systems and formal market research studies). What evidence exists in the historical data to support or counter any case?

Marketing research

Fundamental to superior business performance is the ability of firms to obtain and utilise marketing knowledge about customers in order to create value and communicate that value

to customers.¹ Marketing information is gathered through primary and secondary research and includes marketing databases and internal records, competitive intelligence, client contact systems, consumer surveys (Aaker and Mills 2005 pp. 177-183). *“Marketing research is the function that links the consumer, customer and public to the marketer through information. It is used to identify and define marketing opportunities and problems, to generate, refine and evaluate marketing actions, to monitor marketing performance, and to improve understanding of the marketing process”* (Kotler, Brown, Adam and Armstrong 2004 p. 213).

Specific market research studies designed to help firms understand customers and potential customers and their attitudes to and awareness of the firm’s products and products and brands contribute valuable knowledge but alone are insufficient to aid strategic thinking about dynamic marketing environments. Marketing intelligence is required to fill that gap. It is defined as: *“everyday information about developments in the marketing environment that helps managers prepare and adjust marketing plans. The marketing intelligence system (MIS) determines what intelligence is needed, collects it by searching the environment and delivers it to marketing managers who need it”* (Kotler et al – 2004 p. 212).

The decline of Xerox and Nike as market leaders in their respective industries has been attributed to a failure by those corporations to pay serious attention to new competitive threats in a changing environment – to a lack of marketing intelligence and a subsequent lack of customer focus. Informed management decisions rely on the collection, analysis and dissemination of intelligence about markets, competitors and customers. *“Information plays a key role in the strategic market management process. Information is power. Strategic marketing information is a critical input to external and internal analyses, strategy formulation and the strategy evaluation process”* (Aaker and Mills 2005 pp. 177-192).

Kotler (2000) emphasised the need for *“every firm to organize a rich flow of information”* and describes the M.I.S. as *“a set of procedures and sources used by managers to obtain everyday information about developments in the marketing environment”* (Kotler pp 102). The M.I.S. enables the market-driven firm to develop effective segmentation, targeting and positioning strategies for its products or services. Knowledge of the market, competitors and

¹ Peter Drucker emphasised the critical importance to business of obtaining and utilising marketing knowledge about customers: *“Knowledge is the business fully as much as the customer is the business. Physical goods and services are only the vehicle for the exchange of customer purchasing power against business knowledge... For business success, knowledge must first be meaningful to the customer in terms of satisfaction and value”* (Czinkota and Kotabe 2001 p. 138). Drucker’s key point is that creation of customer value and communicating that value to customers is fundamental to business success and to the ability of firms to outperform competitors.

customers enables the firm to develop appropriate products that will satisfy current and emerging needs and desires.²

This chapter will first examine the historical evidence to determine if Hollywood's Major studios employed a marketing intelligence gathering system. It will then examine the evidence to determine in what ways they may have used marketing research as critical input into the formulation of their competitive strategies.

6.1 MAJOR STUDIOS: MARKETING INTELLIGENCE CAPABILITIES

Table 6.1 below shows that the Hollywood studios have been conducting marketing intelligence activities since the 1920s through a variety of channels. For example, they closely monitored potential opportunities and threats posed by the development of both radio and television with some Majors taking an early financial stake in both mediums e.g. Paramount and M.G.M. announced they would operate radio chains but later withdrew whilst Warner Brothers entered the new industry and operated a radio station in Los Angeles (Wasko 1994 pp 10-12). Paramount briefly held equity in the CBS radio network before selling it during the Depression. The studio also held 50% equity of the DuMont TV network and M.G.M., Disney, Warner and Fox all "*actively vied for early TV stations*" (Wasko 1994 pp. 10-12). The analysis that follows will also identify evidence that shows that Hollywood has for over 70 years strategically used government agencies, the trade and its own distribution networks as intelligence gathering channels.

Table 6.1 Historical evidence of Hollywood's marketing intelligence activities

Activity	Evidence	Era	Sources
Environmental scanning	Majors monitor development of radio and TV as potential threats and in recent years digital technology e.g. video-on-demand.	1920s 1930s 2000s	Wasko (1994) p. 12-14. Bond (2001)
Environmental scanning	Majors monitor legislative changes and economic trends through MPPDA (now MPA)	From 1922	Puttnam (1997) www.mpaa.org
Market intelligence gathering	The Majors' trade organization the MPPDA (now the MPA) has collated industry statistics, conducted surveys and published market reports for decades. MPEA (Motion Picture Export Association) was Hollywood's sole export agency based in Europe provided market feedback to the studios	Since 1922 1945	Goldberg 1991 pp 165. www.mpaa.org Puttnam (1997) pp 158. Guback in Balio (1985) pp 470-474.
	A Motion Picture Section was formed within the U.S. Commerce Department and gathered foreign market intelligence for the MPPDA	From 1926	Ullf-Moller (1998) pp. 167-182.

² The case study on Pathe in Appendix 8 argues that the downfall of Edison's Trust (the MPPC) in the pre-Hollywood era could be attributed to the old-line companies in that consortium not being attuned to the changing market because they had a production orientation rather than customer orientation.

	The Majors worldwide film distribution offices have provided ongoing market feedback “ <i>The Paramount system of exchanges was the largest in existence. The manager and salesmen in each office kept tab on the rentals of all competitors, and through their reports Zukor could calculate accurately the volume of business and the net earnings of every important corporation.</i> ”	1920s onwards	Epstein (2005) pp 232. Hampton (1970 © 1931) p. 239.
	The Majors closely monitor the daily and weekly trade press, which publishes industry reports, breaking news, studio executive recruitment and resignations; business trends; foreign market analyses; new technology updates; annual reviews of various markets.	1920s onwards	Moving Picture World Motion Picture Herald Film Daily Motion Picture World <i>Variety</i> <i>Hollywood Reporter</i> <i>Screen International</i> (Europe)
	Professional advisers have provided the Majors with ongoing market feedback e.g. their banks, accounting firms, consulting firms, entertainment attorneys, advertising agencies and talent agencies.	1920s onwards	Epstein 2005 pp 233 www.pwc.com
	Informal channels provide the Majors with intelligence and reactions to upcoming movies e.g. NATO (North American Theatre Owners trade association) ShowWest and ShowEast are annual exhibitor conventions attended by the Majors in USA. Australian International Movie Convention (Gold Coast)	1940s onwards Since 1945	 See chapter 8 of this thesis. Motion Picture Exhibitors Association of Queensland www.movieconvention.com.au
	Pre-release screenings of movies at Trade Shows e.g. Comic Con	Since 1969	Hayes and Bing (2004) pp 345
Talent spotting	Major studio buyers attend festivals and film markets Fox Searchlab is a talent incubator set up to identify best-talent next-generation film directors	1980-2004 2004	Wasko (2000) http://content.foxsearchlight.com/searchlab/node/486
MPAA Washington lobby	Will Hays, first President of the MPPDA was a former U.S. Post Master General and Republican party member. He managed Warren Harding’s victorious Presidential campaign in 1920. Eric Johnston, second MPPDA President 1946- was formerly President of the U.S. Chamber of Commerce. Frank McCarthy, MPEA’s Paris representative had been General George Marshall’s military secretary. Jack Valenti, the third MPAA President was formerly a White House aide to President Lyndon Johnson Dan Glickman, Washington insider now head of MPA former Agriculture Secretary	1922 1946-63 1946-49 1966-2004 2004	Puttnam (1997) pp 102. Puttnam (1997) pp 158 Puttnam (1997) pp 158 Stanley (1978) pp 216 NY Times (2004)

Wall Street investment made marketing research critically important

Once institutional investors began providing finance to the movie industry to fund expansion and the wave of takeovers that resulted in the Majors becoming vertically integrated businesses in the late 1910s and 1920s. The studios were then forced to comply with a new

set of obligations to their shareholders and with the new ground-rules and consequently, Bakker (2003) argued, that marketing research became critically important to the Hollywood studios.³

Market sensing: Old Hollywood closely monitored the external environment

The Majors in Old Hollywood developed useful but in today's terms, unsophisticated marketing information systems. Market sensing is a distinctive capability: *"the ability of the firm to learn about customers, competitors, and channel members in order to continuously sense and act on events and trends in present and prospective markets. Market-driven organisations have superior market sensing - the ability to sense events and trends ahead of competitors, customer-linking, buyer-seller relationships and channel bonding capabilities"* (Day 1994).

The historical evidence shows that three of the Big Five Major studios engaged in marketing intelligence-gathering activities during the 1930s. William Fox – founder and President of Fox Film until 1930, studied every aspect of his corporation's business as well as the wider industry and foreign markets. Fox's comments shown in the footnote below clearly indicate that he had an effective system of gathering marketing information and for sensing change in the markets around the world.⁴

Harvard marketing Professor Howard Lewis closely studied Paramount and Universal as part of a wider study of the movie industry during the early 1930s and observed that the Majors actively scanned the external environment trying to anticipate trends and changing audience tastes in order to develop new movies that would match those changing needs.⁵

³ "The integration of production and distribution in the late 1920s made market research even more important. After a merger wave, eight major Hollywood producer-distributors remained. The five major ones also owned cinema circuits, each in a different U.S. region. This meant that a yet higher share of the marginal revenues in distribution and exhibition would translate into producers' profits, further increasing their incentive for market research. The emerging Majors also integrated vertically internationally. They set up foreign distribution subsidiaries rather than sell rights to local distributors, maximising the rents they could capture from their copyrights and guaranteeing strategic access to screen-time. This increased the incentive to make pictures appealing to foreign audiences. Sales analysis had been important for assessing the international appeal of future films" (Bakker 2003 *Business History* pp 101-130).

⁴ "I knew the conditions of every nation we traded with. I knew the value of every currency of every nation we traded with. I thought I knew the politics of every nation we traded with. No question could arise that by the push of a button could not be answered from the extensive files that I had adjoining my office. I had it completely systemised so that I knew every move that was made throughout the organisation. The number of theatres controlled by the companies that I was at the head of in the United States alone was more than 800. Early each morning I knew the exact number of people that attended performances the day before. I knew the number that entered the building every hour, and just as soon as one of these buildings showed the slightest indication towards the falling of receipts, I was able to send for the executive of that theatre and rearrange the policy to prevent it from making a loss" (Sinclair 1970 pp 5-6; 51).

⁵ "Assembling the results of pictures already released is a far easier task than anticipating the type of pictures which will appeal to the public several months hence. A number of aids are available, none of which, however, offers very accurate indications of

In contemporary Hollywood, the Majors have developed sophisticated marketing intelligence gathering and knowledge management systems. They collect data from a variety of sources – trade channels (e.g. channel partners, exhibitors), the trade press, syndicated research providers e.g. A.C. Nielson-EDI, advertising agencies, talent agencies, professional advisers, consultants, bankers, film markets and festivals, the MPA and through their own distribution networks. They have also developed computerized systems to help them evaluate market opportunities and plan effective movie release strategies e.g. Warner Brothers 4 Star system (Fellman in Squire 2004 pp 363).

A key focus of the Majors' market intelligence activities today is on environmental scanning enabling early identification of potential strategic threats and opportunities and identification of emerging new creative talent. Recent examples resulting from environmental monitoring are the Digital Cinema Initiative (DCI) and Movielink. The Majors sensed late in the 1990s that digital cinema was an opportunity and backed the DCI to develop an internationally recognized technical standard for digital cinema in order to ensure the highest quality product for audiences and also to minimize piracy (<http://www.dcinovies.com/>). They approached digital distribution in the same way with five studios co-venturing to create Moviefly, later re-branded Movielink, to control online distribution of movies (Kay 2002).

In terms of talent spotting, since the 1980s, the Majors regularly cover every major film market and film festival in the world sending executives to identify emerging producers, directors and actors and to acquire product for their distribution companies. The Majors monitor every film project being undertaken by credible independent producers from development through to completion. They operate their own in-house online systems and trade journals like the *Hollywood Reporter*, Europe's *Screen International* and Australia's *Encore* all provided regularly updated progress listings on films in production.

tendencies in public taste. Executives in all departments watch the newspapers, magazines, books and the general news of the world to keep abreast of the latest developments in public interest that may constitute good picture material. In watching the movement of public interest, they attempt not merely to recognise the news of the moment, but to anticipate as far as possible, the trend of events over a period of several months so that a picture make take advantage of public interest in an event or series of events and can be made and shown before that interest has waned... Besides a transitory interest in news of the moment, people also have interests which are somewhat standard for a comparatively long period. Certain works of fiction, for example, constitute the bases for screen dramas that seem to be popular at any time. The writings of some authors are nearly always favourably received. Certain screen actors, over a more limited time period, apparently draw large audiences regardless of the pictures in which they are acting" (Lewis 1933 p. 86-87).

The MPPDA (now the MPA) gathered marketing intelligence for Hollywood

Since the Studio Era in Old Hollywood, one of the important functions of Hollywood's trade organization – the Motion Picture Producers and Distributors Association (MPPDA), of which the eight Major studios have been the most influential members, was the collation of industry statistics as well as intelligence gathering activities from other sources within the film trade and from within the government. The analysis and publication of key industry statistics enabled the Hollywood to benchmark its business performance. The MPPDA underwent several name changes over time and is now called the Motion Picture Association of America (MPA).

The MPA has commissioned syndicated annual market studies since the late 1950s and also other research reports. For example, the MPA issued the annual '*U.S. Entertainment Industry: 2005 MPA Market Statistics (Economic Review)*' that provides updated trend data on box office, admissions, all-time highest grossing films, comparative data on the performance of different rated films, movie production and marketing costs, numbers of movie theatres, employment rates, home video penetration and sales data, TV and Cable TV statistics, PC and Internet penetration into the U.S. market and media consumption patterns. The MPAA website also provides the 2005 Movie Attendance Study; U.S. Theatrical Snapshot; International Theatrical Snapshot; 2005 Theatrical Market statistics and 2005 Piracy Data Summary (www.mpaa.org).

U.S. Government agency intelligence gathering

During the Studio Era, the MPPDA exploited U.S. Government agency information channels and other forms of assistance to monitor trends and developments in foreign markets. The U.S. Department of Commerce actually formed a Motion Picture Division in 1926 due to the growing foreign revenues earned from Hollywood movies. Its stated mission was "*to serve the industry in every legitimate way, in maintaining and developing the exhibition of American motion pictures in foreign markets, aid keeping the industry advised of all foreign market possibilities and also the activities of competitors in their endeavours to build up markets within their borders*" (Puttnam 1997 p.132). Historical evidence also exists that demonstrates U.S. consular officials within the State Department provided the MPPDA with reports on developments within foreign nations (Ullf-Moeller 1998 pp. 167-182).

Today, the MPA continues as Hollywood's trade organization to play a strategic public relations role in Washington and feeds relevant intelligence back to the Major studio

members of the MPA. All four Presidents of the MPPDA-MPA have been well-connected Washington insiders (Table 6.2 below).

Table 6.2 Presidents of the MPPDA (later re-named the MPAA).

Term	President of MPAA / MPA	President's career background
1922-1945	Will Hays	Campaign Manager for President Harding's 1920 campaign. Harding's U.S. Postmaster General.
1945-1963	Eric Johnson	Head of the U.S. Chamber of Commerce.
1966-2004	Jack Valenti	Special Assistant to U.S. President Lyndon Johnson.
2004-	Dan Glickman	U.S. congressman. Clinton's Secretary of Agriculture

Sales offices were an intelligence-gathering channel

The Major's own distribution networks created a channel for two-way communication between the Major studios and exhibitors around the world. Pathe and other producers had previously utilised film exchanges as a means of communicating with theatre owners since the nickelodeon days (see Appendix 8). This network of sales offices, were the eyes and ears of the Majors feeding information back to the studio production executives.⁶ Paramount President Adolph Zukor used Paramount's distribution network as a device to calculate competitor's earnings and identify rivals that posed serious potential threats.⁷

In contemporary Hollywood, the Majors continue to operate the world's largest distribution networks (see Chapter Eight). With intensive international market coverage, personnel in these offices are well connected within their territory, to exhibitors and to other key players within the local industry and they provide regular feedback and intelligence to the studios. An example is the market insights provided by U.I.P. marketing chief Hy Smith in an interview with the *Hollywood Reporter* about changing demographic trends in Europe and how that will determine the future production mix at the Major studios (Anonymous 1998).

⁶ "[The film exchange system] established a route of communication from audience through exhibitor to distributor and producer, enabling the nickelodeon patrons to make their wishes known to the makers of pictures. If spectators enjoyed a film and applauded it, the nickelodeon owner scurried around and tried to get more like it, and if they grumbled as they left the show he passed on the complaints to the exchange, and the exchange told the manufacturer. This elementary feedback system was similar to the use of intermediaries in many fashion goods industries" (Bakker 2003 Business History pp 101-130).

⁷ "The Paramount system of exchanges was the largest in existence. The manager and salesmen in each office kept tab on the rentals of all competitors, and through their reports Zukor could calculate accurately the volume of business and the net earnings of every important corporation. He studied the facts and was not in the least deceived by the extravagant boasts of Goldwyn, Metro, Fox, and Universal. Knowing thoroughly the real strengths and weaknesses of each, he dismissed them as factors that could be left to take care of themselves, but First National, as he had anticipated from the start, had become a dangerous rival" (Hampton 1970 © 1931 p. 239).

Trade papers also provide intelligence

Other available channels of marketing intelligence available to the Majors have been trade publications like *Variety*, *Film Daily* and *Moving Picture World*. These publications served the movie business community and frequently published articles that kept readers informed of industry developments around the world from their foreign-based correspondents. A small selection of articles over time is shown below in Table 6.3 to illustrate the type of general intelligence that was available via the industry's trade papers.

Table 6.3 A selection of trade press articles providing marketing intelligence

Year	Article	Trade Journal
1909	Foreign Picture Makers in International Conference	<i>Variety</i> January 16, 1909 p. 12
1929	England Sees A Chance: Strategic Spot for Bi-Linguals	<i>Variety</i> November 10, 1929 p. 7
1934	Theater Statistics for the Entire World	<i>Film Daily Year Book</i> 1935 pp. 866-867
1940	War Cues French Pix Trend to Drama: Gabin Tops B.O.	<i>Variety</i> January 3, 1940 p. 71
1940	Foreign Markets	<i>Film Daily Year Book</i> 1940 p. 57
1941	British Producers Urged to Look Ahead and Plan by J. Arthur Rank	<i>The Film Weekly</i> September 16, 1941 p. 6
1947	World Market Events Emphasise Nationalistic Barriers to Yank Films by Nathan Golden, Consultant for Motion Picture office of International Trade, U.S. Department of Commerce	<i>Variety</i> January 8, 1947 p. 17
1953	Teens and TV Hearst Syndicated Findings on Young America's Likes and Dislikes	<i>Variety</i> January 7, 1953 p. 97
1959	Japanese Film Statistics	<i>Variety</i> January 7, 1959 p. 61
2000	SightSound has Quantum Leap for Net Distribution	<i>Hollywood Reporter</i> April 25, 2000
2001	Local films eroding U.S. market share in France	<i>Screen Daily</i> October 16, 2001 www.screendaily.com
2004	Latin American countries unite to protect their film industries	<i>Screen Daily</i> March 16, 2004 www.screendaily.com

Market sensing: Studio chiefs undertook extensive observational research

Reminiscent of an anthropologist in the field studying indigenous people, Adolph Zukor had been informally studying audiences as far back as 1902 when he first considered entering the film industry. He visited an arcade with peep show machines in New York. *"This was my first experience in studying audiences, and I have been doing it ever since. After becoming more interested in the operation, I studied box office figures, another vital thing to do. It was my custom to take a seat about six rows from the front. I spent a good deal of time watching the faces of the audience, even turning around to do so. A movie audience is very sensitive. With a little experience I could see, hear and 'feel' the reaction to each melodrama and comedy. Boredom was registered – even without comments or groans – as clearly as laughter demonstrated pleasure. I am a sly audience watcher but nobody in a projection*

room, however much his experience, can judge an audience's reaction – and it is surprising how wrong one can be” (Zukor 1953 pp 43; 37).

M.G.M. President Louis B. Mayer shared Zukor's habit of observing audiences.

Mayer's grandson stated in a documentary on M.G.M.'s legendary studio chief that *“he was a great audience watcher”* and spent many hours sitting in theatres observing movie audiences (Stohr 2004). Mayer *“attended every public preview of a Metro picture. ‘That’s where the audience is!’ he would say ‘ and that’s where I want to see the picture- with them!’ “* (Eyman 2005 p. 298).

Universal's President Laemmle began his movie career observing audiences

Universal's President Carl Laemmle also spent time observing theater patrons. As early as 1904 he field surveyed audiences attending Hales's Tours conducting observational research by counting patrons that went into the theatre. *“When he got through he had an accurate notion of what kind of people went to see the pictures, what hours of the day they found the time to do it in, and how many of them were there per hour and per day”* (Ramsaye 1954 p. 450).

These movie moguls that built the Major studios that became the market leaders at different periods between 1912-1950 believed in keeping close to their audience. Each of them had previously owned nickelodeons that were small enough for them to be able to monitor their audiences and that habit stayed with them throughout their terms as leaders of their studios. It kept their companies customer-focused.

Later at 20th Century Fox, President Darryl F. Zanuck *“attended previews and presided over post-preview discussions with his associates”* (Behlmer 1993 p. xxi).

Various elements combined to create a primitive market-sensing “system”

Adolph Zukor stated that he spent three years in Europe studying the film industry and market conditions there prior to experimenting with his idea that U.S. audiences were ready for feature films. He imported French drama *Queen Elizabeth* to market-test his theory and

then established Famous Players to make feature length films (Zukor in Kennedy 1927).⁸ Like Pathe before him, Zukor travelled to keep in-touch with foreign market conditions (Zukor 1953 p. 240). For example, as the nickelodeon boom began to taper off in 1908, he investigated the European market to evaluate the prospects of importing higher quality product.⁹ This demonstrates that Zukor was aware that market conditions and audience tastes were changing and that he identified a new type of product (*The Passion Play*) that proved popular with audiences through a product test (screening) and that he “sensed” it might satisfy market-demand. Another example that Zukor was strategically focused and that he sensed emerging market opportunities, was when he again travelled to Europe four years later, with feature films made by Famous Players to determine the viability of developing an export market.¹⁰

Laemmle sensed that movie stars would attract audiences

Based on his personal observation of audiences and the way that they reacted to the uncredited players featured on-screen in the early silent films, Carl Laemmle had intuitively sensed that the legitimate theatre’s system of ‘stars’ could work in the new movie industry. He backed his own judgement and initiated the movie star system when he poached Florence Lawrence from Biograph in 1909 and signed her for Universal’s predecessor company IMP Films. “*Once it dawned on these early producers that stars pulled audiences into theatres, there ensued a mad pursuit*” (Berg 1989 pp 45).

⁸ “I had no faith in the pictures as they were then. I took a few houses and ran vaudeville and pictures jointly, and the combination was a success. As a vaudeville operator, I was in partnership with others, including Mr Loew who had a great number of vaudeville theatres. One day in 1909, someone made the suggestion that we all join and make one corporation out of these theatres. Mr Loew had the greater number of theatres so we adopted the name Loew Enterprises. Turning my interests into Loews gave me an opportunity to be foot loose. I was well taken care of; the corporation paid good dividends, and from 1909-1912, I made a study of moving pictures. I travelled all through Europe and this country, watched the audiences, and was interested in any picture that had a subject that I felt would appeal to the public. In my own mind I wanted to verify if my judgement was right. I would go to a theater, take a first row or sit in a box and there study the audience and see what effect the picture had on them. So I was pretty certain in my mind after the experience I had in watching audiences that I could use a subject and not go very far wrong” (Zukor in Kennedy pp. 60-61).

⁹ “They had been making a lot of short subjects that ran about 150-200 feet in length. By putting together several of these, they made up 1,000 feet of what they called chase pictures. The novelty of these chase pictures began to wear out too and about 1907-1908 we found ourselves where we could not carry on the business profitably. There were plenty of pictures made but they were so much alike that there was no more public interest in them. They were making the best pictures in France and Italy. We did not make very good pictures in this country. The Pathe Company in Paris made a picture ‘The Passion Play’ which was in three reels and hand-coloured. That was really the first picture of any consequence that I can recall. When I saw the picture I made my mind up to bring it to America. We arranged for an organ and a quartet to play appropriate music. I did not dare open in New York so we tried it first in Newark. We were open on a street adjoining a department store. A great many of the ladies dropped in early to see and hear the performance. As they walked out, I stood at the door eager and anxious to hear the comments. People with tears in their eyes came over to me and said ‘what a beautiful thing this is’ – I felt instinctively that this was the turning point (Zukor in Kennedy p. 58-59).

¹⁰ “I packed up prints of the five features we had completed – this was the summer of 1913 – and took them to London. Exhibitors showed enough interest to convince me that a profitable foreign market could be developed. The change of dialogue titles to other languages was, of course, very simple” (Zukor 1953 pp 101).

Paramount like other Hollywood studios used fan mail as one device to monitor the popularity of their movie stars: The Majors responded to fan interest and exhibitor demands for films featuring well known movie stars by developing internal systems that identified potential stars, nurtured them and developed their public image as a brand. *“Study of the audiences, box office figures, and fan mail left no doubt that people want to see a player they liked – from whom they expected a certain kind of performance. The exhibitor was pleased by this fact. He was benefiting from the star system. Sight unseen he could book films of Mary Pickford – she was making six or eight a year – and gauge attendance with reasonable accuracy. The exhibitor paid a higher rental of course. The wages of stars were rising with their fame, and many times faster”* (Zukor 1953 pp 171).

The Majors used P.R. channels to monitor potential threats from Washington

The Majors carefully managed the public image of their movie stars demonstrating heightened sensitivity to key stakeholder perceptions of the behaviour.¹¹ A studio publicist was assigned to each movie star to manage their image. The development of the star system and the careful public relations management strategies used by the Majors demonstrates that they were not only responsive to the public fascination and demand for information about the stars but also that the Majors, probably fearing government imposed censorship, used their marketing intelligence systems to carefully monitor conservative elements within society worried about the moral degradation during the twenties and responded by carefully managing the public relations associated with each movie star.

Informal sensing system provided market inputs into new product development

Zukor used informal market sensing and intuition to determine the right timing for the introduction of American feature films into the U.S. market with his production company Famous Players. He closely monitored industry developments and again used informal market sensing and intuition to guide the decision that he made to acquire Paramount and take over the company with its national distribution network. *“Zukor was convinced audiences were getting bored with short films, a more adventurous approach was needed based on books and plays like the Count of Monte Cristo and Tess of the D’Urbervilles”* (Puttnam 1997 pp. 69-71).

¹¹ “Mary (Pickford) liked an occasional drink. For her to take one in public would have been disastrous. Smoking was also taboo. In public for instance, she could not be permitted to toy with a lipstick, a pencil or a bit of paper. From a distance it might be taken as a cigarette” (Zukor 1953 pp 175).

Famous Players-Paramount (and other Majors) responded to the marketing information that they compiled from a combination of analysis of box office data, market inputs from fan mail and informal market sensing from audience observation, in the new production development process in terms of developing movie stars as brands and character development in its screenplays. *“Audiences wanted their heroines to be very very good. There were sirens and vamps - Theda Bara was as bad as Mary was good”* (Zukor 1953 pp 174).

Zukor, Fox and Laemmle were customer-focused and market-driven

The sanctioned biographies of the entrepreneurs that founded the first three Hollywood Majors indicate that Adolph Zukor (Famous Players-Paramount); William Fox (Fox Film) and Carl Laemmle (Universal) shared a customer-centred approach to business. And M.G.M. President Louis B. Mayer ran service-orientated movie theatres early in his career.¹¹ This chapter has shown that Zukor spent much time “audience watching” and had set up an intelligence gathering and reporting system within Paramount that provided studio management with weekly feedback on audience reactions to new movies.

The evidence shows that Zukor, Fox, Laemmle and Mayer were all philosophically market-driven and customer-centred. They inculcated these customer service qualities into their

¹¹ Zukor stated in his autobiography: *“My supreme faith was in the public, as it is today. We built the modern movie industry on the star system, but the public made the stars. We study audiences with great care. Once we know what is going on there are many things we can do to help the player to stardom”* (Zukor 1953 pp 4-5). William Fox’s biographer Upton Sinclair (1970) stated that Fox *“has come to feel that he has a personal relationship with each of these patrons who pay him a dime or perhaps a quarter. If the patron likes the product he will come again, and perhaps bring his family”* (Sinclair 1970 pp 46). Laemmle’s son-in-law biographer Roy Drinkwater described Laemmle’s service orientation and use of relationship marketing strategies as early as 1906-1907: *“When Laemmle opened his first theatres, he managed them himself, paying particular heed to questions of courtesy, cleanliness, fire risks and such amenities... He painted the building white, called it the “White Front” and kept it clean inside. It was a bid for female patronage, and it succeeded. Two months later he (Laemmle) was able to open a second house, naming it The Family Theatre. There for ten cents a man could take his wife or best girl to see what was then considered a good film in what was considered comfort. Laemmle saw to it that the film was the best that could be got, and that the comfort was at least notably above that of rival nickelodeons”* (Drinkwater 1931 pp 59-62). Mayer’s biographer quoted a newspaper article from 1909 describing Mayer’s new movie theatre: *“No expense has been spared in making for Haverhill theatregoers a model playhouse... Louis B. Mayer will offer a new and up-to-date line of entertainments of such class as will speak for itself, no expense to be spared in securing for patrons exactly what they want”* (Eyman 2005 p. 32). *“Marcus Loew, operating a string of nickelodeons, was one of the first to realise that the industry would be stifled at birth unless production improved. He constantly demanded pictures that told stories, pictures that were dignified, pictures that would appeal to a more intelligent public than the peep show addicts. The demand of such theatre operators as Loew, reflecting their greater intimacy with what the public wants, received no recognition from the Trust or its affiliates. It displayed an imperviousness to public taste which contributed largely to its downfall. All demand for better quality in films were met by the argument that increased cost of production would necessitate higher film rentals from the theatres; these would force higher admission prices, and it was the opinion of Trust members that admission prices could not be raised above the prevailing five and ten cent level without discouraging consumer demand. There only concession to the exhibitors request was making two reelers instead of one reelers. Probably an important factor in the resistance of the Trust to the demands for better films was its remoteness from the film audience. Most of the men who dominated the major companies at that time had never been exhibitors and made no effort to discover what the public might want. It was sufficient for them that they had developed a system for standardisation of production and distribution... But their opponents were for the most part, former exhibitors, many of them retained their interests in nickelodeons after becoming producers. Frequent visits to their theatres and daily reports from their managers kept them constantly advised of audience responses and built up an invaluable sense of showmanship. They were quick to realise that habits of discrimination and selection were growing in their audiences, that interest in screen personalities was replacing an omnivorous passion for the novelty of ‘living pictures’ ”* (Huetttig 1944 p. 18).

respective companies. Jones (2001) argued that it was their prior experience in retail and the need to satisfy customers that dominated their thinking and determined the policies they adopted.

Market analysis leads Fox Film to innovate with sound and wide-screen movies

William Fox used sales analysis of box office reports to identify the impact that radio had on theater attendances. This analysis resulted in his decision to invest in talking pictures and to develop a big screen format - Fox Grandeur three decades before large screen movies became the industry standard in the 1950s.¹²

Zukor sensed changing market trends

Zukor stated in his autobiography that he recognised society was changing and that this would affect movie audience tastes in the 1920s: *“The post-war revolution of manners and morals had set in. The flapper was making her appearance. Skirts were going up. The younger generation was evidently hell bent on emancipation. Their elders watched this revolution aghast. The film industry was caught in the middle. Our prime aim is always to keep abreast of audience taste and ahead if possible. And the moviegoers were mainly young people as they are today. Consequently film subject matter was changing. One of our major successes in 1920 was Cecil B. De Mille’s ‘Male and Female’. It was a highly moral picture, yet the noble lady falling in love with the butler – would probably not have been acceptable to pre-war audiences. Meanwhile several fly by night companies were producing quickies which went far over the line of good taste.”* This brought a clamour for film censorship and led to the formation of the MPPDA and the Hays Production Code designed for the industry to self-censor its films at script stage to ensure public morals were not offended by Hollywood’s product (Zukor 1953 pp 202-203).

Zukor always stayed abreast of the times and sensed changing market conditions: *“It appeared as two eras were drawing to a close. One was the Jazz Age itself. The other was that of silent films”* (Zukor 1953 pp 251). *“The Depression which was causing havoc in*

¹² “The radio came in 1921 and had brought sharp competition to the moving picture business. Fox first noticed it on rainy nights....Prior to this on a rainy night our business would be larger than it would be on a clear night. When the radio came in, I made a careful observation and found that on rainy nights we were doing little or no business....So he began to watch experiments being tried with talking pictures. He had been caught napping by the radio, which had taken away his audiences on rainy nights, and in 1928 he saw television on the way and didn’t want to be caught napping again. ‘I reached a conclusion that the one thing that would make it possible to compete with television was to use a screen ten times larger than the present screen, a camera whose eye could see ten times as much as at present.’ He developed ‘Fox Grandeur’. Shortly thereafter, we gave the premiere of ‘Sunny Side Up’ and it was hailed as a great success” (Sinclair 1970 pp 62; 65-66).

American and world business, at first did not affect the motion picture industry. It may be that people wanted to forget their troubles by going to a picture, and of course the talkies had been a big shot in the arm” (Zukor 1953 pp 261).

Market sensing in contemporary Hollywood

Examples cited earlier in this section e.g. the Digital Cinema Initiative and Movielink indicated that the Majors today continually monitor their environment to identify emerging technologies that may be a threat or an opportunity. The MPA also provides the Majors with early warning and insider-intelligence on potential legislative threats or opportunities. The annual MPA surveys monitor demographic changes in movie audiences and the Majors commission their own market studies in international territories (www.mpaa.org). Regular attendance by studio executives at the world’s major film markets, festivals, exhibitor conventions like ShowWest, ShowEast, CineAsia and the Australian International Movie Convention as well as regular business contacts with theater operators all provide the Majors with ongoing valuable intelligence that enables them to ‘sense’ market trends early and enabling them to formulate strategies to exploit them.

Professional advisers and trade channels provide marketing intelligence

The studios also receive formal and informal market intelligence from their professional advisers – financiers that conduct market studies for would-be investors in movies, global accounting firms like Price Waterhouse that over many decades of working with the Hollywood studios and other movie industry clients, developed significant industry knowledge and today operate specialised entertainment practices; global consulting firms that also work with Hollywood; entertainment attorneys; the studios’ advertising agencies and also leading talent agencies like CAA, ICM and William Morris.¹³

The historical evidence presented includes first hand accounts from the biographies of the early Hollywood moguls - Zukor, Fox, Laemmle and Mayer with other historical evidence provided by film scholars - Bakker, Wasko and Puttnam that demonstrates that the Majors during the Studio Era, were market-focused and had developed crude marketing information systems, employing a range of market intelligence gathering activities. They used this

¹³ “The studios’ marketing departments also hear from other outside professionals such as their advertising agencies, media buyers, publicists, consultants, financial analysts, merchandising partners and audience measurement services - who also employs polls, focus groups and statistical models to develop theories about why particular films, or whole classes of films, succeed or fail in various markets” (Epstein 2005 pp 233).

marketing information to respond to changing market dynamics, shifting demand and to manage their corporate image.

New Hollywood: Marketing intelligence capabilities

In New Hollywood, the Majors further developed intelligence gathering systems created by their predecessors and refined those intelligence channels enabling ongoing environmental monitoring and sophisticated marketing sensing.

Macro-intelligence gathering

Environmental scanning occurs at an industry level through the trade organization, the MPA gathers ongoing marketing intelligence through its political contacts in Washington and through its trade industry contacts with NATO (North American Theater Owners) and disseminates this information to its member companies – the Majors and their key subsidiaries. Each year, the MPA produces an Economic Review of the Industry (Goldberg 1991 pp 165).

The Majors and their parent corporations continually scan the business environment monitoring for potential strategic threats and opportunities. Intelligence is gathered from a range of other sources including trade organizations and trade press, from corporate advisers and consultants, channel partners and from their own studies. Examples in recent years of the Majors environmental scanning and strategic responses have been digital cinema and digital distribution that loomed as potential threats or opportunities in the late 1990s - early 2000s (Silver and Alpert 2003).

In both cases they took the strategic initiative forming task forces to investigate how both might be best exploited. The Majors co-ventured in Digital Cinema Initiative (DCI) in 2001 (Diorio 2001) which enabled Hollywood to establish an agreed technical standard for digital cinema in 2006 that provides the highest available quality for digital movies with secure encryption methods to prevent piracy. However, it is an expensive investment and likely to raise barriers-to-entry for rival independent film companies. Five of the Majors – Sony (Columbia), Universal, MGM-UA, Paramount and Warner Brothers co-ventured in digital distribution forming Movielink - an online digital distribution channel for their movies (www.movielink.com). 20th Century-Fox and Disney originally intended to form a rival consortium (Healey and Verrier 2001) but withdrew after the U.S. Justice Department began monitoring these studio discussions on a digital distribution joint venture in order to prevent

industry collusion under anti-trust laws. Disney and Fox abandoned their planned co-venture.

Trade press provides market intelligence

The trade press provide studio executives with daily news on industry trends and issues analysis; global box office, key market reports, developments in technology, breaking news stories, executive moves and also end of year market reviews. *Variety*, *Hollywood Reporter* and *Screen International* (www.variety.com; www.screendaily.com; www.hollywoodreporter.com) all publish daily hard copy editions and also provide online versions on their papers that provide comprehensive reporting on the movie business around the world. *Screen Digest* (www.screendigest.com) is a specialist market intelligence service and consultancy that provides in-depth reports on market and technology developments in theatrical and post theatrical markets.

Key suppliers also provide marketing intelligence

The Majors and their parent companies retain many professional advisers that also provide market intelligence to their clients at the Major studios.

Informal intelligence gathering

The Majors own distribution companies gather and feed-back intelligence from the domestic and international markets acquired through their ongoing business relationships with theater operators around the world.¹⁴

The Majors also attendance key exhibitor conventions around the world e.g. Showest and CineAsia at which they run advance screenings of movies also provides valuable intelligence and feedback on their forthcoming product.¹⁵

¹⁴ “Studios receive constant information from national and regional chains of multiplexes in the U.S. and Canada. Overseas distributors generally maintain close relations with foreign theatre chains and learn from the chain’s executives which factors weigh most heavily in their decisions” (Epstein 2005 pp 232-233).

¹⁵ “Studios value the kind of instant feedback on upcoming product that only showing it to thousands of people who have a major stake in a film’s success or failure can provide. Every studio sends a contingent to Showest but the majority of conventioners come from the lower echelons of the business – mom and pop circuits. Showest is in many respects a media event skewed to the small time exhibitors – a resolutely PG group whose tastes skew toward family features” (Hayes and Bing 2004 pp 104).

Festivals and film markets

Another form of environmental scanning is the ongoing search for new creative talent, so annual attendance at the key film festivals and film markets e.g. Cannes, Venice, Sundance, Slamdance, Montreal and the AFM (American Film Market) also provide intelligence gathering opportunities and talent spotting opportunities for the Major studios. The Majors also send executives to network with the major film schools e.g. UCLA, Stanford and New York delivering guest lectures and attending film school graduation screenings with a view to keeping abreast of emerging new creative talent. The UCLA film school also has a number of advisory boards and councils that include a who's who of Hollywood studio executives, producers and creative talent (<http://www.tft.ucla.edu/advisory.cfm>).

20th Century-Fox established Searchlab as an incubator for new talent.

(<http://www.fox.com/diversity/creative-movies.htm#02>) and Sony established Columbia Pictures Film Production Asia based in Hong Kong to *sense* new market opportunities and identify emerging creative talent through Asia, the fastest growing region in the film world (<http://www.imdb.com/company/co0041248/>).

Centralised marketing information systems

The Majors have also developed or installed comprehensive marketing databases incorporating data warehouses that support their intelligence, research and strategy formulation activities: “*Warner Brothers 4 Star marketing intelligence system, a sophisticated movie marketing system tracks every WB project in development, production or release and this customised system can display the box office history of any actor, director or film in seconds, we can analyse the market place, release schedule, daily grosses, reviews, demographics, trailers, TV spots, print ads, posters, websites and year-to-date box office performance. Whatever information is needed – it's in there*” (Fellman in Squire 2004 pp 363; Hayes and Bing 2004 pp 270-271). External providers supply data and information to the Majors e.g. Exhibitor Relations, that can provide “*a sense of the competitive landscape*” (Hayes and Bing 2004 pp 295).

This section has provided evidence that the Major studios in contemporary Hollywood have developed sophisticated marketing intelligence systems that collect information through formal and informal channels and operate on a global scale that the author's research over four years showed is unmatched by any competitors around the world. By comparison, the majority of independent studios are relatively small businesses and most have an artistic orientation and don't conduct research.

6.2 MAJOR STUDIOS: MARKET RESEARCH CAPABILITIES

The next section examines the available historical evidence to identify the Majors' usage of market research from the Old Hollywood Studio Era through to New Hollywood of the present day. Table 6.4 below provides an overview of the analysis and the discussion that follows presents historical evidence that demonstrates that the Majors began undertaking various forms of market research in the early-mid 1910s as Hollywood was emerging and that over time the tools and techniques used have become more sophisticated.

General perceptions exist that Hollywood did not engage much in market research in prior to the 1940s. Notable film scholar Bruce A. Austin wrote "*The powers in Hollywood during its heyday were antagonistic toward and disdainful of audience research. Leo Handel, founder of the Motion Picture Research Bureau recounts 'In 1942, only a handful of persons did not reject film research outright'*" (Austin 1989 pp 3-4). Handel, established the first specialist research firm in Hollywood the Motion Picture Research Bureau in 1942 and was critical of the industry's research efforts prior to that date.¹⁶ A recent book on movie marketing stated: "*Hollywood only started seriously using market research in the late 1970s*" (Marich 2005 pp 28). And a *Variety* article stated: "*Professional movie research is a relatively new phenomenon for Hollywood, having taken hold beginning in the 1980s*" (Klady 1998).

Yet Bakker's (2000) study of the emergence of market research in the movie industry stated: "*Film companies had been among the first customers of market research firms using scientific research design and sampling, which emerged in the 1930s*" and referenced a 1950 *Journal of Marketing* article as its source (Bakker 2003). Eminent film scholar Robert Allen (1982) warned: "*As is too often the case in motion picture history, easy generalisations serve to hide complex historical issues*".

It is therefore worth noting that the Major studios in Hollywood have had a longstanding reputation for secrecy. Hollywood producer-writer and film historian Aubrey Solomon wrote: "*Aside from budget breakdowns locked away in production files, there is precious little public information about what money went where within the studio system. Major studios were always reluctant to disclose accurate figures to talent or their competitors. Stan*

¹⁶ "The reason for the slow start of motion picture research are manifold. The young industry, which could readily finance research projects, found little motivation to do so because the new, expanding market was active enough to provide a highly satisfactory volume of business for the leading firms. Most motion picture executives were content to let product improvements and sales policies rest on their intuitive insight of what the public wanted, rather than on direct contact with the consumer. The film industry had developed its own quasi-scientific instruments to gauge public opinion" (Handel 1976 p. 4).

Hough summed it up, - It's always been close-mouthed. Other studios didn't want their competitors to know" (Solomon p. 107).

In a *California Management Review* article Garrison (1972 p. 149) states: "*It appears from conversations with industry executives that much more is known than is revealed (about movie-going audiences). Therefore, the information must be considered of competitive value to the firms in the motion picture industry*". So what remains unknown is the existence of any prior research studies that were undertaken and kept confidential for competitive purposes and may no longer even exist.

Film scholars have also experienced similar reticence by Major studios to make available any potentially sensitive information: "*Anyone who has attempted to research the history of the Hollywood studios knows that getting to documents on film productions has in the past been an exercise in frustration. The studios have been singularly uncooperative in making any of their materials available to academic historians. While treating their production records as secret matters of national security, on the one hand, they have on the other rarely taken an interest in preserving their own history, often destroying or throwing out historical materials by the truckload*" (Horak 1999).

Dispelling the myth Hollywood undertook little research prior to the 1940s

Handel's (1976) assertion that the early industry enjoyed such an active and buoyant market that its ongoing expansion was enough to provide satisfactory volumes of business and that the leading film companies could rely simply a product orientation and their intuition without undertaking market research to aid their decision making is not supported by historical fact. First, Handel's perception of a continuously growing early market is incorrect. Audience interest in silent short films waned first in 1898-1900 as the novelty wore off (Csida and Csida 1978 p. 76-77; p. 138; Balio 1985 p. 11); it waned again in 1907-1908 as the nickelodeon boom tapered off because audiences became bored with the sameness of films produced (Zukor in Kennedy p. 58); attendances slumped again in 1921 (Warner-Sperling and Millner 1994 p. 75) and again despite the introduction of talking pictures in 1927, when a severe decline in weekly theatre admissions of 15 million people occurred during the Great Depression between 1931-1933, a trend that continued until the mid-1930s.

Second, Handel's assertion that research in Old Hollywood lagged is also negated by the historical evidence presented below in table 6.4 that shows the Majors did engage in market research and did collect audience data during the Studio Era and according to Bakker (2003), the Majors pioneered segmentation research and tracking studies.

The evidence presented below dispels the myth that the Major studios undertook little market research prior to the modern era however it does show that formal consumer studies of the movie-going audience that are publicly available and were sponsored by the Major studios only began on a regular basis in the late 1950s and were commissioned by the trade association – the MPPA.

6.4 Hollywood's market research activities over time

Activity	Evidence	Era	Sources
Informal daily feedback	Distributors-exhibitors in regular contact discussing success/failure of movies, future programming and changing market conditions.	Since 1902	Epstein 2005 pp 233.
	Weekly feedback on worldwide box office across the Loews theater circuit.	1930s	Eyman (2005) p. 299.
Sales (box office) analysis	Major studios (Paramount and Fox) monitor daily box office returns from theatres	1917 onwards	Zukor (1953) pp 37. Sinclair (1970) pp 51.
	<i>Variety</i> publishes city x city box office reports but not national box office results.	1910s until 1968	Hayes and Bing (2004) pp 290.
	<i>Variety's</i> Key City Box Office Sample chart provides a national box office overview for U.S.	1968	Hayes and Bing (2004) pp 290.
	<i>Exhibitor Relations</i> established as clearinghouse for box office data for theatres which provided "a sense of the competitive landscape and how films were positioned and distributor release schedules."	1974	Hayes and Bing 2004 pp 295.
	Art Murphy's <i>Box Office Register</i> established.	1984	Hayes and Bing (2004) pp 290.
	<i>Centralised Grosses</i> set up by Marcie Polier providing national box office data based on nightly theatre phone-ins evolved into	1980's	Hayes and Bing (2004) pp 286-87
	<i>Entertainment Data Inc</i> and acquired by VNU to become <i>Nielsen-EDI</i>	2001 acquired by AC Nielsen	Hayes and Bing (2004) pp 288-289.
	<i>Rentrak</i> – box office tracking service set up in 2001 based on point-of-sale capture	2001-	
Test screenings	Majors product test future releases with test screenings to gauge audience reaction and response and use feedback to re-edit films (product modification).	Since 1920s	Zukor (1953) pp 223. Marich 2005 pp 35-41. Bart and Guber 2002 p 238. Yoder in Squire 2004 pp 305.
Sneak preview screenings	Previewing pre-release movies to audiences enabling evaluation of audience response to assist fine-tuning of marketing campaigns.	Since 1920s	Fiske and Handel (1947) pp 274. Puttnam (1997) pp 95. Friedman in Squire 3 rd edition 2004 pp 288. Hayes and Bing 2004 pp 246.
Audience reaction surveys	In-theatre audience surveys first conducted in 1911.	1911 onwards	Craw in Waller 2002 pp 71.
	Theatre Managers Training Manual provides process for in-theatre audience surveys.	1927	Franklin in Waller 2002 pp 158.
	Theatre operators advised to conduct audience research.	1927	Barry and Epes in Waller 2002 pp 114.

	In-foyer exit surveys eliciting audience response to movies.	1975-2004	Marich 2005 pp 46-52. Epstein 2005 pp 229.
Audience research (films)	Research used to aid media buying.	1920s	Gomery in Waller 2002 pp 125.
	Gallup researches audience for <i>Gone With The Wind</i> .	1939	Bakker (2003) pp 101-130.
National and International market surveys	Regular movie-going audience surveys conducted by Majors.	Late 1930s onwards	Garrison (1972) pp 146.
	Foreign markets study by M.G.M.	1953	Carroll (1953)
	Opinion Research Corporation conducted national survey of moviegoers for the MPAA.	1958	Garrison (1972) pp 147.
	MPAA commissioned market survey by Daniel Yankelovich.	1967	Hayes and Bing (2004) pp 242.
	Syndicated national studies on moviegoer behaviour to determine tastes and trends in America and overseas.	1975-2004	Yoder in Squire 2004 pp 313-314.
Specialist market research firms emerge serving Hollywood	Audience Research Inc set up by George Gallup conducted first formal audience research for MGM's <i>Gone With the Wind</i> .	1939	Bakker 2003 Business History pp 101-130.
	Motion Picture Research Bureau set up in 1942 by Leo Theatres conducting market research for the Major studios.	1942 onwards	Bakker 2003 Business History pp 101-130.
	National Research Group (NRG) set up by Joe Farrell providing film tracking surveys to the Majors providing a sense of the competitive landscape. Later became Nielsen-NRG.	1978	Yoder in Squire 2004 pp 302. Hayes and Bing (2004) pp 238.
	MarketCast conducts deep polling of movie audiences.	Post 2000	Hayes and Bing (2004) pp 249.
	OTX provides online moviegoer tracking surveys to the Majors.	Post-2000	Hayes and Bing (2004) pp 249.
Title tests	Major studios test potential movie titles. Both qualitative and quantitative methods used.	1940's onwards	Fiske and Handel (1947) pp 274. Goldberg 1991 pp 92. Wasko (2003) pp 191.
Advertising research	Advertising effectiveness studies conducted by Gallup during 1940's for Major studios.	1940s onwards	Fiske and Handel (1947) pp 275.
	Advertising strategy studies.		Yoder in Squire 2004 pp 305.
	Advertising materials testing of trailers, one sheet posters, print ads, TV commercials and websites.		Goldberg 1991 pp 92. Epstein 2005 pp 182. Marich 2005 pp 41-42. Hayes and Bing 2004 pp 152. Friedman in Squire 3 rd edition 2004 pp 287. Bart and Guber 2002 pp 228.
	Competitive testing of rival studio advertising materials.		Yoder in Squire 2004 pp 310-311.
	Positioning research: qualitative research in theatre foyers and shopping mall intercepts.	1975-2004	Goldberg 1991 pp 92. Marich 2005 pp 26, 33. Hayes and Bing 2004 pp 122.
In-house research capabilities	Columbia Pictures owned consumer research company.	Earlier than 1968	Dick 1992 pp 20.
	Nielsen-NRG confirms all Majors have in-house market research departments.	Since 1980s	Yoder in Squire (2004) 3 rd edition pp 302.
Consumer behaviour studies	Ongoing studies of public and moviegoer attitudes and behaviour conducted by NRG.	1980-	Yoder in Squire 2004 pp 302.
Concept research	Qualitative research testing movie concepts prior to investment to develop new projects.	1975-2004	Marich (2005) pp 26; 32-33. Friedman in Squire (2004) pp 287. Goldberg 1991 pp 92. Wasko (2003) pp 191.

			Hayes and Bing (2004) pp 87.
Tracking studies	Syndicated research – weekly NRG telephone poll of 1200 frequent movie-goers tracking awareness and desire to see future releases.	1975-2004	Goldberg (1991) pp 106. Yoder in Squire 2004 pp 311-312. Epstein 2005 pp 183. Bart and Guber 2002 pp 237. Hayes and Bing 2004 pp 240. Marich 2005 pp 42-46.
Marketing information databases	Warner Brothers 4 Star system. Customised database for WB management tracks all WB projects. Enables market place analysis providing box office history of films, actors, directors release schedules, daily grosses, critics reviews, audience demographics for films, trailers, TV spots, print ads, posters, websites.	1990s onwards	Fellman in Squire 2004 pp 363.
Online audience surveys	Research firms provide Majors with online audience tracking surveys.	Post 2000	Hayes and Bing (2004) pp 249.

First formal studies of movie audiences were conducted by academics

The earliest motion picture audience research was conducted by university academics as part of larger leisure time studies in the pre-Hollywood era. A 1910 survey in New York found that 75% of movie audiences at the end of the nickelodeon era comprised blue collar workers whose other major leisure time pursuits were family social activities and reading newspapers. In 1912, Professor Hoyt from Clark University undertook a detailed demographic analysis of the three movie theatres in Worcester, Massachusetts and found differences in audience composition. “*The poorest immigrants dominated at the Bijou, while ‘the slightly better class of workingmen and their wives and children’ filled the Family (theatre). The Majestic, located only a few steps from the Family, drew a similar crowd*” (Rosenweig in Waller 2002 p. 29).

Clark’s findings indicate that even in 1912, movie theatre managers were already consciously aware of different demographics between theatres and the names of those theatres (The Family Theatre, The Majestic) indicate that they were also segmenting their audiences with their servicescape and programming strategies.

In-theatre audience surveys were conducted by U.S. exhibitors as early as 1911

Just prior to the formation of Universal - the first of the Majors to emerge in 1912, trade journal *Moving Picture World* published an article in May 1911 on “*Swelling the box office receipts*” that included references to theatre owners using in-theatre audience surveys.¹⁷ A

¹⁷ “Proper film selection amounts to box office insurance. It is the best protection against competition and loss. One bright theatre owner, who keeps his finger ever upon the pulse of his audience, has slips of paper passed about, once each week, before the beginning of the program. He announces that it is his desire to show the kinds of films that his audience likes best. Therefore he has the slips of paper passed around so that the members of the audiences may write down the films they like the best, and the ones they dislike, giving their reasons briefly. As the audience passes out, the slips of paper are dropped into boxes

book on movie theatre management published that same year advised managers to study audiences.¹⁸

Fox President learned a lesson about biased feedback as early as 1912

In his sanctioned biography, William Fox indicated that he learned a valuable lesson about biased feedback from sycophantic opening night audiences: *“After the first act the applause was unending. I noticed one man standing in the corner, he nodded for me to come over and asked what are they telling you? I told him. He asked me if I believed them. He told me it was the worst thing he had ever sat through. He said ‘Come back tomorrow and listen to the remarks of strangers if you want to know the truth. Don’t listen to your friends. I took his advice and what I heard coincided with his criticism”* (Sinclair 1970 pp 53-54). After that Fox began using recruited audiences to preview new movies: *“When the picture was completed it was terrible and there was no possible market for it. So they bought it and cut it to pieces and reconstructed it, making it an entirely different story without an additional scene. It was previewed and the trade papers all agreed it was a fine picture. It was a success”* (Sinclair 1970 pp 56).

Short product life-cycles made studying movie audiences a business necessity

Bakker (2003) argued that short product lifecycles of movies made audience research an imperative in Old Hollywood.¹⁹ So by the time that the first of the Hollywood Majors emerged - Universal (1912), Famous Players (1913), Paramount (1914) and Fox Film (1915), and prior to their wave of mergers and takeovers after 1917 that resulted in the

held by ushers. The owner then tabulates the result. At the end of a month, he has a pretty accurate knowledge of the class of film his audience likes the best” (Craw in Waller 2002 pp 71).

¹⁸ “The manager will learn much about his show by watching his audiences as they come out. Comments will pass among them, which may be overheard by the manager and the cashier as they pass the ticket window. The manager may have his film exchange supply more of the same class (of film). The manager who has learned the tastes of his audience should consider their tastes” (Hulfish in Waller 2002 pp 59).

¹⁹ “The short product life-cycle forced film producers to track changes in consumer preferences closely. They had to observe and record how customers reacted to their products, to quickly adapt products they were developing to changes in market tastes, and to apply effective marketing strategies. The short product life-cycle also meant that when a film company discovered an unsatisfied need, it could cater for it in a few weeks. The success of film producers was not primarily dependent upon technological innovation or scientific discovery, but on determining and meeting consumer tastes. Although several other consumer goods industries shared this characteristic, the early film industry was most like fashion goods industries. These industries had a similar, extreme sensitivity to changes in consumer preferences and also launched new products constantly. They therefore shared a need to obtain detailed knowledge about the consumer. While fashion products lasted at least a season and were launched in batches, early films lasted a few weeks and were launched continuously. Second, the fashion industries could target market segments such as women, teenagers, or the middle class, while the film industry had to reach as many segments as possible, before television. Third, motion picture companies incurred large sunk costs and only small marginal costs. While fashion companies could adjust their output if a product proved unpopular, and sell unpopular products at rock-bottom prices, film producers had already incurred most costs. The constant launch of new products enables the further study of many cases, like scientists studying fruit flies, so giving micro-level insight into the impact of market research on business strategies” (Bakker 2003 Business History pp 101-130).

Majors becoming vertically integrated companies including ownership of theater circuits, such methods of informal market research within the exhibition sector were already common practice.

Hollywood Majors begin undertaking formal and informal research after 1916

Bakker (2003) cites a case study on the motion picture industry undertaken by Harvard Professor Howard Lewis that identified the first use of social scientific research techniques by an unnamed Hollywood Major: *“The research commissioned by a major U.S. producer-distributor, probably Paramount, marks the transition from a simple and intuitive approach to the modern market research. In 1916, Paramount decided to advertise its trademark and pictures directly to consumers and hired an advertising agency. Stopping short of directly polling consumers, the agency sent questionnaires to exhibitors, asking which family member they thought decided on film and cinema, and which magazines they thought they read. The subsequent advertising campaign was based on the outcome: it addressed women and used fan magazines and women's weeklies such as Ladies Home Journal.”*

Universal also began to research movie audiences at the start of the 1920s, when it was still among the Big Three Majors, along with Paramount (the market leader) and Fox Film. United Artists was a new studio formed in 1919 and other future Majors were yet to be formed (Warner Brothers - 1923, M.G.M. - 1924 and Columbia - 1924). *“One of the first companies to undertake primitive market research was Universal, beginning in 1922. Laemmle had advanced from Nickelodeon owner to president of this Hollywood studio, but had not forgotten the importance of knowing his customers. He ran a signed weekly advertisement in the Saturday Evening Post, asking readers to state their favourite stars and to answer some questions” (Bakker 2003).*

Primitive consumer panels used in the 1920s /1930s at Warner Brothers and Universal

Oscar winning producer Harry Rapf was Warner Brothers first Head of Production and later joined M.G.M in a similar role. He regularly used a consumer panel comprising studio employees to test-market movies in post-production and used the customer inputs to modify them prior to release.²⁰ Universal took a different approach seeking public comment on

²⁰ “Harry Rapf when he was Hollywood production manager at Warner Brothers often authorised his chauffeur to invite amateur critics to express opinions on new films and the chauffeur’s committee consisted of carpenters, electricians, the studio barber, the young intern in charge of the hospital, the gate keeper, the gymnasium masseur and their wives and children. Harry Rapf, regarding this audience as fairly representative of the average theater patronage, frequently made changes to win its approval, with gratifying box office results” (Hampton 1970 © 1931 p. 311-312).

current movies and their input into the types of films that moviegoers desired to see by inviting people to send a mailed response to an ongoing advertised questionnaire.²¹

Famous Players-Paramount product-tested *The Covered Wagon* (1922)

An early example of the Major studios product testing new movies occurred in 1922 when Zukor and his partner Jesse Lasky, Head of Production at Famous Players-Paramount studio screened *The Covered Wagon* based on a well-known American western novel. After seeing it they decided to make changes and then test market the film with an audience, which led to a re-edit and a hit movie.²²

Universal undertook demand studies as input into new product development

Carl Laemmle established a senior executive post at Universal to study market demand and input into new product development.²³ Chapter Nine will show that during the Studio Era, the Majors capitalised on the intense fan interest in movie stars through publicity and use of public relations tactics including support for fan clubs and fan magazines. They also used fan mail to 'mine' basic audience demographics that followed different movie stars.²⁴

Secondary sources typically used by the Majors

Harvard Professor Lewis wrote in his movie industry case studies in the early 1930s: "*Other non statistical sources of information, reviews of motion pictures by critics, trade papers,*

²¹ "Once, Laemmle even placed a job advertisement for a 'Master Psychologist' who could 'analyse plot-situations' and 'forecast public reaction'. Reportedly, Universal received 100 letters a day and built a substantial mailing list, from which it selected 300 people whom it consulted frequently" (Bakker 2003).

²² "I nodded. 'It looks like an epic. It costs like an epic. But I do not feel it.' Lasky's response to the film was similar to my own. Lasky suggested changing the ending of the film and re-shooting new scenes - I was enthusiastic - 'You make that sequence and in the meantime we'll run some audience tests. Then we'll try the new shots and see what happens. As we had feared, the original version, while pleasing the audiences, did not send them out of the theater with quite the feeling we had hoped for. And in spite of all the advertising and ballyhoo which can be mustered, the early audience members must report favourably to their friends, and at once, if the picture is to be a smash hit. The new sequence made all the difference in the world. It was a fine picture anyway and would have done well. But in my opinion, Lasky's improvement lifted it into a class that has seldom been attained'" (Zukor 1953 pp 223). The Covered Wagon became the highest grossing movie of 1923 earning \$3.5 Million (International Motion Picture Almanac 1934 pp. 17-18).

²³ "In 1930, Universal created a new studio executive position, the duties of which consisted solely in the measurement of the public's demand for types of motion pictures. This position, which was filled by a man of broad experience in all departments in the industry, required an analysis of the style cycles in picture types, a market analysis of demands in specific locations and consultations with producer and director of each film" (Lewis 1933 p. 88).

²⁴ "Another form of primitive market research was fan mail analysis. Film studios kept track of fan mail because it gave them a rough indication of stars' appeal. In the 1930s, all major Hollywood studios had fan mail departments. Each received between 18,000 and 45,000 letters or postcards a month, which were tabulated by star and the fan's estimated age, gender, and location. The department heads claimed they could 'tell when a new actor or actress has 'clicked' with the public from the kind of fan letters which begin to come into the studio: letters asking why the player was not given bigger roles!" (Bakker 2003).

magazines and other publications provide assistance in measuring public tastes. The amount of fan mail received is also another index used to measure public opinion. Producers with affiliated theater chains usually obtain expressions of public opinion by stationing theater managers, ushers or other employees at vantage points in the theater where they may readily overhear the remarks of patrons. Additional information is secured from independent exhibitors, who often express their own and patrons opinions to film salesmen. The latter are also in a position to discuss pictures with people outside the industry, whose opinions are very frankly expressed” (Lewis 1933 pp. 84-86).

Research used to assist media buying for movie promotion

Paramount’s Publix movie theatre chain used research to help it determine the most effective media buys for its promotional campaigns. *“On the demand side, (retail) chains used experts to take advantage of national advertising and garner the lowest rates for ‘ad buys’ to promote movie-going. Chains maintained research departments to study their markets and create advertising that reached its target customers. In general, chain operations of all types pioneered national advertising and promotion in the retail field, where the middle class, with ever growing discretionary monies to spend, lived and played” (Gomery in Waller 2002 p. 125).*

Sales Analysis of Box Office Receipts

In his 1933 study of the American movie business, Lewis observed that the Majors utilised used sales analysis to determine what kinds of movies worked.²⁵

Zukor and Fox were both known for their close analysis of box office data: *“I studied the box office figures, a vital thing to do” (Zukor 1953 pp 37). “William Fox spent most of his time reading contracts and inspecting weekly reports of theater earnings” Sinclair 1970 pp 51).* Warner Brothers also used box office analysis as a key input into decisions about which contracted movie stars to promote and retain and which to let go (Sedgwick and Pokorny 2001 pp. 157-184). *“In addition to previews and early market research, sales analysis*

²⁵ “Practically all producers give unfailing attention to box office receipts. One of the practical difficulties involved in the study of box office receipts lies in the inability of producers to secure the necessary information. Exhibitors are prone to guard strictly all information concerning their receipts, primarily because they fear that knowledge of the exact amounts received will cause producers to demand higher rentals for their next year’s product. Producers controlling national theater chains, as well as those selling under percentage price policies are less affected by this difficulty. Variety and Motion Picture Herald, general trade periodicals, publish reports on the box office receipts of the largest theatres in all important cities throughout the United States. These reports are compiled and written by men thoroughly conversant with the theatrical business from information secured by questioning exhibitors and theater patrons and through personal observation. The reports are supplemented by brief accounts of local conditions, competition and other influential variables. Although not infallible, these reports are accepted by the industry as being reasonably accurate” (Lewis 1933 pp. 84-85).

remained an important tool in building knowledge about consumer preferences in the 1920s and 1930s. For a long time, sales analysis was almost the only way of gaining information on foreign markets, because most were too small to warrant elaborate consumer polls, and many even too small to send representatives” (Bakker 2003).

During the Studio Era, the public reporting of box office statistics in the general media was non-existent because it was less important to the Majors when they were vertically integrated and owned their own theatres, programming them according to their own production strategies. However after Divorcement in 1948, box office reporting in the general media took on greater significance when movies had to be individually marketed.

Publix Theatres: Managers should observe audiences

The Paramount-Publix focus on audience satisfaction is demonstrated in a book *Motion Picture Theatre Management (1927)* written by Harold Franklin who was the Operations Director for Publix Theatres from 1922-1927, in which theatre managers were advised to closely observe audiences on a regular basis. “*Mere lack of patronage or falling off of attendance is not directly expressive. Even in the darkened auditorium, the astute manager, with his ear to the ground can catch positive reflections of the moods of his audience. (He) can tell at a glance whether whole masses of patrons are raptly attentive or bored*” (Franklin 1928 in Waller 2002 pp 122). The same theme was taken up in another 1927 book written for theater managers - *Building Theatre Patronage: Management and Merchandising* that counselled them to be customer-focused and seek feedback on program selection through the use of questionnaires. ²⁶

Weekly theatre manager reports included audience observations

Publix policy required theatre managers to send weekly written reports to head office for analysis by appropriate specialists in finance, operations and marketing. These reports included management observations of audience reactions to the programs of films and provided upward feedback from the field to management specialists in head office on an ongoing basis. Zukor used audience observation as one basis upon which Paramount made

²⁶ “Patrons like to feel that they have some part in the selection of programs and that their preferences are being considered by the management. These preferences can be learned by conversations with patrons and by reports from staff concerning patron comment. It is a wise policy to listen carefully to the opinion of patrons concerning a program. A questionnaire concerning patron preferences can be used to good advantage. This questionnaire can be distributed to patrons at the theatre or sent to their homes by mail. To encourage careful filling out of the questionnaire fan photos or souvenirs can be offered. These will be mailed upon the receipt of the questionnaire or given to patron who leaves the questionnaire filled out at the theatre. It is suggested that a personal letter accompany the questionnaire calling attention to the fact that the management is anxious to comply with the preferences of patrons” (Barry and Epps 1927 in Waller 2002 p. 114).

key marketing decisions. “*From our audience observations we make decisions on the best ways of promotion, how much to spend and the like*” (Zukor 1953 pp 43).

As the dominant studio until the early 1930s, Paramount was the model for the industry that the other mimicked in terms of business strategy and practices (*Variety* January 4th, 1956 p. 43; Gomery in Balio 1985 pp 223).

Comprehensive audience research studies did begin in the 1940s

Handel (1976) is correct in his assertions that until the Gallup and Handel audience studies undertaken during the 1940s, that the movie industry compiled only very broad general audience profiles. For example, *Film Daily* - a leading movie industry trade paper published the *Film Daily Year Book*, which contained a range of statistical data on production, distribution and exhibition for the industry. The American audience profile was “92% of picture-goers were adults” (*Film Daily Year Book* 1929 page C). “Juvenile attendance (children from 5 to 12) makes up less than 5% of the total movie attendance” (*Film Daily Year Book* 1931 page 7) and “children 15 years old and under provide only 11% of the total movie audience; youth and adults between 15 and 44 provide 17%” (*Film Daily Year Book* 1933 page 35).

These statistics were compiled from exhibitor-provided data, which demonstrates that the Majors in Old Hollywood were tracking the composition of the movie-going audience through their theatre chains on an ongoing basis. This can be seen by the statistics revealing an increase in size of children’s attendance from less than 5% of total admissions in 1931 that rose to 11% in 1933. Average weekly attendance in 1931 was 75 million. As unemployment rose during the Depression, attendance dropped to an average 60 million weekly in 1932 and remained at that level in 1933-34 (*Film Daily Year Book* 1931 p. 1; *Film Daily Year Book* 1932 p. 7; *Film Daily Year Book* 1934 p. 35).

For an increase of that size in the children’s share of the audience to have occurred, within a two year time frame, it would seem to indicate that Hollywood must have recognised that it was missing out on the under 15 audience during a period of declining admissions.

From 1932, Major studios adjusted production portfolios accordingly to provide more films for younger audiences. M.G.M. launched the *Tarzan* series of movies in 1932. In 1933, Paramount released the animated film *Popeye*; R.K.O. released *King Kong* and fledgling studio Walt Disney released animated versions of *The Three Little Pigs* and *The Night Before Christmas* (Blum 1982). This would seem to indicate that during the 1930s,

Hollywood was effective in market sensing and in strategically managing its production strategies, adapting them to changing market conditions. Major studios like Paramount and R.K.O., and rising studio – Walt Disney, identified the opportunity that existed to attract younger audiences and developed films to attract them.

Leading trade paper *Variety* reported that exhibitors of all sizes were acutely aware of increasing competition from baseball, horse racing, dog racing, bingo, roller derbies and radio and it also reported that the Majors had been in discussion with market research firms about undertaking audience surveys (Landry 1940).

Hollywood began to formally study its audience in the forties

During the 1940s, the average cost of a Hollywood movie had risen from \$300,000 to over \$1 million. After the blockbuster success of *Gone With The Wind* in 1939, Hollywood began to commission audience studies in the United States that used rigorous sampling techniques. Four major categories of research were undertaken within the movie industry during the 1940s - production research; distribution (sales) research; promotion (advertising, publicity and exploitation) research and exhibition (theatre) research (Handel 1976 p. 5).

Such studies showed that there was a strong correlation between frequency of attendance and a younger, better-educated audience (male and female) with higher income levels than had been the case in the early days of the silent era. These audience studies of the 1940s also revealed the emergence in America of a middle class audience that read newspapers and magazines and listened to radio more than going to the movies and found that radio had become a significant cultural influence as in-home entertainment. By 1945, 87% of Americans owned a radio and when respondents were asked if they were forced to choose between radio or going to the movies which would they choose? 84 % responded that they would give up the movies, with only 11 % favouring giving up radio (Sklar 1978 p. 270).

The Majors pioneered the use of segmentation research and tracking studies

Bakker (2003) states that Hollywood led other industries in the development and usage of two research techniques – segmentation studies and tracking brand awareness (of movie stars).²⁷

²⁷ “The film industry was a pioneer in understanding the segmentation of its market. However, while fashion firms could focus on specific segments, film companies had to reach as wide an audience as possible. They analysed market segments to make

Claims that Hollywood's ignorance about its audience are extremely dubious

The historical evidence presented above does not support Sklar's (1978) assertion that the management of the Major's in the 1940s believed that the primary cinema going audience was the same working class as had attended the nickelodeons. From 1911-1912 in the pre-Hollywood era, there was already recognition among exhibitors that they were missing out on middle class audiences due to the unsavoury reputation of the nickelodeon era and the poor quality of theatre facilities in that period. This was why the newly emerging theatre chains across America developed opulent movie palaces modelled on the grand European theatres – to attract a better class of people and a more affluent audience. Zukor confirmed this in a *Variety* article in 1956 (*Variety* Jan. 4th, 1956 p, 43).²⁸ Theatre management training manuals cited by Harold Franklin from Publix Theatres also confirm this contention (Franklin 1928 in Waller 2002 pp 158). Certainly the Balaban and Katz circuit that became part of Paramount-Publix chain and the Loew's-MGM theatres were of the highest quality. Fox made similar moves to upgrade its theatre inventory during the mid-twenties (see Chapter Seven). Theatre managers were also required to provide weekly reports to head office on audience profiles and they often ran in-theatre surveys.

Audience admission statistics also do not support the claim that Hollywood was ignorant about its audience. Movie theater attendance climbed annually throughout the twenties from a base in 1922 of 2.08 billion to peak in 1930 at 4.16 billion, one year into the Great Depression as talking pictures were diffusing widely throughout the United States. After that, annual admissions declined steadily until 1934 with 2.6 billion admissions (-37% vs 1930) during the hardest times of the Great Depression when unemployment reached record levels. From there however annual admissions climbed again reaching 3.12 billion in 1939

sure films appealed across as many as possible, not to produce films aimed at specific segments. Only after the period examined here, when television made screen-time less scarce, could film companies afford to target specific segments, while television took over the focus on the lowest common denominator. Film studios also pioneered the continuous tracking of brand awareness, of their stars. Advertising agencies have been keen users of these methods. Young & Rubicam, of which Gallup was a vice-president, and Ogilvy & Mather, which Ogilvy set up after his work at Audience Research, have stretched these techniques to the limit" (Bakker 2003).

²⁸ *I knew that only by making it possible for moviegoers to see motion pictures in clean, comfortable and attractive theatres, could we hope to attract the kind of patrons our pictures deserved. In those early days, many 'better' people had a great reluctance to go to the movies, because of the unsavory appearance of these early movie houses. And I could see very clearly that we would never be able to overcome this feeling until our industry was able to make it possible for the better element to be attracted by the comfort, good taste and fine service which pleasant and attractive theatres could offer.*" (Zukor, Adolph 1956. "Dean of the Picture Business Traces Growth From His First Penny Arcade" *Variety*. January 4th, 1956 p. 43.)

and peaking in 1945-1946 at 4.264 billion per year before declining 27% again down to 3.172 billion by the end of the decade in 1949.

If the Majors did not understand the movie-going audience, the logical assumption would be that they were not segmenting and targeting it correctly. What then explains the slow but steady increase in annual admissions from 1934 during the height of the Great Depression until America's entry into the war in 1942? The answer is that Hollywood gave audiences escapist entertainment providing movies that allowed them to forget the harsh realities of their daily lives. In January 1937, President Roosevelt was sworn in for a second term and stated that one third of the American nation was underprivileged "*I see one third of a nation ill-housed, ill-clad, ill-nourished.*" U.S. census data released in 1938 showed that one in five Americans were unemployed (Daniel 1982 pp. 451; 466; 478). With one third of America's working population unemployed and money such a scarce resource, it is a logical assumption that audiences would not spend money going to the movies each week if those films did not provide suitable entertainment. Particularly if the research findings that Sklar (1978) refers to were correct and showed that radio, newspapers and books provided alternative and attractive substitutes to movie-going.

Did Handel initiate the myth to suit his own commercial interests?

Is it possible that the view that Hollywood was ignorant about the composition of its audience is part of a myth, possibly propagated initially by Leo Handel to further his own commercial interests? He was a former Major studio employee who established one of the first specialist market research firms set up to serve the movie industry in Hollywood. He conducted these early industry-wide audience studies and designed surveys that were based on sound social scientific principles. Handel co-authored three articles on motion picture research methodology published in the *Journal of Marketing* from 1946-47.

Why would Handel, a former movie studio executive actively working in Hollywood, and running his own four year old specialist market research firm providing services to Hollywood studios, be interested in submitting articles to the *Journal of Marketing* unless it was to enhance his own credibility? Particularly, as he was in direct competition with George Gallup's Audience Research Inc trying to win studio clients (Fiske and Handel 1946; 1947). In trying to professionalise Hollywood's approach to conducting market research, it was clearly in Handel's own business interests with his new firm, to propagate the belief

Hollywood was essentially ignorant about its audience. Fiske and Handel (1946,1947) were clearly unimpressed, and probably rightly so, with the lack of professional rigour in research methodologies used in previous movie industry surveys. These were often crude instruments and likely conducted without appropriate sampling measures and controls.

Sklar (1994) is also correct in stating that industry-wide surveys had not previously been conducted with theatre audiences, however the claim that Hollywood did not understand its audience flies in the face of the historical evidence and box office success of Hollywood's movies. What is probably true is that until the late thirties, Hollywood was not comprehensively researching movie audiences on an industry-wide scale from a general consumer behaviour perspective. Bakker (2003) observed: *"Film companies had been among the first customers of market research firms using scientific research design and random sampling, which emerged in the 1930s. Many films considered classics today were shaped by feedback from market research. Changes in contractual relationships, (sound) technology, and rising sunk costs encouraged film companies to invest in ever more reliable estimates of consumer demand. In the early decades these were mostly informal and intuitive. Increasingly more reliable techniques were devised, such as surveys, previews, and sales analysis. But all these were precursors to the modern 'scientific' market research that emerged in the 1930s"*.

***"Gone With The Wind"* was an industry turning point in use of market research**

The Major studios began to contract specialist market research firms in the late-1930s. M.G.M.'s *Gone With The Wind* (1939) became a marketing phenomenon as a cultural event that broke box office records worldwide. It was the first Hollywood film to use audience research conducted by an external service provider - George Gallop's company, to guide its marketing campaign. *"In 1935, Gallup founded his illustrious polling firm, the American Institute of Public Opinion (AIPO). Gallup included film-related questions in the polls, possibly using them as a shop window to interest film companies"* (Bakker 2003). Table 6.5 below shows that the movie's total revenue for the year was larger than the combined gross for next nine placed films in the top ten list for that year.

Table 6.5 The top grossing movies in America in 1939

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Source: Finler 1988 p. 276

The Gallup research helped M.G.M. to successfully position the film as a love story, rather than as a civil war melodrama which broadened the audience appeal of the movie to include a much wider female market (Bakker 2003). M.G.M.'s marketing launch campaign obviously worked: "A Gallup Poll taken five days after the 15 December 1939 premiere of *David O. Selznick's Gone With the Wind* indicated that 56.5 million people planned to see the film" (Burks 2004). It became the biggest hit movie of all-time. In 1940, Gallup established Audience Research Inc. (ARI) - a specialist film research company that serviced a number of the Big Five studios including Warner Brothers, R.K.O. and M.G.M.²⁹ "ARI organised test screenings for the rough cuts of films such as *Casablanca* (Warner), and was often successful in its predictions" (Anonymous 2007 Oracle ThinkQuest Library).

The success of Gallup's research for *Gone With The Wind* prompted Leo Handel to establish the Motion Picture Research Bureau in 1942 in direct competition for Hollywood clients. Handel worked exclusively for M.G.M. "The firms segmented the market by age, gender, income, and location" (Bakker 2003). "M.G.M. took the lead in using survey research

²⁹ Gallup's A.I.P.O. was led by future advertising guru David Ogilvy. "By 1946, it had 14 regular customers, among which were at least half the Hollywood majors. Besides commissioned work, many industry executives subscribed to Audience Research's Continuing Audit of Marquee Values, which measured stars' popularity every few months. Audience Research showed the grand majority of picture-goers were poor and young: 65 per cent were under 30, and 19-year-olds went the most frequently. Gallup advised studios to lure older and richer consumers, but also to make big budget movies for the 19-25 age group and carry along as much other segments as possible, or to make low-budget movies for specific age groups" "George Schaefer, president of Radio-Keith-Orpheum (R.K.O.), offered an exclusive contract for the first year. Gallup later called Audience Research's work in the 1940s 'some of the best research that I've ever seen or ever had part in. And (Samuel) Goldwyn asked Audience Research to measure interest in the double feature, to have ammunition for his campaign against it. A substantial minority, 43 per cent, preferred double features, making studio executives conclude that abolishing them would alienate this segment. Another study queried New York cinema-goers about their television watching habits, showing that 70 per cent had seen at least one television program" (Bakker 2003).

techniques to discover what moviegoers wanted to see. A wartime survey showed that musical comedies were favoured over other story types, so M.G.M. revived the genre with Gene Kelly and Fred Astaire as its leading male dancers, M.G.M. defied TV's competition for half a decade with handsome, sophisticated musical productions in colour, of which two and sometimes three a year ranked among the industry's top box office hits from 1948-1952" (Sklar 1994 pp. 282-293).

The movie moguls that founded and ran the Major studios were uneducated European immigrants (Jones 2001) and thus a popular mythology has emerged that they made mostly intuitive business decisions rather than informed judgements based on adequate research which does not tally with the evidence presented in this chapter e.g. Zukor's close three-year study of the European market before importing feature length films; Paramount-Publix chain's research to determine the best strategic location for new theatres and its media research to aid advertising placement. Additional perceptions that the Majors were essentially product-driven mass manufacturers (Staiger 1985) rather than strategic marketers and that they enjoyed a relatively "easy" market fuelled by natural growth (Handel 1976) also fly in the face of the historical evidence.

Paul Lazarsfeld, Head of Columbia University's Bureau of Applied Social Research is credited in the scholarly literature for demonstrating in the 1940s that: "*word-of-mouth recommendation was the key for rapidly reaching high brand-awareness, because it made the picture sell itself. This word-of-mouth recommendation could best be influenced by what Lazarsfeld called taste leaders: socially active, frequent filmgoers under 25, who also read magazines and listened to radio extensively, who were in the same social class as those they tended to advise. Crucially, taste leaders could be influenced by studio publicity or advertising*" (Bakker 2003).

Yet twenty years earlier, Adolph Zukor demonstrated that he was already acutely aware of the critical importance of word-of-mouth in 1922 with his comments on the marketing of *The Covered Wagon* quoted previously: "*early audience members must report favourably to their friends, and at once, if the picture is to be a smash hit*" (Zukor 1953 pp 223).

Summary on marketing research capabilities of the Majors in Old Hollywood

In Old Hollywood, this chapter has shown that the Major studios devised systems for the gathering of marketing intelligence. Sources included government reports on overseas

markets, the movie business trade press, exhibitor feedback from around the world via their distribution sales offices, weekly feedback from their own theatre managers and informal observation of movie audiences by management. They also utilised a variety of unsophisticated market research methods. These included test screenings of new films nearing completion, in-theatre audience surveys of completed films, trade previews, unsolicited feedback on movie stars from fan mail and solicited feedback from fans through popularity polls and questionnaires published in newspapers and fan magazines.

Paramount's Publix theater circuit was based on the chain retail store strategies of Sears and Roebuck and Woolworths and like them provided extensive training to its managers. This training and the formalised management reporting system within the company created a culture in which theatre managers were expected to gather market intelligence and feed it back to head office and to utilise what was learned to promotional advantage in their own locality. The other Majors copied the Paramount model in their own theater chains (Gomery 2002).

Whilst by today's standards Paramount-Publix methods may seem primitive, in that time period during the late 1910s and 1920s, these marketing information gathering arrangements were a significant factor contributing to its marketing success and the leadership role that Paramount established as the dominant studio of the period.

After four years of comprehensive industry research, the author has identified no historical evidence to indicate that any other film company or national film industry elsewhere in the world, employed the same kind of marketing information systems as effectively to aid management decision-making.

The TV Era (1950-1974): Hollywood-in-decline

The last section analysed the marketing capabilities of the Major studios in Hollywood prior to the anti trust action of 1948 which forced them to sell their theater chains. The next section examines Hollywood's research capabilities after 1950 from the post-Studio Era through to the blockbuster movie and multiplex era of New Hollywood (1975-2005).

The post-Studio television era (1950-1974) was marked by a steep decline in movie attendance. The Supreme Court anti-ruling in 1948 forced the Majors to sell their theater circuits which eliminated their need to provide a volume of regular programming and with the diffusion of television which was siphoning off audiences, Hollywood significantly

reduced the production output and focused more on blockbusters. *“The post-war film industry could no longer count on its mass audience. Sometimes people came out en masse to see the big movies. Many times they did not. Boom and bust cycles plagued the industry. Hits were followed by flops, sustained profits were elusive and overall attendance continued to decline”* (Wasser 2001 p. 5).

Formal market research in the 1950s and 1960s

Little available historical evidence relating to the Majors research activities in the post-Studio era appears to exist. After Divorcement in 1948, Zukor (1953 p. 293) stated: *“After a picture was made we were more sensitive than ever to previews”* which indicates the Majors were still product-testing movies prior to release in the 1950s. However, considering movie attendances steadily declined over a 25-year period (see Chapter Eleven, Figure 11.1) and the Majors’ movies continually failed to connect with audiences, resulting in their financial collapse and a wave of takeovers of the Major studios in the 1960s, it would seem that Hollywood was either not undertaking the research needed to understand the changing marketing dynamic, or if it was, it was either faulty or the results were disregarded by product-orientated studio management as they continued to produce more-of-the-same movies designed to satisfy older audiences that were staying home to watch television and ignoring the emerging youth culture throughout the western world.³⁰

Formal research did continue in Hollywood after Divorcement, seemingly without much effect, as Major studio management seemed unable to devise strategies to enable them to adapt to the changing market dynamic. *“By the 1950s, the emergence of a younger, more educated, affluent audience further changed the fragmenting market, while Hollywood's forced divestiture of cinemas and the out-sourcing of film production affected the incentive for market research. The subsequent decline of seven-year star contracts diminished the value of star ratings. This fragmenting, unstable market probably made expensive nationwide representative sampling less cost-effective. Specialised firms such as Audience Research and MPRB closed during the 1950s, but research was continued by general market research firms and inside the studios. Gallup's AIPO, for example, was still working for Hollywood in*

³⁰ “The Majors appear to have ignored the early post-war findings (confirmed by further research in 1957) of such organisations as Opinion Research that male and female patronage was about equal, but younger, single people made up a very large part of the audience; and the better educated and paid went to the movies more often than others, paying more for their tickets” (Izod 1988 pp 148-149). “Two surveys conducted in 1941 and 1943 appear to have merely renewed their complacency, for there is little evidence of their having reacted to the more detailed findings over the next few years. Indeed this early research was deeply discomfoting in that it showed that, as opposed to the way moviegoers behaved in the Depression, fewer than a quarter now took note of what was on at their cinema before buying tickets. The majority went to the movies no matter what was showing. But members of high-income groups were more selective than the less well paid. The studios did not apply the lessons of audience research and appeared not to have any grasp of the great social changes that were under way... post war societal changes in consumer behaviour” (Izod 1988 pp 114-116).

the 1970s. By the 1960s, most Hollywood studios had a vice-president for market research” (Bakker 2003).

Columbia Pictures subsidiary Screen Gems owned its own consumer research company, which became a separate division after a corporate restructure, implying that Columbia and Screen Gems initiated consumer behaviour studies in the 1960s (Dick 1992 p. 20).

New Hollywood (1975-2005): Hollywood re-establishes a marketing orientation

The economics of the movie business have changed considerably since the Studio Era. In the 1980s, the rapid growth of the post-theatrical markets now means that 60%-80% of movie revenues can be derived from post-theatrical markets for major blockbusters. The media corporations that now own the Major studios, derive significant movie tie-in revenues from other subsidiary firms such as music companies (movie soundtracks), home video, television, theme parks and from licensed merchandising (Vogel 2004 pp. 103-107). For example, post-theatrical accounted for 63% of revenues for *Spiderman* and 61% for *Lord of the Rings: The Two Towers* (Epstein 2005 p. 237). Hollywood blockbusters now cost so much to make and to market, that their wide release into multiplex theatres around the world has created increasingly intense competition for screen time and a critical necessity for the Major studios to effectively launch these movies in order to brand the product so that post-theatrical and other ancillary revenues can be optimised. The shelf life of movies is so short in theatrical release that the launch of new movies is like competing to survive in a tournament (DeVany 2004 p. 15). A studio executive likened a movie launch to politics “*movie marketing campaigns are like election campaigns. They not only have to get people to favour their candidate, they have to get them to do it on election day*” (Epstein 2005 p. 178; Sreenivasen 1997).

And like an election, the economics of New Hollywood make a marketing orientation imperative and understanding what the public is thinking is critical to success, so increasingly since the mid-1970s, the Majors have invested heavily in marketing research in order to understand movie consumers in all markets (theatrical and post-theatrical). “*The studios are finely tuned learning networks, faced with a constant stream of reports on how relevant audiences in different markets are reacting to their films and other products, they analyse the various elements – including the marketing, stars and music – and along with this learning curve, adjust their subsequent decisions accordingly*” (Epstein 2005 p. 228).

Whilst the Majors all operate in-house market research departments, survey work is outsourced to specialist providers (Yoder 2004 pp 302). From the 1970s-1990s, NRG (National Research Group) that later merged to become Nielsen-NRG, was the dominant provider, but since the late 1990s other research firms have emerged as significant suppliers to the Major studios e.g. MarketCast and OTX– the latter specialises in Internet surveys (Hayes and Bing 2004 pp 238- 245). Research moulds and shapes movie studio product and the focus is on each movie's marketability i.e. marketing materials / attractive elements for audiences; and its playability i.e. audience reactions and satisfaction / will it perform at the box office (Bart and Guber 2002 pp 239-240; Fellman in Squire 2004 pp 273; Yoder in Squire 2004 pp 303; Hayes and Bing 2004 pp 8 pp 52). Table 6.4 above shows the Majors today employ a wide range of research techniques from the earliest stages of project development with concept testing through to exit polls soliciting audience reaction after seeing the movie.

Product research

In pre-production, the Majors commission concept research for potential projects testing the attractiveness of the movie's basic premise, potential combinations of leading actors and the movies titles (Hayes and Bing 2004 pp 87; Marich 2005 pp 26, pp 32-33; Friedman in Squire 2004 pp 287; Wasko 2003 pp 191). During a film's post-production, the Majors continue the long movie industry tradition of product testing new movies commissioning test screenings with recruited audiences (Bart and Guber 2002 p 238; Marich 2005 pp 35-41; Yoder in Squire 2004 pp 305).

Advertising research

During production and post-production, as they develop and refine their advertising programs, the Majors commission advertising strategy studies often conducted by Nielsen-NRG (Yoder in Squire 2004 pp 310) to help them determine appropriate segmentation of target audiences for each movie, using NRG's weekly telephone poll of 1200 frequent moviegoers (Epstein 2005 pp 183). They commission research with target segments to help them determine the most appropriate positioning for new movies e.g. M.G.M. used focus groups with teenage girls to determine the positioning for *Legally Blonde 2* (Hayes and Bing 2004 pp 122).

The Majors also regularly commission qualitative research using focus groups with sample audiences to test all key advertising materials e.g. one sheet posters, trailers, press ads, TV

commercials (Bart and Guber 2002 pp 228; Hayes and Bing 2004 pp 152; pp 245; Epstein 2005 pp 182; Marich 2005 pp 41-42). Nielsen NRG uses competitive tests employing two methods - intercept interviews at shopping malls where respondents are taken to a booth and shown a range of competitor trailers and preferentially rank them and also testing trailers and other forms of advertising by measuring recall and persuasion. The materials are rotated and respondents are asked about their top-of-mind recall (Yoder in Squire 2004 pp. 305; 310-311).

Audience research

Another standard practice in New Hollywood is to commission surveys to track audience awareness and interest in new movies from about eight weeks prior to release until the first few weeks of the season. NRG conducts these weekly tracking studies with frequent moviegoers (Goldberg 1991 pp 106; Bart and Guber 2002 pp 237; Yoder in Squire 2004 pp 311-312; Hayes and Bing 2004 pp 240; Marich 2005 pp 42-46). The findings are used to model and estimate box office takings: *“Researchers use regression models, which make predictions for one variable using other fixed variables, that can be projected to larger populations. Samples of 800 and compact scenarios developed with the studio can make early recommendations about how best to market and position the movie”* says Shapiro at Marketcast (Marich 2005 pp. 26; 33).

When movies are finished and ready for release, the Majors may organise sneak previews although this is more often a promotional program than a research exercise (Friedman 2004 pp 288; Hayes and Bing 2004 pp 246). *“Today, techniques such as metered previews and statistical box office forecasting have become commonplace. Nearly all films are previewed, and every Sunday night Hollywood's computers are humming to predict final U.S. box office revenues for the weekend's releases”* (Bakker 2003). After a movie's release, focus groups and entry and exit interviews in theatre foyers with individual audience members are used to help further fine tune in-season advertising materials (Goldberg 1991 pp 92; Marich 2005 pp 46-52; Epstein 2005 pp 229).

Sales Analysis (box office)

In Old Hollywood, the Majors ownership of large theatre chains provided them with daily feedback on box office results and they enjoyed almost a complete picture of the theatrical landscape across America, however after the sale of those circuits which became independently owned during the 1950s, the Majors lost that perspective. Trade papers like

Variety only reported box office results on a key city-by-city basis but this did not cover many of America's 25,000 theatres. The first national box office chart based on a sample of theatres appeared in *Variety* from 1968 (Hayes and Bing 2004 p. 258). New technology created opportunities for new firms to provide the industry with outsourced data collection services. Exhibitor Relations was established in 1974 to act as a clearing-house for national box office data and it "*provided a sense of the competitive landscape and how films were positioned and distributor release schedules*" (Hayes and Bing 2004 p. 295). Other firms also emerged to provide the Majors with improved box office metrics. Centralised Grosses (1976) provided overnight national box office reports based on theatres phoning-in their results; Box Office Register (1984) and Rentrak (2001) a box office tracking service based on point of sale capture (Hayes and Bing 2004 pp. 286-290).

Syndicated market studies

Hollywood's trade organization – the MPA continues to commission syndicated national studies on moviegoer behaviour to determine tastes and trends in America and overseas on an annual basis for its members – the Major studios and also provides a series of reports available to the public on its website (Goldberg 1991; Yoder in Squire 2004 pp 313-314; www.mpaa.org).

Competitors don't match the Majors' investment in market research

Theatrical release of movies is a \$20 billion industry annually. The Majors in contemporary Hollywood operate the same way as other global corporations do in other industries. They understand that marketing knowledge is a critical success factor.

For their rivals, it is not a level playing field. Hollywood's investment in marketing motion pictures including market research dwarfs that of any rivals anywhere in the world. A comprehensive review of the literature over four years revealed no evidence of other national film industries conducting comprehensive market research to aid new product development or to launch new films. India – the world's largest producer nation, is typical of non-Hollywood film industries and Bollywood has no history of using market research in pre-production (Bose 2006 pp. 48-52).

Independent producers and distributors in any country simply don't have the financial resources to match the Hollywood's expenditures on marketing and consequently market research is rarely undertaken for independent films where funds are conserved for unit

publicity during production or the marketing launch: “*Distributors of foreign language films aimed at the art house crowd typically don’t conduct significant research. As a class, these films don’t hit 600-800 theatres*” (Marich 2005 pp 28).

Marketing research was one of the six core marketing capabilities identified by Vorhies and Harker as key indicators of market-driven firms. The evidence presented in this chapter leaves little room for doubt that in terms of marketing research, the Hollywood Majors have throughout history, possessed superior capabilities to their rivals.

6.3 CHAPTER SUMMARY

The evidence presented demonstrates that the studios in Old Hollywood and in New Hollywood invested heavily in gathering marketing information. This analysis indicates that throughout their history, with the exception of the post-Studio TV era where they were thrown into disarray, the Majors have enjoyed superior marketing research capabilities to their rivals domestically and overseas.

CHAPTER 7: THE MAJORS' NEW PRODUCT DEVELOPMENT CAPABILITIES

7.0 INTRODUCTION

The last chapter examined the first of Vorhies and Harker's (2000) marketing capabilities commonly found in superior performing firms. The historical evidence in relation to the marketing research capabilities of the Major studios during the Studio Era and in contemporary Hollywood was analysed and it was found that the Majors undertook forms of marketing research from the mid-late 1910s. It demonstrated that the Majors used a range of techniques to identify successful product forms (film genres, movie star vehicles, franchises) to test new products and to fine-tune them prior to release. No evidence was found to suggest that foreign rivals or domestic competitors engage in marketing research as an input into new product development. This chapter will examine the second of Vorhies and Harker's (2000) six key marketing capabilities of successful firms - how new product development matches customer needs. They defined it as having a capability "*to design products that can meet specific customer needs, can meet internal company goals and hurdles, and which are able to outperform competitor's products*". The guiding questions for product capabilities formulated in Chapter Three were: To what extent did the dominant firms design products to meet customers' needs and match market conditions? What evidence exists in the historical data to support or counter any case?

Global consulting firm Booz Allen and Hamilton (1988) studied over 700 corporations and found that most new products fail. They developed a now, widely used and systematic eight-stage new product development process. It comprises: Idea generation, idea screening, concept development and testing, marketing strategy development, business analysis, product development, market testing and commercialisation. The latter part of this chapter will apply the Booz Allen eight-step template to enable examination of the Old Hollywood and New Hollywood approach to developing new products to determine if they possessed superior new product development capabilities to their rivals around the world.

Research by Crealey (2003) applied new product development models to arts organizations and found that new product testing, whilst an integral part of new product development in other industries, is often either dismissed or undervalued by arts organizations. This view is highlighted because the historical evidence shows that it is particularly relevant to non-Hollywood film production since the First World War. Britain, Japan and India have

operated successful commercial film industries but predominantly developed films for domestic audiences that with few exceptions had little mass export appeal. In contrast, most other national film industries and many independent producers have viewed film predominantly as a medium for artistic expression and/or for the realisation of their own world-view: French director Jean-Luc Godard said: “*Films are made for one or maybe two people*” (Puttnam 1998 p. 232). Scheff and Kotler (1996) argued that adherence to a high vs low culture paradigm determines the fundamental orientation and performance of artistic organizations.

Marketing orientated firms adhere to the value-driven process of placing the customer at the centre of business strategy and begin new product development from a customer value-creation perspective (Day 1994). The marketing information system (MIS) informs market-driven firms, on an ongoing basis, of the types of products that customers in different segments need and where consumer tastes may be changing. Porter (1980) argues that there are three basic competitive strategies that firms can adopt – differentiation based on quality, cost-leadership in which scale efficiencies enable manufacturers to provide low cost products and a focus strategy in which firms choose to compete in particular market segments using either a quality or cost leadership strategy. This chapter will show that Hollywood’s studios have been marketing orientated in their approach to new product development and that they adopted a quality-based strategy to differentiate their movies from foreign film industries and domestic competitors. It will also show that Hollywood’s rivals with only a few exceptions have not been marketing orientated and adopted either a cost-leadership strategy (low budget e.g. most British and Australian films) or a focus strategy targeting a niche market (e.g. Indian cinema or Japanese anime movies) as their overall competitive strategy.

To place Hollywood’s product superiority into a commercial context, Table 7.1 below confirms the Majors’ superior global market performance by listing the only independent movies that make the worldwide all-time Top 300 box office hits list adjusted for inflation. Only twenty-three independent movies are ranked (7.6%), eight were distributed by a Major or by one of their subsidiary studios. Twelve were produced by Hollywood-based independent studios, seven were British films with four of those produced by a subsidiary of Universal, two were Japanese anime films, one was a French film starring Hollywood superstar Bruce Willis and two were foreign language films with sub-titles – one of them produced by Mel Gibson - *The Passion of the Christ*.

Table 7.1 Independently distributed films in Top 300 grossing adjusted for inflation

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*Source data: Taj (2004) Hollywood Blockbusters. * Dreamworks was acquired by Paramount in 2005. ** Disney established its own distribution company Buena Vista in 1953. *** Miramax was acquired by Disney in 1993.*

7.1 FILM PRODUCT DEVELOPMENT: A HISTORICAL CONTEXT

For five years after the Lumiere brothers first demonstrated the film projector in Paris, moving pictures were still a novelty attracting the curious at venues like fairgrounds and museums. Initial public interest in 1-2 minute films featuring snippets of day-to-day life - sporting events, circus acts and 'scenics' waned around 1900 (Csida and Csida 1978 p. 138; Balio 1985 p. 11). French producers led the world by making longer films with stories – Pathe's Ferdinand Zecca made *Histoire d'un Crime* (1901) and George Melies produced *La Voyage dans la Lune* (1902). Melies is widely regarded as the world's first great filmmaker, producing 500 films from 1896-1913.¹

¹ "He dreamed up those plots, cast the actors and directed their performances. He conceived the tricks of camera, designed the scenery, because the longer films had to be carefully worked out in advance of shooting, Melies may be called the first man to write a scenario" (MacGowan 1965 p. 104).

A scenario was a scene-by-scene breakdown for making a short silent film. As longer 4-5 reel feature films lasting more than one hour were introduced around 1911, more complex scenarios evolved as the number of scenes and locations increased because plots and sub-plots were required to heighten the drama or comedy to keep audiences interested. These scenarios were called continuity scripts (Staiger 1980). By 1915, features had replaced short films as the main product form in silent cinema and the Hollywood studios were emerging as the world's dominant film companies.

American Producer Thomas Ince devised the 'studio model' that the Majors all later adopted. Noted for its '*sound organization, careful preparation and thorough execution*' it laid the foundations for the studio system by providing a detailed operational approach to mass manufacturing motion pictures that enabled studios to plan and control quality and costs.²

In Old Hollywood, the Major studios each produced 50-100 movies per year and their annual production slate was developed by the studio's head of production who supervised all aspects of new product development.³ In the movie industry, the new product development process involves the development of scripts (i.e. scenarios, continuities, screenplays) suitable for filming that are good enough to attract creative talent (actors, directors) to commit to the project (known as 'packaging' the movie), which enables producers to secure sufficient production finance and a distribution deal. A high quality script has always been the key success in the development process but the role of the screenplay changed after the Studio Era when Hollywood had to finance and market each movie individually.⁴

² "I have seen records of some of his short films and one feature – they list the director, cast, dates of shooting, shipment and release, they give the number of feet of action and of titles. The total cost is broken down into 15-20 items, and then given per reel and per foot. Finally, there is a complete shooting script. More than anyone else, Ince is responsible for developing the thorough and detailed scenario (a 'continuity') that became the common practice of Hollywood. He wouldn't let a director 'shoot off the cuff', which meant developing scenes and sequences from a sketchy outline. Ince worked closely with his writers. He gave his director this complete blueprint of a picture and insisted he follow it in every detail. Years later men like Irving Thalberg, Darryl F. Zanuck and David Selznick adopted the Ince policy when they managed big studios" (MacGowan 1965 pp 173-174).

³ "In each of the major studios there is one man, usually called Vice President in Charge of Production, who is responsible for its output. Up through the 1940s, he kept a firm control, from the purchase of the story to the sneak preview of all pictures produced. Between 1950 and 1955 the picture changed radically. There was still a Vice president in Charge of Production but he became more of a manager than a producer" (MacGowan 1965 p. 303).

⁴ "Once upon a time, scripts were documents that had internal use: they gave the studio hierarchy confidence in making a film in an era when they appealed to a star under contract to the studio, and they reassured managerial forces that the project could be made on schedule and for the allotted budget. The script was a thorough blueprint to be followed scrupulously during shooting and to serve as a model for the editing. With the breakdown of the studio system and the need to set up every movie individually, the script became a far more dynamic, external instrument. There is no factory now intent on stringent blueprint scripts but there are distributors, financiers, agents and stars who need to be convinced about joining in a project" (Pirie 1981 pp. 141-142).

A leading Hollywood entertainment attorney wrote that the desired outcome of the development process is for a studio to ‘greenlight’ a project i.e. agree to finance and distribute the film: “*The goal of this step is a ‘packaged script’. The happy ending of the development stage is a ‘greenlight’ for the screenplay*” (Crabb 2005 p. 7-8).

7.2 HOLLYWOOD MANUFACTURES ENTERTAINMENT

The next section provides historical evidence that shows that Adolph Zukor, who shaped Major studio business practices in the earliest days of Hollywood when he ran Paramount, approached new product development from the perspective of customer-value creation. This chapter then analyses the Major studios’ approach by applying the Booz Allen eight-step model for new product development and using a historical snapshot approach drawing upon historical evidence from Old Hollywood and New Hollywood to discuss how the process operated in both eras. This will then be compared to new product development approaches taken by producers in Britain, Australia and India, serving as proxies for independent producers in the rest of the world.

Zukor was market-led in new product development

Prior to owning and operating nickelodeon theaters from 1905-1909, Zukor, the movie mogul who by 1917, would turn Famous Players-Paramount into the dominant Hollywood studio of the silent film era, operated a ‘Hale’s Touring Car’, an experience taught him the importance of variety in programming for film exhibitors.⁵ Zukor is widely recognised as the American industry’s driving force in the migration from making cheap, short films to high quality feature length movies that has remained one of Hollywood’s key points of differentiation.

The footnote that follows is quoted from Zukor’s autobiography and is used here to demonstrate that his business approach was based on providing audiences with superior value in movie entertainment – in other words he was market orientated.⁶

⁵ “(Hales) was a Pullman car constructed with the rear end open. A picture was thrown some 20 feet from the area, and one would turn around as if in an observation car and watch the scenery. These pictures were taken in all parts of the world. That was the first moving picture that attracted my attention seriously. We started out by taking a store on 14th Street and put this Pullman car in. We made the front of the store look like a depot and we were able to get films for about six different tours. We had a lecturer who pointed out interesting points. The first day was a big success. But it didn’t last long because there were not enough subjects to make changes. Every two weeks we had to repeat the subjects and when they were once seen people were no longer interested” (Zukor in Kennedy p. 57-58).

⁶ “They were making the best pictures in France and Italy. We did not make very good pictures in this country. The Pathe Company in Paris made a picture ‘The Passion Play’ which was in three reels and hand-coloured. That was really the first picture of any consequence that I can recall. When I saw the picture I made my mind up to bring it to America. We arranged for

Based on those audience reactions and the commercial success of *The Passion Play*, Zukor sensed that audience tastes were changing and a real market opportunity might exist for this new product form (feature length films). He undertook a three-year market study analysing the industry, market demand and observing audience reactions to films in Europe before investing his own financial resources to establish Famous Players in Famous Plays – a studio that would develop high quality feature films featuring famous movie stars.⁷ Observation is a longstanding and legitimate research technique used in the social sciences (Neuman 2000 pp. 346-348; 361-363). Footnote 7 demonstrates that Zukor conducted his own field research – observing cinema audiences in the same way that an anthropologist scrutinises the behaviour of humans in other social settings. He then used his findings from that field research as inputs into his business decision-making on new product development – one of the key attributes of a marketing orientated firm (Day 1994). Zukor also stated in his autobiography that he continued to closely observe cinema audiences throughout his career and used those observations as business decision inputs throughout his time as President and Chairman of Paramount (Zukor 1953 pp. 37; 43).

Other heads of the Major studios shared Zukor's audience-watching habits – Louis B. Mayer's grandson said that the MGM chief was a “*great audience observer*” (Stohr 2004); 20th Century Fox studio chief Darryl F. Zanuck regularly attended previews to watch films with an audience to be able to see their reactions (Behlmer 1993 p. xxi) and future Universal President Carl Laemmle, personally conducted days of observational research watching the

an organ and a quartet to play appropriate music. I did not dare open in New York so we tried it first in Newark. We were open on a street adjoining a department store. A great many of the ladies dropped in early to see and hear the performance. As they walked out, I stood at the door eager and anxious to hear the comments. People with tears in their eyes came over to me and said 'what a beautiful thing this is' – I felt instinctively that this was the turning point. That gave me the courage to go into New York and wherever else I had theaters, and we showed that picture with the same success everywhere. Then it occurred to me that if we could take a novel or a play and put it on screen people would be interested. We should get not only the casual passers-by, but people leaving their homes, going out in search of amusement. However I had no experience making pictures. I approached all the producers in the business and tried to sell the idea of making big pictures. At that time the producers numbered ten, and so many store shows (nickelodeons) had jumped up – thousands throughout the country - there developed a great demand for the one and two reel pictures that were being made. They were so busy turning out these pictures that they would not undertake anything else. In fact they did not believe that people would sit through pictures that ran 3, 4 or 5 reels. I tried for a number of years to convince them, but nobody would undertake to make big pictures” (Zukor in Kennedy 1927 p. 58-60).

⁷ “As a vaudeville operator, I was in partnership with others, including Marcus Loew who had a great number of vaudeville theaters. One day in 1909, someone made the suggestion that we all join and make one corporation out of these theaters. Mr Loew had the greater number of theaters so we adopted the name Loew Enterprises. Turning my interests into Loews gave me an opportunity to be foot loose. I was well taken care of; the corporation paid good dividends, and from 1909-1912, I made a study of moving pictures. I travelled all through Europe and this country, watched the audiences, and was interested in any picture that had a subject that I felt would appeal to the public. In my own mind I wanted to verify if my judgement was right. I would go to a theater, take a first row or sit in a box and there, study the audience and see what effect the picture had on them. So I was pretty certain in my mind after the experience I had in watching audiences that I could use a subject and not go very far wrong” (Zukor in Kennedy 1927 pp. 60-61).

types of patrons attending Hales Tours film programs in Chicago before designing his own nickelodeon theaters (Ramsaye 1954 p. 450).

Universal Pictures, Hollywood's first major studio founded in 1912, exhibited a similar marketing orientation to Paramount in terms of product development. In 1933, Harvard Professor of Marketing - Howard Lewis wrote that Universal actively sought customer input from 1922 when it began advertising in the large circulation *Saturday Evening Post*, asking for readers to write in and say what type of movies they wanted to see (Lewis 1933 p. 87). And Universal further demonstrated its customer orientation: "*In a 1928 advertisement, Universal asked whether respondents liked happy endings, and if Universal should retain unhappy endings when turning books or plays into films*" (Bakker 2003).

Universal was not the first major studio to consider making films with endings appropriate for different audiences. "*The Danish Nordisk company, a large European film company in the 1910s, focused nearly exclusively on export markets, because of the small Danish market. It relentlessly cut its films to the needs of different markets. For the same film it often filmed a happy ending for Western markets, and a sad, dramatic ending for Eastern European markets*" (Bakker 2003).⁸

Evidence presented in Chapter Six demonstrated that box office performance has been a critical data source used by the Majors since the rise of Hollywood, to help determine the shape and composition of future production slates in new product development planning. The studios analysed box office sales so that they could determine which film genres and which movie stars were most popular in America and in foreign markets (Zukor 1953 pp 37; Lewis 1933 pp. 84-85; Sedgwick and Pokorny 2001 pp. 157-184; Bakker 2003 Business History pp 101-130). This is a further indication that that creation of customer-value to different audience segments has been the fundamental principle driving the development of Major studio movies. Chapter Six also showed that fan-mail was another source of customer input used by Hollywood during the Studio Era, to help determine what pictures to make that might prove popular with cinema audiences.⁹

⁸ In the pre-Hollywood era, Pathe's largest non-French competitor was Ole Olson's Danish company Nordisk which by 1908 was the second largest film exporter in the world behind Pathe (Neergaard 1950 p. 3; Nowell-Smith 1997 p. 154). Both companies had instituted a sales policy that would become known as block booking, requiring theatre owners to commit to buying an entire package of films in order to get the pictures that they really wanted. Nordisk was also vertically integrated with its own sales offices in London, Budapest and St Petersburg and it established cinema chains in Denmark, Holland, Switzerland and Germany (Puttnam 1998 *Movies and Money* pp 43). Nordisk survives until this day and remains one of Denmark's leading film studios, but like all of the European Majors of the silent era, Nordisk could not regain its international market prominence after Hollywood had established its dominance in international markets during the First World War.

⁹ The Major studios each received between 18,000-45,000 letters or postcards per month and they all maintained a fan mail department to handle the volume and conduct segmentation analysis of the mail for each star (Bakker 2003). Famous Players-Paramount's President Adolph Zukor indicated that the triangulation of mail data with box office sales analysis and study of

Customer-centred product-design differentiates New Hollywood

In 1996, American film scholar Larry Truman from the University of Southern California observed fundamental differences in the approach to script development taken by Hollywood and other film industries: *“American film makers were in the marketing business. Europeans were interested in content.... Unlike the British models, which look mainly to the domestic market first, the American approach is markedly different.America is about business and marketing dominates everything. It is so expensive to do a film that they think globally. They think marketing. There is a common mentality to protect their investment that I do not encounter elsewhere in the world”* (Ross and d’Amico 1996).

Everyone knows that Hollywood’s marketing prowess far exceeds that of its foreign rivals but that perception seems to be based on the public face of the Hollywood marketing machine - the promotional elements within the marketing mix that are so visible when a Major studio launches any new movie. However, British producer and former President of Columbia Pictures – David Puttnam, argued that it is the product-design of contemporary Hollywood blockbusters that provides the true competitive advantage with a heavy emphasis on visual style, fast pace and action that makes it easier for non-English speaking audiences to comprehend and engage with the movie. *“The secret of Hollywood’s dominance is not simply economic. American movies appeal to audiences because they deliver visceral power and special effects rather than dialogue and plot, and therefore require relatively little grasp of English. In this their appeal mirrors that of the early silent films in the United States – which provided newly-arrived immigrants – few of whom spoke a great deal of English – with access to a cheap, easily understood form of entertainment.”* (Puttnam 1999).

The implications of Puttnam’s argument are that by comparison, more cerebral art films with heavier emphasis on characterisation, story complexity and dialogue, struggle to engage a wider audience both in the U.S. domestic market and in foreign markets and that silent films had greater cross-cultural appeal to a global audience because the on-screen images told the story. Without sound or dialogue, film communication was universal. Table 7.2 below shows the number of independent films that were successful enough to be ranked in the top five box office hits of each year from 1930-2004. The data is segmented into three eras: From the sound era in Old Hollywood from 1930-1949. The quarter century of Hollywood

audience *“left no doubt”* about which stars they wanted to see and that sight unseen, exhibitors could book a Mary Pickford film and *“gauge audiences attendance with reasonable accuracy”* (Zukor 1953 pp 171). *“We knew from our fan mail, box office receipts and audience-watching, favoured little girl players. Children identified themselves with them – directly in the case of girls and as playmates in the case of boys. Adults saw them as younger sisters or daughters”* (Zukor 1953 pp 115).

decline during the TV era from 1950-1974 after the Majors were forced to sell their theater chains and the old studio system collapsed as television undermined the cinema audience, and from 1975-2004 - the New Hollywood of Steven Spielberg, George Lucas, blockbuster movies, computer special effects and multiplex theaters.

Table 7.2 Number of independent movies in top 5 annual box office hits lists

	1930-1949 Old Hollywood	1950-1974 TV era	1975-2004 New Hollywood
Major Studios	98 (98%)	99 (79%)	1912 (93%) (includes New Line owned by Warner and Disney now a Major studio)
Independents	2 (2%) Selznick (1) Rank (1)	26 (21%) Cinerama (3) Disney (20) Magna (1) Allied Artists (1) AVCO Embassy (1)	10 (7%) Dreamworks (5) Orion (2) New Market (1) Golden Harvest (1) Carolco (1)
Total	100	125	150

Sources: Tanitch (2000) *Blockbusters! (From 1989)*; Sackett (1990) *Hollywood Reporter Book of Box Office Hits (from 1975-1988)*.

The table reveals that *even during Hollywood's most vulnerable years from 1950-1974 that rivals in the rest of the world could only account for 21% of all top five box office hits over the entire twenty-five year period* and it is notable that twenty of those hits were from Disney a studio that evolved into a Major Hollywood studio during this era. This signals problems with their new product development process, as they were unable to make movies that satisfied global audiences during quarter century of economic decline in Hollywood.

Producer personality and personal philosophy are key factors in independent film production and can impact on the way that scripts are conceived and developed. Fee (2002) found that producers faced with choices about losing creative control when making films with the Majors or trying to fund their films independently, opted for independent financing when their “*artistic stake in the film*” is high.¹⁰

The section above provides examples from Paramount, Universal, MGM and 20th Century Fox – four of the Big Five Major studios of Old Hollywood, that indicates that those studios focused on creating entertainment that provided customer value and that the heads of those film companies (Zukor, Laemmle, Mayer and Zanuck) all used customer inputs - study of audiences, box office sales analysis and fan mail, to help shape future programs in the new

¹⁰ Brokeback Mountain (2005)) producer, James Schamus said in a recent interview: “*Independent cinema tends to be primarily auteur-driven, which means it's a very director focussed site of production and development. So the screenplays that you tend to write in those situations are much more porous and therefore, quote, often not as good, end quote, as the scripts that you might be writing in the (Hollywood) system. Ang Lee says Hollywood screenplays are like battleships. They're so tightly crafted and constructed that not even a bad director can sink them*” (Georgeades 2007).

product development process. The next section compares and contrasts how a small selection of Hollywood's rivals among the world's leading producer nations, have typically approached new product development.

Hollywood investment in development greatly exceeds that of its rivals

A critical point of differentiation is that Hollywood operated a far more rigorous new product development process than rival film industries. Table 7.3 below indicates that Major studio investment in script development is much higher than investment by film industries in Europe and Australia. At the 1998 London Film Festival, Andrea Calderwood, Head of Production for Pathe indicated that the average investment by European studios in script development is only 1-2% of film budgets compared to the Majors investment of around 7% of total film budget (Kerrigan and Culkin 1999). It should also be noted that the average budgets of European and Australian movies are significantly lower than those of a Major studio movie so the American investment in R&D on movies simply dwarfs that of its rivals. In Australia, *"Producers still develop scripts on relatively miniscule budgets and have few funds to sustain them between projects. Hence, many of Australia's best talent have migrated to the States to harvest their international careers and fortunes"* (Ulmer 2004).

Table 7.3 Comparative investment in script development Hollywood vs Others

Film Industry	Annual investment in script development US \$	Percentage of film budget invested in development	Sources
European studios	\$12-15 million (1997)	1-2% Usually under 2.5%	Kerrigan and Culkin 1999 Hoskins, MacFadyen and Finn 1997 pp 64
Britain	UKFC film development fund invested \$10 million in 150 films (average \$67,000) Av Script cost \$200,000 Av. Film budget \$9.8 million	Under 1% 2.04%	Dawtre 2004 Rossiter 2003
Australia	Av. Script cost: \$56,000 Av. Film budget: \$2.11 million	2.7%	Rossiter 2003

Hollywood Majors	\$300-\$500 million (1997) Av. U.S. Film budget in 2003 \$ 63 million	 10% 7% 5%	Dale 1997 p. 29 MPA 2005 Hoskins, MacFadyen and Finn 1997 pp 64 Andrea Calderwood – Head of production – Pathe in Kerrigan and Culkin 1999 Thomas 2004
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Independent films made without Hollywood involvement simply don't possess the financial resources to conduct large-scale market research in order to eliminate weaknesses in the film or to help position them effectively and fine-tune marketing launch campaigns. India is the world's largest film producing nation but it has never produced an international blockbuster and its approach to script development lacks market research inputs (Bose 2006 pp. 39-57). A typical example of the plight of independent films trying to make space in an intensively competitive market saturated by Hollywood movies is the low budget Indian film *Kama Sutra*, that: "*couldn't capture the wide audience it deserved because of the misleading title. Indeed, the film was unsuited to both audiences looking for serious material and those looking for a sex flick. Kama Sutra's failure could be seen as an instance in which a good session with a focus group might have made a difference*" (Tasca 1998). Market research may have prevented this.

Consequently, compared to Hollywood movies, rival independent productions are burdened with a lack of a market focus and an absence of a clear understanding about a script's commercial appeal from the earliest stages of development. Comparatively, the Major studios in Hollywood, at the same stage, are already using their research findings to prepare initial advertising materials (see Chapter Six).

On independent films, if market research is later undertaken, it occurs typically after-the-event, with a test screening of a completed film (Kerrigan and Culkin 1999). The problem is that by this stage, the film is completed and has no residual production budget or contingency left to make significant changes to the film if the research indicates that changes are necessary. Such films are usually then in the hands of a small independent distributor that also lacks resources to ramp-up the marketing campaign or make major adjustments to already printed advertising materials.

Hollywood's international rivals have not been market-orientated

Comparatively, a detailed discussion of the approach taken by rival film industries to Hollywood (the world's largest leading producer-nations Britain, France, Italy, Japan and India) appears in appendix 10 and highlights an absence in each nation, of an institutionalised process for new product development, capable of producing a steady output of films with commercial appeal for global audiences. Whilst some rivals did establish market-orientated film industries domestically (Britain, Japan and India), others until recently, adopted a more artisanal approach to film making (France, Italy and Australia). These case discussions show why none of these nations have been able to produce a steady supply of films capable of commercially competing with Hollywood product in international markets or in their own home market.

For example, problems with Britain's new product development process were identified in the early 1930s. L'Estrange Fawcett, a British producer of eleven films was highly critical of his country's script development process and also of its over-reliance on stage plays as a source of film material. "*Stories are either ill-chosen or ill-adapted*" and he stated that Samuel Marx, head of M.G.M.'s scenario department had confirmed to him that: "*original stories put into production were largely the work of the staff writers. Only rarely does M.G.M. engage the services of novelists or playwrights. Metro accepts stories from outside the studio only when they are the work of prominent authors - a household name in America. Metro does not disregard all suggestions from outside. They purchase on average about two stories a year written as original material and aimed directly at the screen*" (Fawcett 1932 pp. 35-36; 84-85). Table 7.4 below uses data provided by Fawcett to demonstrate an over-reliance on stage plays as a source of material by two of Britain's three largest film studios.

Table 7.4 American vs British studio comparison for source of screenplays in

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: Fawcett 1932 p. 35 based on his discussions and personal experience

However, the same problem of weak script development persisted into the 1990s, reflected in Andrea Calderwood's (Pathe - Head of Production) comments that European producers were comparatively far less involved in script development than their Hollywood counterparts and preferred to wait and commit to already completed scripts and conducted little if any market research during the development stage. This meant they had little understanding of the real audience potential and commerciality of projects prior to production (Kerrigan and Culkin 1999). British media consultant Martin Dale, made a similar observation: "*Unlike the American Majors, most of Europe's media groups have traditionally proved very reluctant to invest development funds, or even take the concept of script development very seriously. The total development expenditure by Europe's media groups is around \$12-15 million a year – 3% of the Hollywood total. Most of these funds are for Hollywood projects*" (Dale 1997 p. 164).

The case discussions in Appendix 10 highlight deficient new product development processes as a critical factor in the inability of Hollywood's rivals to effectively compete in exports.

7.3 HOLLYWOOD'S NEW PRODUCT DEVELOPMENT PROCESS (NPD)

The Majors have constructed a strategic system that for almost a century has enabled them to produce an ongoing supply of movies that has had wide appeal to international audiences.¹¹

So how has Hollywood achieved this outcome? The answer lies in the way that the Majors approached script development. Since the earliest days of Old Hollywood, the evidence shows that the Majors developed a rigorous, market-orientated editorial system to identify what ideas have commercial potential and are then developed into screenplays in a standard format that later lends itself to effective production planning and management.¹²

¹¹ During a meeting of senior film industry executives from Village Roadshow, Greater union and Warner Brothers held in Australia in the 1980s and attended by the author, Sandy Reisenbach, former Worldwide Head of Marketing at Warner Brothers emphasised the critical importance of new product development with a simple observation: "if its not in the script, its not on the screen".

¹² "Producing standard scripts had at least two functions: 1) saving costs and 2) controlling quality. Detailed scripts permitted initial estimates of the cost of the film and allowed prior trimming if the film was likely to go over budget. The second function, quality control, relates to the increase in the number of multiple reel films from 1910-1915 and, at the same time Frank Woods of the New York Dramatic Mirror and other writers began reviewing films and responding to patron's questions and reactions in the general and trade papers. This formalised network of interaction began a dissemination of rules and categories of conspicuous skill and quality in the photoplay. What the continuity script provides is a precheck of the quality of the spatial, temporal and causal continuity" (Staiger 1980 in Kerr p. 105).

The next section applies the Booz Allen eight-step model to determine if the Majors studios' new product development (NPD) capabilities have been superior to those of rivals. In the movie industry, Booz Allen's eight stages correspond to the categories described by a Hollywood insider as follows and shown in Table 7.5 below.¹³

Table 7.5 Booz Allen NPD template applied to the movie industry

Stage	Booz Allen category	Movie industry equivalent
1	Idea generation	Sourcing literary material for movies
2	Idea screening	Coverage leading to development deal
3	Concept development and testing	Script development, concept testing and then packaging of key elements
4	Marketing strategy	Marketing strategy including packaging the project with a director and stars
5	Business analysis	Business analysis leading to green-lighting of the project
6	Product development	Pre-production, production, post-production
7	Market testing	Previewing to target audiences then re-editing to finalise post-production (see chapter six).
8	Commercialisation	Distribution strategy and promotion (see chapters seven and nine).

STAGE ONE: IDEA GENERATION

Movies are derived from a wide range of sources - books, plays, newspaper and magazine articles, folklore, history, biographies and original stories written for the screen.¹⁴ Harvard Professor of Marketing Howard Lewis noted that during the 1920s that Universal asked the public for ideas for new movies.¹⁵ And Warner Brothers mined newspaper stories and magazine articles for movie ideas.¹⁶

¹³ Hollywood's staged approach to new product development is quite similar to the Booz Allen model. Step one in development is 'a great idea for a movie'. Step two is the synopsis or treatment 'a well developed treatment can be an important tool for introducing your ideas to others such as possible development financiers and others who might help you get your project off the ground'. Step three - 'from the treatment you will develop your script or screenplay a standardised art form. Unlike the treatment, it is characterised by a series of scenes that form the structure of the story and contains the dialogue and describes the actions of the characters'. Step four - 'once the script is finished, the ideal next step is to get a well-known actor/director 'attached'. Attaching 'elements' is called 'packaging'. Step Five - 'the happy ending of the development stage is green-lighting'. Step six - 'production is the process of putting on film the idea expressed in the script - usually in three phases - pre-production, production and post-production'. Step seven is distribution - commercialising the product and bringing the product to market: 'the primary goal is to get the finished movie into the local movie theater' and distributed to home video, television and ancillary markets (Crabb 2005 pp 7-10).

¹⁴ "The novel is probably the most popular film script source. Other film sources include short stories, newspaper stories, magazine articles, biographies, books on historical or current events and characters in a TV series" (Milsome 1979 p. 114).

¹⁵ "The Universal Pictures Corporation, from time to time, has carried out various experiments in an attempt to ascertain the types of pictures desired by the public. One venture, which has been continued uninterruptedly for several years, consists of the insertion of a series of weekly articles in the Saturday Evening Post, which carry brief descriptions of current Universal attractions and of the stars playing in them. Each article includes a statement signed by the President to the effect that the company would be pleased to receive suggestions as to the kinds of pictures which the public would like to see. Whilst the greatest benefit of this column to the company doubtless is obtained from the viewpoint of advertising, it is also of value as a means of securing the opinion of the public on many subjects. In an effort to obtain a more complete expression of opinion from the public, the company prepared a list of questions, which it inserted in one of its regular columns in the Saturday Evening Post. It requested all readers to write their answers and opinions in letters to the President of the company. This advertisement elicited a large number of rather intelligent replies" (Lewis 1933 p. 87).

Pre-sold properties vs original stories

An analysis of movie source material for the Top 100 box office hits in each of the three eras under study in Table 7.6 below reveals that original screenplays underpinned the commercial success in Old Hollywood and New Hollywood respectively providing 47% and 45% of all blockbusters. Whilst novels were an important early source for movie material during the Studio Era – perhaps a more literary age, they have over time become increasingly less important as electronic media diffused widely and people spent less leisure time reading books. Hollywood’s quarter century of box office decline from 1950-1974 coincided with the diffusion of television and with a fundamental shift in Major studio strategy to cope with uncertainty, sourcing a greater percentage of movie material from novels and plays as pre-sold properties in an attempt to play-it-safe based on the rationale that books and plays have pre-existing brand awareness with potential audiences.

Table 7.6 Hollywood blockbuster source material 1930-2004

Source material	1930-1949	1950-1974	1975-2004	Total
Original screenplay	47 (47%)	20 (16%)	68 (45%)	135 (36%)
Book / Novel / short story	36 (36%)	67 (53%)	15 (10%)	118 (32%)
Sequel / franchise	4 (4%)	5 (4%)	38 (25%)	47 (13%)
Play / stage musical	5 (5%)	15 (12%)	3 (2%)	23 (6%)
Biography	5 (5%)	7 (6%)		12 (3%)
Myth / Legend / fairy tale / fable folklore	1 (1%)	6 (5%)	4 (3%)	11 (3%)
Re-make			8 (5%)	8 (2%)
TV show			5 (3%)	5 (1%)
The Bible		3 (2%)	1 (1%)	4 (1%)
Comic book			4 (3%)	4 (1%)
Non-Fiction (Cinerama docos)		3 (2%)		3 (1%)
Magazine article	1 (1%)		1 (1%)	2
Old film re-issued	1 (1%)		1 (1%)	2
True story adaptation			2 (1%)	2
Total	100	125	150	375

Sources: Tanitch (2000) *Blockbusters! (From 1989)* ; Sackett (1990) *Hollywood Reporter Book of Box Office Hits (from 1975-1988)*; Hackett and Burke (1977) *Grange Books (2004) Hollywood Blockbusters: The Top Grossing Films of All Time (From 2000). 80 Years of Best Sellers*; Walker (2004) *Halliwel’s Film, Video & DVD Guide*; *Videohounds Golden Movie Retriever 1997*. N.B. From 1975-2004 - 31 movies began franchises and 9 generated 1 sequel; 68 movies were part of franchises (45%) and 10 (7%) generated sequels (Total 52%)

¹⁶ When Darryl F. Zanuck was at Warner he wrote an article in the Hollywood Reporter in 1932 where he stated: “*It is my sincere belief that the moving picture public will continue to respond to the ‘headline’ type of screen story that has been the policy at Warner Brothers-First National Pictures to produce these past two years. A headline story must have punch and smash that would entitle it to be a headline on the front page of any successful metropolitan daily. Sometimes the story is a biography or autobiography. Sometimes it is that of a fictitious character, based on headline incidents from the life of a real character. Sometimes the story is of an expose nature. The success of innumerable pictures along these identical lines that we have produced in the past encourages us to continue*” (Behlmer 1985 p. 9).

New Hollywood has replaced novels and plays with sequels and franchises (e.g. *Indiana Jones* and *Star Wars*) because they serve the same strategic purpose as pre-sold properties with pre-sold brand equity. Table 7.7 below demonstrates the changing mix of movie source material for hit movies over time and reflects shifts in Major studios' production strategies. It demonstrates is that the Majors have adapted to changing market conditions – a sign that they were market orientated but also that with 20-20 hindsight, that they badly mis-read the market between 1950-1974 when box office declined steeply.

Table 7.7 Major sources of movie material 1930-2004

Source of Top 100 blockbusters	1930-1949	1950-1974	1975-2004
Original screenplays and Novels	83%		
Novels and plays		65%	
Original screenplays, sequels and franchises			70%

Trade paper *Variety* conducted an overall analysis of source material for all movies (not just blockbusters) from 1935-1955 shown in table 7.8 below that shows that original screen stories were the dominant source category during this time period.

Table 7.8 Variety analysis of sources of all movies 1935-1955

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: Variety January 9th, 1957 p. 8 based on MPAA data

Following litigation during the Studio Era, the Major studios in Old Hollywood ceased accepting unsolicited manuscripts because there was no way that a person presenting a screenplay as their own work could be confirmed as the real owner of the copyright. Today, prior to providing any advance guarantee to producers seeking finance to make a film, distributors insist on documented evidence showing a clear 'chain-of-title' of copyright ownership. Consequently, all Major studios have policies that they only accept screenplays from known sources e.g. established producers, writers, directors, stars, talent agents or entertainment attorneys. *"On almost any given day in Hollywood, at dozens of breakfast meetings, in hotels or in more formal meetings in offices, a multitude of story ideas are being discussed. Of the ideas that eventually become films, the vast majority are presented to*

studio executives orally in what is called a pitch. Pitches are particularly effective if they can be boiled down to a single catchphrase, a so-called high concept” (Epstein 2005 p. 130).

Since the 1950s, new ideas have primarily been brought to the Major studios by independent producers or by talent agents. The Majors also employ a strategy to lock-in proven creative talent through ‘housekeeping deals’ that bring independent producers in-house to work from the studio lot but without having them on staff payroll. Such deals give the studio ‘first look’ at new screenplays.¹⁷ Talent agents act as a go-between often packaging movie projects with their clients (actors, writers, directors) before offering them to producers and to the studios. Barriers to entry for unknown talent are high.¹⁸

STAGE TWO: IDEA SCREENING

This section discusses the process Hollywood studios use for filtering through a mass of potential film projects to identify those that are deemed to have the best chances of commercial success. Cecil De Mille was one of Paramount’s best-known directors throughout the Studio Era, in a lecture to the Harvard Graduate School in 1927, he provided insights into the thinking behind how he and his studio selected new projects. His comments reveal a strategic evaluation of the market and a first-mover approach to the choice of subject matter and how it should be produced.¹⁹ Legendary Hollywood producer Samuel Goldwyn said: “*Its more difficult to find a great story, than a great star*” (MacGowan 1965 p. 333). His comment contains two key insights that underpin successful new product development in the movie industry - 1) that from a wealth of material that exists, finding the best commercial properties is not easy so an effective screening process is critical and 2) a great story is just the starting point of the new product development process because it isn’t yet a great screenplay.

¹⁷ “The task of developing ideas is generally farmed out to producers. Although they may identify themselves as ‘independent’ producers, studios often provide them, and their production companies, with offices on their lots and money to hire writers, option books, and cover many, if not all of their other expenses. In return for this support, the studios get the right to buy those scripts that work out or at least the right of first refusal. Studios also initiate and assign projects to these producers for further development” (Epstein 2005 p. 130).

¹⁸ Francis Ford Coppola (The Godfather) observed that in terms of writing talent: “*There are (only) sixty screenwriters writing all the movies in Hollywood today*” (Morris 1999).

¹⁹ “The first thing is the idea. What idea are you going to produce? The sales department will always name you the latest success and say ‘produce another like that because it was a success’. To make my point a little clearer or to give you an illustration, take ‘King of Kings’. With the screen overcrowded with melodrama and with such pictures as ‘Crime’ and ‘Broadway’ and ‘The Spider’ intriguing the public, I felt that the world was ready for the life of Christ. When I suggested it we almost had to resuscitate the financial department. They insisted, ‘what the public wants is melodrama’ but that is the time to do that other thing. Then comes the matter of treatment – the decision as to whether the subject is big enough to carry on what we call a super-special (blockbuster), that is a picture that is road-showed or released separately, or whether the subject is only of sufficient bigness for a program picture. When that point is decided the amount of money to be expended comes next. In the case of ‘King of Kings’ it was \$2.5 million” (De Mille in Kennedy pp. 125-126).

An ongoing search for new material

All studios need new material in order to develop an ongoing supply of new films to feed their distribution pipelines and keep audiences returning to movie theaters. In Old Hollywood, each of the Big Five Majors maintained a roster of movie stars on payroll, so they engaged in a proactive ongoing search for potential projects to become star vehicles for their contracted talent. British producer L'Estrange Fawcett wrote in 1932: "*In the search for new material most studios adopt thorough methods. Reading and viewing staffs are employed. New plays, novels and short stories are examined. Heads of studios are regular in attendance at theatrical first nights. The American companies go farther, especially Paramount. Reports on plays and novels in every European and American capital are sent to Hollywood. Even the more obscure play-producing centres, repertoire theaters and so forth are combed. Files are kept for years with descriptions and criticisms of plays and novels. This is extremely valuable in America where stories are often filmed because they suit the personality of some player or other*" (Fawcett 1932 p. 33).

Old Hollywood: Story departments managed the screening process

The idea screening process that has been developed had its origins in the early days of Hollywood when the Major studios created story departments to handle an influx of a mass of new material for evaluation each year.²⁰ Studios employed story analysts or 'readers' to screen all new material. They routinely prepared a synopsis mapping out the entire plot for all literary properties and ideas submitted to the studio that production heads could use to decide whether or not to develop the idea or screenplay.²¹ *Tarzan* producer Bernard Hyman began his career as a 'reader' at Universal in the early 1920s (Eyman 2005 pp 118). "*The MGM scripting process was begun by readers, fifteen in New York and ten in California, who covered 20,000 novels, stories and original scripts a year. The story editor plowed*

²⁰ "By 1913, detailed continuity scripts were regularly produced by scenario departments. These departments were split into two major functional operations: the writing of original screenplays for the firm and the transference of original plots from freelancers and increasingly from plays, novels and short stories. Trade papers announced as early as 1909 the manufacturers were accepting freelance contributions of stories" (Staiger 1980 in Kerr p. 105).

²¹ "In the 1920s when most of the Hollywood studios were making 50 to 100 pictures apiece each year, they had to create 'story departments' in both Hollywood and New York to find and recommend material. Each had a small staff of well-educated and skilful writers, called 'readers' within the studio walls. Their job was to read novels, plays and 'originals', to make synopses of varying length and to venture opinions on whether the stories might make successful pictures. The story analyst must work fast because the same material is usually covered by a number of studios and yet, as Mervyn Le Roy said, he must write 'a synopsis that conveys the story in condensed form and also the style of the author and of the story itself. The story shouldn't lose anything by being synthesised. When Dore Schary was the Head of MGM he wrote: 'Often our reader's synopsis, particularly of a long novel, is better than the original for our purposes; crisper, the story line cleaner and the characters standing out in sharper relief' (MacGowan 1965 pp. 333-334).

through the mass coverage. If the story seemed appropriate for one of the M.G.M. stars, the story editor would take it to one of the producers responsible for said star. The purchase made, the story editor and producer cast the writer(s) just as they would actors” (Eyman 2005 pp. 156).²² The purpose of the system was to filter out poor material and identify those ideas with the best commercial prospects.²³

New Hollywood: ‘Coverage’ is outsourced

The same screening process is still practiced in New Hollywood although some of the functions have now been outsourced. The weeding out process remains critical because of an increasing volume of new properties entering the market. In 2000, the Writers Guild of America received 38,000 new script registrations. Hollywood studio executives receive about 25-30 new screenplays to read a week in an effort to find the next box office success story, so new scripts are filtered to the studios through a process involving external ‘readers’ that provide relatively cheap ‘coverage’ (Scriptfly 2001). To handle that volume and achieve those goals: *“Studios, agencies and independent film companies (in Hollywood) will usually first have the script read by someone who is trained to read real scripts. In Hollywood parlance, the script is being ‘covered’. Studio executives usually read the coverage. If the initial coverage is good, more and more people will read the script. Coverage on most scripts (I have heard from various studio executives the figure is 90%) is negative.... What do they look for? Story. ‘The play’s the thing’ or so said Shakespeare. Does the story entertain? Does it embody traditional dramatic elements? How does the story make you feel at the end? Has the story been effectively told before? Are there interesting characters? Can the viewer relate to them and care what happens to them?”* (Crabb 2005 p. 133).

²² During the Studio Era, the volume of new material to be assessed by each Major studio each year ranged from 10,000-15,000. Market leader M.G.M. handled between 20,000-25,000: *“Kenneth MacKenna a story executive at M.G.M. said he watched 25,000 pieces of material go through his department annually”* (MacGowan 1965 p. 334). And after the introduction of talking pictures, *“the story department inevitably grew”* (Higham 1993 pp 177). The outline for Warner Brothers movie *The Roaring Twenties* as well as the synopsis for *Everybody Comes to Rick’s*, which evolved into *Casablanca* both, appear in the book *Inside Warner Brothers* (Behlmer 1985 pp 90-92; pp 194-195).

²³ “Oddly, writes Dore Schary in ‘Case History of a Movie’ the story department does not so much buy stories as sell them – that is – bring them to the attention of the studio’s producers. The head of the department and an assistant or two weed the synoptic seedlings and send the more promising to the head of studio and/or staff producers. In the past the final decision was usually based on synopses. Louis B. Mayer seldom read a synopsis of a best-seller or a promising original, instead he had a Scheherezade or two in whose story telling abilities rested the future of the property as well as their own survival at MGM. In the 1960s there were not quite so many readers on studio staffs and fewer in New York” (MacGowan 1965 p. 334). Meetings to discuss new material were held regularly. Kate Corbally was one of Mayer’s personal readers. “Every week there would be a story meeting at which Corbally and the story editor would tell Mayer, Thalberg and the other producers the stories they were particularly high on” (Eyman 2005 p. 138).

A reader today is usually a Hollywood based freelancer who is paid a fee to provide coverage. Just as they did in Old Hollywood, they read a script and then write a short 2-4 page report that maps out the narrative of the story in synopsis form and then make a recommendation on whether the script is worthy of a studio executive's time and attention to read it.²⁴ Script coverage is passed on to studio production executives, who then make a decision whether to champion the script and recommend it to studio executives higher up in the pecking order or to reject it. If a script is attractive enough to the studio it goes into development and writers are engaged to develop the project to the point where a decision can be made to greenlight the film or terminate the project. *"The ratio of developed projects to films is considered to be around 10 to 1 which means that the majority of projects spend their lives in 'development hell' "* (Dale 1997 p. 29).²⁵

Stephanie Palmer, Director of Creative Affairs at M.G.M. stated that the studio received 4,000 scripts per year but studio policy stipulates that they will only be accepted from leading talent agencies or known producers. *"Typically, an agent or producer will call me on the phone and give me a short pitch about the material. If I'm interested, I'll say 'Yes I'd like to read it.' They'll send the script over. If it's something conceptually interesting, then I'll definitely read the script myself and also send a copy to the story department for coverage. Every script that comes into the studio is read by a reader. They are union professional readers who have all been in the business over ten years.... Positive coverage can help motivate an executive to read a script more quickly... There has been a lot of weeding out by the time it gets to us. There's a much better chance that the material could be commercially viable that we only go to that source. We don't have to go to unknown sources where a script hasn't been vetted"* (Bossick 2004).

This section showed that the Major studios have since their inception operated a disciplined and rigorous screening process as part of their approach to new product development. The

²⁴ "On average readers recommend 1 out of every 200 screenplays to go into development" (Scriptfly 2001). "Many scripts are written in the hopes of purchase by a producer or studio and referred to as spec scripts. The process often involves readers or script analysts who prepare script coverage for studio executives, producers and agents who do not have time to read every script. Coverage includes a short synopsis of the screenplay, a rating of the script (from poor to excellent) plus an overall assessment as to whether to consider, recommend or pass on the project. Most scripts (one estimate is 99%) receive a recommendation of pass. Readers are interns, students, recent graduates, or aspiring screenwriters who may freelance from their homes, receiving \$25-50 per script. An agent can also circulate a spec script, trying to build a buzz around the property and create a bidding war. The sale of spec scripts boomed throughout the nineties, as did the prices paid for them" (Wasko 2003 pp 26).

²⁵ *Rocky, Platoon and Forrest Gump* which all won Oscars for Best Picture were all 'in-development' for a decade. *"The Majors include a hierarchy of script readers and development executives, and movies will rarely be put into production before being subjected to a series of re-writes and development committees. One studio executive commented 'If a script isn't sent through the ringer at least 15 to 20 times, it's not worth the pages it's scribbled on'"* (Dale 1997 p. 29).

aim is to quickly and cheaply filter out unwanted projects and identify the real contenders that may have commercial potential if they can be developed effectively.

STAGE THREE: CONCEPT DEVELOPMENT AND TESTING

The next section examines Hollywood's process for developing the idea, outline, treatment or first draft script into a polished draft that can be market tested, packaged with talent and then sent to studio decision makers to consider for greenlighting. The previous sections in this chapter indicated that movie ideas can be drawn from a wide range of sources. The precursor to a screenplay is an outline or treatment. Whether creating an original story for the screen or adapting a novel or a play, screenwriters can begin constructing stories in several ways – with a brief outline, a sequential list of scene headings known as a scene-by-scene breakdown or by developing a treatment: *“a narrative synopsis of what happens in your story incorporating a little dialogue; a treatment is anywhere from 4-20 pages long. Most outlines or treatments should not be longer than 30 pages”* (Field 1982 pp. 199-200).

In his previously mentioned 1927 address at Harvard, Cecil B. De Mille described the strategic role that the film treatment plays in the new product development process and strongly emphasised that the treatment must be virtually bullet-proof before writers are allowed to progress to write the screenplay (scenario): *“Your first treatment of the picture subject resembles the plan of a house. You do not sit down and have a writer write a scenario. You draft a treatment, that is, a plan. You look for a foundation on which to stand your story. Has it a theme? Is it episodic? Is it dramatic? That treatment may be done over and over and over again but the wise producer-director will never let his manuscript go into continuity form (script) until he has that treatment. When the treatment is as strong as it can be made, then comes the continuity. Continuity is the scene for scene scenario. It is the equivalent to the dialogue of a play. The playwright does not start out to write beautiful dialogue until he has a structure on which to hang it. So the treatment is the structure on which is hung the continuity, the written sequence of scenes. The continuity comes to the director and goes back to the writer again and again and again and a great deal of money goes into that back and back and back. But your wise business department knows that is where the picture is made or lost – over the desk. A director must not be handed a poor story or a poor scenario, one without good drama. No matter what ingredients he may use, he cannot make a good picture unless he has the essentials. Therefore you take time over and*

*over and over again to look for weakness from every angle, in every scene” (De Mille in Kennedy p.128-129).*²⁶

De Mille not only describes the process that he used at Paramount and that the other Major studios also adhered to, but his approach continues to emphasise that at all points of development from treatment through to finished shooting script, consideration of the likely audience reaction to the story and to each scene is continually in the forefront of the minds of those involved in developing the scripts – the writer, director and producer. This, once again signals, that Hollywood’s approach to new product development is customer-centric and is further evidence of a marketing orientation.

British producer and screenwriter of the 1930s L’Estrange Fawcett wrote that script development was critical to commercial success. *“The story always has been and still is the weakest link in the chain. And under the story heading must inevitably be included treatment and scenario, for however brilliantly these functions are carried out, the weak story, or rather the insincere story, nullifies every other effort. A treatment can sometimes save a weak story, but an insincere story is always diseased and no one realises that better than the public” (Fawcett 1932 p. viii).*

The Major studios have often been criticised for making formulaic movies, however the scriptwriting formula is actually the foundation upon which Hollywood has created products that proved so popular around the world. Their approach provides a disciplined paradigm for screenplay development.

Syd Field, well-known author of several books on screenwriting who has also lectured on the subject at the Stanford, UCLA and USC film programs and at the American Film Institute (www.sydfield.com), described Hollywood’s longstanding approach to screenplay construction: *“A motion picture is a visual medium that dramatises a basic story line. And like all stories, there is a definite beginning, middle and end (a three-act structure). All screenplays contain a basic linear structure. The standard screenplay is approximately 120 pages or two hours long. It is measured as one page per minute. It doesn’t matter if your script is all dialogue, all action or both. The rule holds firm. The beginning is act one, referred to as the set-up because you have approximately 30 pages to set up your story. You*

²⁶ *“Take a scene where a man comes in, sits down and picks up the telephone. The director says ‘how on Earth can I make that interesting so it will hold an audience for just a second – so it is not just a man coming in, sitting down and picking up a telephone? What twist can I give that to make that little smile come to the audience? If merely the cord from the telephone catches in the drawer, that little incident means a lot, because the audience, expecting to be bored by a commonplace incident, wakes up with ‘Oh!’ That little exclamation ‘Oh!’ has a great psychological effect. That is the way every scene should be worked out in the mind of the director” (De Mille in Kennedy p.128-129).*

have ten pages to let the reader know WHO your MAIN CHARACTER is, WHAT the premise of the story is, and WHAT the situation is. The problem (the main character faces) provides the dramatic thrust that drives the story to its conclusion. At the end of the first act there is a plot point: an incident or event that hooks the story and spins it around into a different direction. Act two contains the bulk of the story and is termed the confrontation portion of the screenplay because the basis of all drama is conflict; once you define the need of your character, what he wants to achieve during the screenplay, what his goal is, then you create obstacles to that need. The obstacles dictate the dramatic action of the story. This generates conflict. The plot point at the end of the second act leads to the resolution of the story. Act three is the resolution to the story. How does it end? What happens to the main character? A strong ending resolves your story in order to make it comprehensible and complete. A definite beginning, middle and end, is the foundation of dramatic structure” (Field 1982 pp. 7-12).

Hollywood script consultant Dr Linda Seger, emphasised the critical importance to story development played by the construction of plot points, which she calls turning points: *“A good story remains interesting because of unpredictable and intriguing twists and turns in the action along the way to the climax. Although twists and turns can happen throughout a story, in the three act structure there are two turning points that need to happen to keep the action moving – one at the beginning of act two and one at the beginning of act three. These help the story change direction. New decisions are made. As a result of these two turning points, the story achieves momentum and retains its focus”* (Seger 1987 pp. 16). She also emphasised that script development is a process involving intensive revision of previous drafts. *“Making a great script isn’t just a matter of having a good idea. Nor is it a matter of putting that good idea on paper. In scriptwriting, more than any other form of writing, its not the write, it’s the rewrite that makes a good script great”* (Seger 1987 p. xiii).

Hollywood’s screenwriting formula is a well reasoned and proven approach that has helped the Majors studios develop movies that have continually proved popular with world cinema audiences for over nine decades. It involves a rigorous peer review process illustrated in the description of the development process for *Casablanca* at Warner Brothers. Creative, technical and casting inputs and recommendations were made to the film’s producer and screenwriters by story analysts, associate producers, the film’s director Michael Curtiz and by Jack Warner - the Head of Studio (Behlmer 1985 pp 194-221).

This approach typified the modus operandi for script development at all of the Major studios in Old Hollywood. At 20th Century Fox, studio head Darryl F. Zanuck chaired script

conferences which enabled him to suggest improvements during the entire development process.²⁷ Zanuck continually focused on how to improve the quality of Fox's movies. A memo that he wrote to all of his "A" directors and producers at the studio dated June 4th, 1941 provides interesting insights into how knowledge gained from observing a weakness in a movie during its editing in post-production could be used later to strengthen the studio's approach to script development (Behlmer 1993 p. 55).²⁸

The quest for quality continues in contemporary Hollywood studios. Wasko (2002 p. 55) describes a new product development process that uses a continuous learning process drawing upon critical inputs from creative talent attached to a movie at different stages of production to improve the final product before its market launch. *"A script may pass through the hands of many writers before it is ready to be produced, and even the revised final is likely to be modified by the director and the actors while the picture is being shot. The editor too may affect the script by deleting a line or a speech that turned out not to play well, and the decisions that follow previews may entirely change the outcome of the story"* (Wasko 2003 p. 55). *"Not uncommonly, six or more writers will be retained for a single script. Sometimes a writer is hired as a 'script doctor' "* (Epstein 2005 p.134).

Examples cited above indicate that Hollywood has throughout its history, operated a strategic approach to developing movie entertainment designed to attract paying audiences. *"Unfortunately for the idealist a great deal of money is invested in studios to finding and producing material which they believe will show a profit. They are not interested in ideals. They are as commercially minded as Woolworths"* (Fawcett 1932 p. 1). It can be seen that considerable resources and effort is expended by Hollywood to not only acquire commercially attractive stories but to craft them into carefully considered screenplays, that provide a blueprint for the director and actors to create movies that will entertain audiences. This approach to product development is not evident in other film industries.²⁹

²⁷ "Zanuck, having been a writer, was a strong believer in story conferences following the completion of each draft of an outline, treatment and screenplay. It was his custom to have his script co-ordinator – for many years Dorothy Hechtlinger and then Molly Mandaville from 1943 – attend his conferences, make detailed notes of what was said, type up the notes and then distribute them to each person at the conference: usually the writer (s), staff producer under Zanuck and then later, when the final shooting script was being prepared, the director. Molly Mandaville wrote in an interoffice memo in late 1951 'We usually have story conferences in the afternoons, sometimes we'll have one every afternoon during the week'" (Behlmer 1993 preface p. xx).

²⁸ "Sitting as I do night after night in the cutting room working on films, I would rank lack of tempo as public enemy #1. Where does the fault lie? Very frequently its foundation is in the scenario (script). Frequently we will photograph a sequence that has one story point in it and we will photograph a subsequent sequence that has another story point. When the film is put together we find the two sequences have a feeling of drag. Proper advance consideration would in many cases enable us to find ways and means of placing both story points in one situation – then, when an audience looks at the film, the story moves ahead of the minds of the theatregoers and the interest is intensified" (Behlmer 1993 p. 55).

²⁹ Fawcett wrote in 1932: *"When one observes the persistent neglect by producers of themes based on universal emotions in favour of topical subjects, whose interest evaporates between trade show and general release; when one sees the pathetic*

In contrast to the relatively superficial approach to script development often evident in rival film industries (see appendix 10), Oscar-winner William Goldman's approach where he crafts a screenplay to match the particular talents of each director demonstrates a deep intellectual thinking about how to develop scripts that will play well to audiences.³⁰

Many Hollywood scripts are re-written many times before they are considered ready to package and several more times after creative talent has been attached to the project and directors and actors have had input into the script (Dale 1997 p. 29). In Hollywood, script development often continues beyond pre-production into the production stage, as was the case with *Casablanca* where the writers were still fine-tuning for the film the day before some scenes were actually shot to better match the characterisations developed by the lead actors. *"There are two kinds of screenwriting. The first is the formative stage when you're starting from scratch with an original idea and its pure fiction like a novel. The second stage begins when the actors are cast. In a way its no longer fiction because there are real people involved. No matter how carefully you worked on the first stage of the script, once it gets into the hands of a really good actor like Jack Nicholson, within a short time he's going to know the character better than you do"* (Pirie 1981 p. 151).

Chapter Six provided evidence that showed the Major studios in Hollywood undertake market research to test story concepts, proposed casting, star combinations and movie titles (Fiske and Theatres 1947 pp 274; Goldberg 1991 pp 92; Friedman in Squire 2004 pp 287; Wasko 2003 pp 191; Hayes and Bing 2004 pp 87; Marich 2005 pp 26; 32-33).

Hollywood uses this information to modify scripts while they are in development and to fine-tune package elements before movies go into production. The evidence presented in Chapter Six also showed that this practice is not common in other film industries around the world, partly due to an artistic orientation that possibly results in scepticism about the usefulness of market research to script development and partly due to a lack of money available to lower budget films.

dependence, especially in British studios, on play-form instead of boldly creating true cinema – then one feels that the time has come for a complete overhaul of methods" (Fawcett 1932 p. x).

³⁰ 'One of the things I do when I work for a director for the first time is I try to look at everything they've ever shot, because nobody knew everything, to use the example I always use. If you work with Hitchcock, you shouldn't give him size because he was helpless with size. He was great at small things, people in showers, etc. When you work with David Lean, another great director, you could give him all the size in the world and he could deal with it. And I think it's very important if you're all lucky enough to work with a director to find out what their strengths and weaknesses are, because if you write something they can't shoot, guess what, it's not going to [be] in the movie'" (McCurrie 2006).

This section showed that Hollywood has constructed a concept development process that has operated for many decades and critically differentiates the Major studios from most domestic and overseas rivals that tend to under-develop film projects.

STAGE FOUR: MARKETING STRATEGY

Since the Studio Era, the idea screening process described above indicates that the Majors have exercised rigid editorial control over what films get made. From a product-planning perspective within each studio's marketing mix, the fundamental difference between Old Hollywood and New Hollywood is that the Majors of the pre-television era produced programming only for the world's theater chains because there were no economically significant post-theatrical markets. Since the 1980s, post-theatrical markets have emerged that now provide more revenues than the cinema release, however success in theatrical markets, which is dependent upon the box office performance of the Majors' tentpole movies, determines the sale value of the licensing package offered to home video and television (Dale 1997 pp 26).³¹

The consequences of the growth of post-theatrical markets into major revenue streams are risk-reduction in production because studios are now no longer solely dependent upon commercial success in theatrical release and they can recoup production costs from post-theatrical sales. This has made production financing easier and the Majors have focused on producing higher quality, bigger budget movies to differentiate Hollywood product. Since the 1950s and the collapse of the old studio system, Hollywood studios increasingly employed a blockbuster strategy and have become increasingly more reliant upon a small number of 'tentpole' movies within their wider annual production slates.

Demand curve for movies is stable in North America

The demand curve for movies in the North American market has been stable since the 1960's. The Majors release about 150 films per year and 10 movies gross box office sales of \$100+ million, 10 films make over \$50 million; 40 films achieve \$20+ million and the remaining movies fail theatrically (Dale 1997 p. 22). These tentpoles target the mass youth audience during the long school holidays, all of them jockeying for position within a 12 week timeframe to become one of the top 10 hits of the year. *"The summer months are*

³¹ "A Major is a giant software publishing house with most revenues earned in distribution and retail" (Dale 1997 pp 19).

responsible for roughly 40% of Hollywood's box office revenues and the race for dominance continually grows more feverish" (Bart 1999 p. 4).

Commercial success and economic survival in an increasingly competitive market is therefore critically dependent upon the Majors effectively planning their annual product portfolio each year, striking the right product mix in terms of the number of new projects, varying levels of quality (i.e. film budgets, stars) and the right blend of different film genres that will satisfy a market where audience tastes can change suddenly.

Product portfolio planning is the first step of the marketing strategy

The media often report on Hollywood's escalating film budgets and marketing costs making the movie business seem high-risk like rolling dice at a casino, however the risks '*are far more manageable than they first seem*' (Dale 1997 pp 22). A key strategy to reduce the risk of billion dollar investments by each studio each year has been movie sequels and franchises (series). After the market volatility of the TV era, New Hollywood opted for security sticking with a proven box office success and trying to replicate that success turning blockbuster movies into an ongoing franchise.³²

Whilst much has been written about Hollywood's high concept and blockbuster strategy, it is not a new phenomenon in Hollywood. Silent film *Birth of a Nation* (1914) was the first true blockbuster and since then the Major studios incorporated "super specials" or roadshow releases as they were then called into their annual production programs.

Old Hollywood: Planning the annual production program

In a speech to Harvard graduates in 1927, Paramount's head of production Jesse Lasky described a strategic approach to studio production planning and the role of "specials".³³ He

³² This trend began in Old Hollywood with series like *Frankenstein* (Universal), *Tarzan* (M.G.M.), *Hopalong Cassidy* (Paramount), *Rin Tin Tin* (Warner Brothers), *Zorro* (U.A.), *Sherlock Holmes* (Fox) and *Blondie* (Colombia) and re-emerged during the 1970s with series like *The Godfather* (Paramount), *Star Wars* (Universal), *Dirty Harry* (Warner); *Airplane* (Paramount); *Rocky* (UA); *Jaws* (Universal); *Superman* (Warner) and continues in the 21st century with *Harry Potter* (Warner); *James Bond* (Sony-MGM); *Spiderman* (Sony); *Pirates of the Caribbean* (Buena Vista); *Shrek* (Dreamworks-Paramount); *Lord of the Rings* (New Line – a Time-Warner subsidiary) and others.

³³ "A few months ago we had a meeting of our department heads representing distribution, exhibition and production with the President to determine what we should do for the next season. We decided using our past experience as a guide that the proper number of pictures for our company should be 75. Figuring on the income from pictures in the United States and through our foreign markets we can pretty much gauge the amount we ought to spend. So we started with a budget of \$20 million and a program of 75 pictures. There are three fundamental types of picture. We have what we call the program picture, that is, the picture that is not expected to run longer than a week. In smaller places it changes twice weekly and in still more places it plays only one day. That type of picture is the very backbone of our industry. That is the picture that supports the multi-million dollar motion picture palace, the picture shifted under a weekly change policy. So we laid out a program of 48 or so pictures that are

also compared movie studios to book publishers needing to be market-orientated and sense changing audience tastes: “*Why did we not make this classic, or that well-known novel, or this original story? Well our studio executives or heads of the production department are men with an editorial vision. I myself make it my business to keep in close touch with the current fiction and magazines, with the current stage successes. I read the Saturday Evening Post as if it were my bible because I believe that Lorimar as an editor has the same problem that I have, that is, of sensing what the public will read. In other words our business is akin to book publishing. We try to make best sellers, only ours are celluloid. We sense out as much as possible the timely topics, and the make up a large proportion of the program pictures. We now go from timely topics into history and we say, ‘What stories do the public know best? What characters will they like?’*” (Lasky in Kennedy pp. 106-107).

Lasky’s comments also reaffirm that consideration of the audience permeated Paramount’s product planning process during the Studio Era and provides further evidence that the studio was a marketing orientated organisation.

New Hollywood: A similar approach to developing production slates

A *Variety* interview in 2003 with Universal Chairwoman Stacey Snider and her senior executive team indicated that a similar approach to production planning is still evident in New Hollywood.³⁴ Another *Variety* article described the Disney-owned mini-Major – Miramax also taking a strategic approach to its annual production planning.³⁵ Even British

planned for weekly change. The average cost of those negatives will run from \$200,000- \$215,000. Then there is the second and more important classification and in my mind the most important of all – these we call the specials that will run as long as the public will patronise them. The negative cost of specials would run from \$350,000-\$500,000 or higher. Possibly we shall have about 17 of those in the program. Finally, and of great spectacular importance, because they lend a lot of colour and prestige and good will to the industry, rather than because of the profits they make, are the so called road shows. We make 2 or 3 of these road shows a year. The road shows run from \$500,000- \$2 million or more” (Lasky in Kennedy p. 101-102).

³⁴ “In a show of solidarity, Snider and her top lieutenants – vice chair Marc Shmuger, production prexies Mary Parent and Scott Stuber, distribution head Nikki Rocco and marketing co-heads Adam Fogelson and Eddie Egan – convened last week to walk *Variety* through their 2003 slate. The message: These films were shaped by an ongoing dialogue crossing all divisions of the studio – from development to production, marketing distribution, home video, franchise branding and licensing. Snider says, ‘At Universal Pictures, every department reads storyboards and watches footage, often on auids, to map out strategies for the slate.’ By integrating the business units and sharing resources, ideas and access to materials across departments – domestic and foreign – the studio has collectively planted the seeds for films on the slate – big and small – to be breakout hits. ‘Everybody in this room is working toward the same common goal,’ Shmuger says. ‘2003 brings a diverse lineup spread across the calendar year, including tentpoles, star and filmmaker-driven fare, and small-scale programmers in the vein of *The Fast and the Furious* and *Bring It On* that the studio thinks could blast off and become their own franchises. ‘Universal has succeeded at rolling out a continuous stream of big-ticket, sequel-driven franchises, including *The Mummy* and *Jurassic Park*. Snider says the franchise slate isn’t conceived but emerges organically from films that succeed on their own terms. Sequels happen if you make a character or world that people want to revisit’ says Stuber” (Bing 2002).

³⁵ “A look at the 2003 production slate would indicate a return to the company’s original scenario: A cutback in expensive studio-type films and a stepped-up acquisitions program. Unlike the other Majors, Miramax is not centering its slate on franchises or sequels: It’s still about original movies. Two-thirds are acquisitions, a slightly higher ratio than in previous years. The difference is that, next year there are fewer of the big-budget pics. Of the 28 films skedded for 2003 release, only one is budgeted over \$50 million, in contrast to attention-grabbing pics like *Gangs of New York* and shared titles such as *All the Pretty Horses*. In 2003, Miramax’s pic volume will shrink slightly from the roughly 30 films released this year. Execs are

studio - Working Title, now a subsidiary of Universal, approaches production planning from a similar strategic standpoint.³⁶

Marketing departments play a lead role in new product development

The distribution and marketing arms of the Major studios have significant influence on what movies get made. They commission market research to test story concepts, casting and movie titles (Marich 2005 pp. 32-33). They model revenue forecasts and formulate marketing strategies and launch budgets, as factors to be considered during business analysis and greenlighting process “*Most studios ask marketing and distribution executives for performance projections even before green-lighting a production, as well as a cost analysis as to how much must be committed ‘to open’ the movie to achieve the projected box office revenue*” (Epstein 2005 p. 140). At some studios marketing and distribution executives have the power to veto projects (Young 2006).³⁷

Fred Goldberg, a former Senior Vice President of Marketing at United Artists who also worked at Paramount and with Columbia, wrote that the Majors develop marketing strategies during the script development stage: “*It is important to have a marketing plan before you begin active production. It will help you identify the target audience – the people most likely to want to see this particular movie*” (Goldberg 1991 p. 5).

As soon as a movie receives a greenlight the marketing strategy is implemented. Unit publicity is working in pre-production and from the film set, publicising the movie and the stars getting advance publicity, while the distribution team is preparing the launch campaign. The Advertising department begins preparing early advertising materials – one-sheet posters, teaser trailers, trailers, press ads and billboards. “*Much planning can be accomplished before the production of a film starts. Most of the important campaign tools – like copy,*

bullish on the slate, which includes The Human Stain and Neverland, which the studio says are budgeted at less than \$30 million and \$25 million, respectively. Nearly half of the 2003 films were produced or acquired for less than \$10 million. Eight fall into the \$25 million-\$45 million range. The only film likely to top the \$50 million budget mark is Cold Mountain which is coming in around \$82 million. It's in advanced discussions on at least three as-yet-unnamed co-production projects for late '03/early '04, but two of them are in the \$50 million range, and the third film is eyed for around \$25 million” (Oppelaar 2002).

³⁶ Working Title Co-Chairman Tim Bevan stated: “*The basic ways projects come to Working Title: there are long term relationships, there is reacting to books or screenplays in the marketplace; or there is pro-acting i.e. coming up with ideas that we want to turn into films ourselves. Eric and I are also thinking about our entire slate in any given year because we will probably make five movies every year – a couple of low budget ones, and a couple of high budget ones. There is no point having a bunch of art movies going at the same time, because you want to balance that slate*” (Sawyer 2002).

³⁷ “*Film distributors have tremendous power and involvement in the manufacturing process. Often, they are totally in control of a (Hollywood) film, they can influence script and title changes, casting decisions, final edits, marketing strategies and financing of the film. There are companies that will not put a movie into production without the endorsement of the marketing department. They are involved in reading scripts, making the decisions on whether or not the movie is going to get made*” (Wasko 2003 p. 84; 189).

photography, featurettes, teaser trailers and special material for television – are best prepared while the picture is still in production and the cast and other production people are available. If you plan properly and involve the producer and director in the planning, much can be accomplished during the production period” (Goldberg 1991 p. 14).

In Old Hollywood, marketing strategy was also formulated prior to production. Chapter Nine discusses historical evidence that shows that the Majors provided their sales team with catalogs showing forthcoming product that was in-production, from which theaters often made advance bookings, sight-unseen. That chapter also shows that the Majors developed ‘press books’ (campaign books) for each movie that contained the entire marketing strategy and all of the necessary advertising, publicity and promotional materials to enable thousands of theaters that existed in small-town America and overseas to launch new movies in their home town (Laemmle in Balio 1976 pp 161-163; Sennett 1998 p. 69; pp. 132-133; Bassoff 2000).

This section provided evidence that showed that the Majors studios in Old Hollywood and New Hollywood both strategically planned their annual production programs. It also showed that they developed marketing strategies during the development stage and campaign materials during pre-production and production.

STAGE FIVE: BUSINESS ANALYSIS: THE GREENLIGHT

The next section analyses and discusses stage five of the Booz Allen model - business analysis, which in the movie industry equates to Hollywood’s greenlight process – the way it decides what pictures to make. The evidence presented above shows how the Major studios annual production strategy guides choice of the type of new projects that are selected each year. In any era, the final decision to place a movie into production commits the studio to the investment of significant resources both financial and creative, which once assigned are unavailable for other business needs.³⁸

³⁸ “The studio’s green-light is the decision on which hangs the immediate fate of producers, directors, stars, writers and others. For studios, the greenlight represents a commitment of enormous magnitude. For one thing, directors and stars normally have ‘pay or play’ clause in their contracts requiring studios, once a film is greenlit, to pay their full fixed compensation, even if they abort the project. This can amount to more than \$30 million on a major film. In 2005, the average commitment to a greenlit movie was \$130 million. Studios resist making such a large commitment until all the elements are in place. But as directors and stars are lined up, the pressure increases from their agents (who collect 10% once the decision is made). If the studios are not willing to commit, the directors and stars may move on to other projects” (Epstein 2005 p. 139).

Making the right choices is therefore critical to economic survival in Hollywood. The financial viability and survival of three Major studios has in the past been undermined by commitment to make a single blockbuster when those movies' budgets escalated wildly out of control with *Showboat* at Universal in 1934-35; at 20th Century Fox with *Cleopatra* in 1962 and at United Artists with *Heaven's Gate* (Dick 1997 pp. 100-102; Solomon 2002 pp. 140-145; Bach 1985). Former Paramount President and now retired Disney Chairman, Michael Eisner stated: "*The one thing you cannot be bad at in this business is choosing material. Yes it helps to keep your negative costs down, and not to grab stars and pay ridiculous prices, but you know what? If you pick the right material all that pales*" (Schwartz 1984).

In New Hollywood, the corporate parents of the Majors are vertically integrated media companies that also own the largest home video distribution companies, the five major TV networks in North America, most of the largest music labels, some of the largest book publishers, radio networks and four of the five major theme park companies. Unlike the Majors of Old Hollywood that were totally dependent upon theatrical box office revenues, this diversification enables these media giants to not only control the entire value chain, but to stabilise cashflow despite a volatile theatrical market and therefore control overheads. This is achieved by the Majors selling new movies and old films from their libraries in packages, across multiple media markets to product-hungry post-theatrical companies, often owned by the parent companies or corporate siblings of the Major studios. As Viacom chairman Sumner Redstone said: '*Content is king*' in the movie publishing business because the blockbuster synergistically feeds not only the Major studios but also other corporately related businesses, and most of the money stays within the conglomerate (Dale 1997 pp 22-26; Lieberman 2002 pp 4).

Successful blockbuster movies like *Titanic* and *Lord of the Rings* can create multi-billion dollar revenues for the parent corporation through theatrical, post-theatrical and ancillary revenues from other sources e.g. music soundtracks, home video and television sales, product placement income and licensed merchandising. "*The Majors select ideas that can meet their basic requirements. The studio chiefs are focused on the particular elements in films that will keep the money flowing into their clearinghouses. They pay particular attention to aspects likely to attract or repel equity partners, co-financiers, merchandisers, video chain stores, foreign TV outlets, toy licensees and other major contributors to their clearinghouses* (Epstein 2005 p. 130).

Who greenlights studio movies?

Different studios have handled the greenlighting decision in different ways throughout Hollywood's history and a studio chief's perceived power within the company and force of personality have both played a key role in who makes this critical decision at different studios. Writing in 1932, British producer L'Estrange Fawcett observed: "*Choice of subject involves heavy responsibility. There are two methods. A strong-minded man such as a Samuel Goldwyn or Howard Hughes in Hollywood may act as a dictator. The second method of story choice is by committee. The Hollywood studios have production committees composed of a few executives within the studio whose word is law. The same plan is adopted in England in a less efficient manner. Here, all kinds of people 'horn in' on the committee. Wardour Street managing directors, financial wizards, alleged experts in audience psychology, accountants, publicity experts, economy experts, business efficiency experts and film directors – all are co-opted as it were on the studio committee. In fact anyone with a loud voice can get a hearing sooner or later*" (Fawcett 1932 pp. 30-31).

In Hollywood, the final choice to greenlight projects has usually rested with the Heads of Studio and/or President who ultimately approved all films going into production after they had reviewed the screenplay and production costs. This was clearly evident at Universal, Paramount, M.G.M. and Warner Brothers (Behlmer 1985 pp 209; Behlmer 1993 pp 153). Like the other movie moguls, at 20th Century-Fox, Darryl F. Zanuck made all critical decisions on what films were produced and what elements were attached.³⁹

In order to make the right decision to fit their annual production strategy, the Majors of Old Hollywood and New Hollywood have always had to consider the creative elements attached to each film project (stars and director) and whether that package can achieve corporate goals for projected revenues in line with their annual budgets. Typically, only 10% of projects in development proceed into production. The other 90% are abandoned or go into turnaround, which means that the producer can take the script to another studio (Epstein 2005 p 133-134).

³⁹ "Zanuck was in complete charge of the Fox studio and product. Zanuck was responsible for casting decisions (key roles) and producer, writer, director assignments (Behlmer 1993 pp xvii; xx)."

What information is presented for the green-lighting decision?

The document received by the head of studio for any movie seeking the greenlight to proceed into production is analogous to a feasibility study in other industries. It comprises the full budget for the film, details of the packaged elements (stars, directors, writers, producers), the nature of the deals with creative talent, producing, financing and merchandising partners, box office performance projections devised by the marketing and distribution departments based on past performance of similar films of the same genre or in the franchise, estimated P&A (marketing expenditure) required to open the movie in a competitive market and various earnings scenarios from all revenue sources modelled by studio financial executives (Epstein 2005 pp. 140-141).

Risk-management considerations

Whilst it has often been proposed that the \$100+ million dollar film budgets and billion-dollar annual production slates in New Hollywood facilitate a fear of failure resulting in a deep-rooted conservatism in new product selection by the Majors, managing risk has always been part of the studio chief's job and a cautious approach was always evident at the Major studios in Hollywood.⁴⁰

In Britain today, Tim Bevan, Co-Chairman of Universal subsidiary Working Title faces the same risk management scenario as the studio head at a Hollywood Major: *"We really try to keep our budgets as low as possible and we won't green light a film if we think the budget is greater than the film is worth"* (Sawyer 2002). Cost-benefit analysis of the film budget vs likely return on investment also dictates choice of films at the BBC - Mark Shivas, Executive Producer, BBC Films said: *"We are sent more than 1000 scripts a year. We look for films that can be made between two and five million pounds simply because it is difficult to raise money in Britain for films that cost more than that"* (Ross and d'Amico 1996).

⁴⁰ *"The film business plays for safety and does not, except at mad moments, spend money on stories that are too limited in appeal, too clever, too complex or too sordid – however brilliant. The studios claim to have brought the best-seller idea to a fine art, because they cannot afford to make failures. Every picture must pay. The elimination of failure is vital because of the immense number of films produced and the huge amount of working capital required"* (Fawcett 1932 p. 29). *"Ernst Lubitsch is Paramount's big luxury and has unlimited choice of material and money for his productions. But his films are a definite shop window to show the world what clever stuff Paramount could turn out if they were not compelled by circumstance to stock more popular lines. The other Hollywood companies cannot afford a Lubitsch. They make the whole world talk in gasps about Paramount pictures. The category system (genres) arose out of the influence on film-making of two agencies – censorship and the need for pleasing the mass-mind"* (Fawcett 1932 pp 2-3).

What do the Majors look for?

In order to be considered for production finance, studio chiefs need to be convinced of the project's market potential; that the producers, director and stars attached to the project can deliver a level of quality that can achieve the studio's revenue goals and that the film's budget is reasonable in the context of potential sales (Jowett and Linton 1989 p. 34).

Movies are a talent-led business which is why the Majors invest so heavily in housekeeping deals to facilitate long-term relationships with proven creative talent that can deliver successful movies as Warner Brothers did with Clint Eastwood and his production company Malpaso; as Universal did with Steven Spielberg and Amblin' Entertainment; as Fox did with Mel Brooks and as M.G.M. did with Tom Cruise and his producer partner Paula Wagner in 2006, offering them equity in M.G.M.'s subsidiary studio United Artists, installing Wagner as CEO of U.A. and Cruise as a producer with the mandate to produce four movies per year for the studio (Holson 2006).

Such relationship deals and project packaging are fundamental to the success of the Major studios and are negotiated by the leading talent agencies like William Morris, Creative Artists Agency (CAA), ICM and UTA.⁴¹

Critical success factors – movie stars and popular genres

Old Hollywood developed the star system and film genres into market segmentation strategies that would ensure that new movies with no brand equity had an in-built core audience to target during marketing launch campaigns (see chapter eleven). Since the early 1910s, the popularity of particular movie stars and film genres have been seen by the studio heads, financiers, distributors and theater chains as critical marketing elements of any movie package: *"Elements are fundamental to deal-making. There seems to be general agreement that two strong elements are enough to close a deal but conflicting opinions about what makes an element desirable. A good script can be a useful element as bait for a bigger fish, but generally it will need to have a star or director attached before the studio takes it seriously (Pirie 1981 p. 47).*⁴²

⁴¹ CAA began the trend that is now standard industry practice of agencies packaging key elements of movies using their client-base and then taking these projects to the Majors for financing and distribution. "Former CAA chairman Michael Ovitz, was credited with putting together the major elements for successful films such as *Rain Man* and *Jurassic Park* (Wasko 2003 p. 20).

⁴² "The process of choosing stories is best illustrated from the analogy of a fruit farm, where apples are passed through a graduating machine which sorts them into different baskets according to weight. Studios rarely buy a story because it is a fine work of art. They choose a story because a) it falls into a well-known category (genre), or b) it suits a personality or star artist

In Old Hollywood, the popularity of movie stars was a key factor underpinning the success of studio movies and a key point of differentiation from competitor's films. M.G.M.

positioned its studio as '*having more stars than in the heavens*' (see Chapter Nine).⁴³

Casting was a critical success factor in movie packaging in the Old Hollywood Studio Era.

⁴⁴Cecil B. De Mille discussed in 1927 how as a producer-director he strategically evaluated and decided upon key elements for his movie about Christ - *King of Kings*: "*We take up the question of choosing the actors for the picture. Is our story strong enough to be made without using a star? Or must we have in it a great, well known personality that the sales department can sell, in order to counterbalance the weakness of the story? We will talk about 'King of Kings' and say that this subject is big enough not to require a star. We send for the casting director and say 'Here are the types that we want and not just actors and actresses but types that are psychologically right and fit into the frame of our picture'*" (De Mille in Kennedy p. 135).

After the arrival of television brought new TV stars into the family home every night, the Majors focused more on spectacle and enhancing the moviegoing experience to differentiate cinema from the small screen. In the post-television era, Gallup's movie industry research suggested that the 'marquee value' of movie stars followed rather than preceded a box office hit (Jowett and Linton 1989 p. 82). Economic research by DeVany and Walls (1999) of a large sample of Hollywood movies found little correlation between box office success and the presence of stars.⁴⁵ So, if star-power no longer guarantees box office as it once did in Old Hollywood, why are studios willing to pay astronomical salaries for A-List star to appear in

or c) a star director wants to make it. I am concerned here with the regular commercial studios in America and Europe" (Fawcett 1932 pp 2-3).

⁴³ "Louis B. Mayer (Head of MGM) used to say that what distinguished the film business was that its major assets go home every night. Films are sold on the basis of their stars, who have a marquee value in opening a film" (Dale 1997).

⁴⁴ "The story chosen must be bolstered by star appeal, sex appeal, theme song, comedy interlude, thrill sensation, sentiment – a process known as 'infusing all elements of popular success' because that may ensure some measure of box office success before production starts. The casting is determined solely by the consideration that certain artists are held to be more successful with audiences" (Fawcett 1932 p. 69).

⁴⁵ "It is impossible to attribute the success of a movie to individual causal factors. In other words, 'nobody knows anything'. The audience makes a movie a hit and no amount of 'star-power' or marketing can alter that. In other words the real star is the movie" (De Vany and Walls 1999). Numerous examples exist to support the De Vany-Walls thesis – Warren Beatty and Dustin Hoffman could not save *Ishtar* from being one of the most expensive flops in history and Bruce Willis could not save *The Bonfire of the Vanities*. Conversely, the first \$100 million blockbuster was Disney's animated film *Snow White* which featured no stars and the original *Shrek* marketing campaign did not advertise that Mike Myers, Eddie Murphy and Cameron Diaz provided the voices while the *Shrek 2* campaign did advertise the stars, yet both films were big hits. Many of the most successful blockbusters do not feature super stars and are sold on their special effects – *Jaws*, *Star Wars*, *Lord of the Rings*, *Spiderman*, *Harry Potter*.

a particular movie and why do studio heads still consider stars to be a critical element in the decision to greenlight a movie?

There are two marketing-based answers to that question which impact on studio decisions: 1) Movies are like other new products, most fail in theatrical release. At script stage, the only brand equity an original screenplay has is its creative elements – the stars and director. This provides investors, distribution sales teams and theater chains with some ‘semblance of certainty’ that the movie has elements that may attract an audience. 2) Hollywood movies are clearly differentiated from competitive offerings by the presence of superstars. No other film industry can afford to engage them. So stars as critical elements provide a security blanket for international investors.⁴⁶

Genres as critical elements in studio decisions to greenlight projects

The Top 100 movies at the U.S. box office segmented by film genres during three different eras of Hollywood’s history are shown below in table 7.9 which reveals that in each era, a few genres proved to be significantly more popular than others so popularity of genres comes and goes, which helps to explain why the Major studios consider genre to be a critical factor affecting decisions to greenlight movies. *“The genre of a story can affect its value and marketability. The weighting of a genre is subject to many factors, including the slippery meter of current tastes”* (Crabb 2005 p. 134). The popularity and transience of particular genres is the reason why this factor has always been one of the key considerations that the Majors used in determining their annual production slates and for deciding which movies to greenlight each year.⁴⁷

⁴⁶ “Many of the foreign distributors and independent film financiers I have worked with on motion picture projects ask for a cast list first. The issue is marketability. If the movie doesn’t have a marketable ‘marquee name’, distributors and financiers may be sceptical about its possibility for success. On the other hand the presence of a recognised and experienced talent adds to the motion picture’s credibility. A successful actor’s willingness to appear in the movie makes a statement to the film community – it’s an endorsement. The attachment of an A-list actor is seen by many to virtually guarantee a level of consumer interest. The importance of cast is magnified in the international market. Certain stars have enormous appeal in certain countries” (Crabb 2005 pp. 134; 137).

⁴⁷ “The winnowing of plots and emasculation of ideas becomes part of the very science of film-making. In every studio the themes of subjects are scrutinised by experts. A theme is not seriously considered unless a majority of studio experts believe it is a cast-iron proposition at the box office. If a subject passes that test it is labelled as belonging to one or other of the generally acceptable categories (film genres) and it will be produced in the style and manner associated with the category. Similarly, the title of a film must definitely be on all fours with the category. The film executive would maintain that the category system is purely a matter of insurance. The cost of film production is too great to risk ignoring the accepted canons of public taste” (Fawcett 1932 pp. 11-13).

Table 7.9 Most popular movie genres at the box office 1930-2004

Genre	1930-1949 Old Hollywood – Studio Era	1950-1974 Hollywood-in- decline	1975-2004 New Hollywood	Total
Comedy/ Satire	26	15	41	82
Drama	41	19	28	88
Action	2	7	25	34
Family	6	19	16	41
Sci Fi			8	8
Disaster		19	7	26
Epic		25	7	32
Romance	2	3	4	9
Thriller-Suspense	1		4	5
Mystery	1			1
Musical	21	18	3	42
Adventure	12	1	2	15
Western	8	3	0	11
Horror	2	1	1	4
Total	122	131	146	399

Table constructed from the following sources: Tanitch (2000) Blockbusters!: 70 Years of Best Selling Movies; Sackett (1990) Hollywood Reporter Book of Box Office Hits; Hackett and Burke (1977) 80 Years of Best Sellers; Walker (2004) Halliwell's Film, Video & DVD Guide.

British producer Tim Bevan, explained Working Title's strategic rationale for the use of film genre as a key decision making criterion in choosing which movies to greenlight: *“(In Britain) We are too parochial. On independent films its very difficult to make more than 1 million pounds back from the U.K. Market, meaning you have to get the rest from foreign territories and consistently we make films that do not sell well abroad; most of our films lack universal appeal. We look for genre (At Working Title). If it fits easily into a genre its easier to communicate what its about to the people on Friday night who are trying to decide what to go and see. American film makers and development people are very good at identifying the emotional crux of a story and magnifying that and working it through”* (Sawyer 2002).

Film budgets and quality

The Hollywood studios have over many decades demonstrated an ongoing commitment to improving the quality of their movies, which has resulted in a trend of upwardly spiralling production costs. Table 7.10 below shows the average budget (negative cost) of Hollywood movies compared to all-time record film budgets for Hollywood movies at different periods of time. When this data is compared to available film budget data included in tables shown in Appendix 10 listing the all-time top ten box office films for Britain, France, Italy, India, Japan and Australia, it is evident that Hollywood movies are also clearly differentiated by their high level of investment in producing movies.

Table 7.10 Average and record budgets for Major Hollywood studio movies 1909-2004

	Average budgets for Major studio feature films (negative cost in U.S. \$)	Record for the most expensive movie productions (biggest budgets – negative costs in US \$)
1909	\$1,000 (2 reels)	Napoleon (US) \$30,000 in 1908 For the Term of His Natural Life (Aust) \$34,000 in 1908
1913	\$13,000 (5 reels)	<i>Queen Elizabeth</i> (France) \$47,500 in 1912 The Prisoner of Zenda (US) \$50,000 in 1913
1915	\$21,800 (5 reels)	<i>Birth of a Nation</i> (US) \$110,000 in 1914 <i>Cabiria</i> (Italy) \$210,000 in 1914 <i>Intolerance</i> (US) \$575,000 in 1916 <i>Daughter of the Gods</i> (US) \$1 million in 1916
1919	\$60,000 (5 reels)	<i>Foolish Wives</i> (US) \$1.1 Million in 1922 <i>When Knighthood was in Flower</i> (US)\$1.5 million in 1922
1924	\$300,000	<i>The Ten Commandments</i> (US) \$1.8 million in 1923 <i>Thief of Baghdad</i> (US) \$2 million in 1924 <i>Ben-Hur</i> (US) \$3.9 million in 1924
1932	\$153,000	<i>Hells Angels</i> (US) \$3.95 million in 1930
1935	\$209,000	
1939	\$300,000	Gone with the Wind(US) \$4.25 million in 1939
1940	\$314,770	
1941	\$400,000	
1945	\$554,386	<i>Wilson</i> (US) \$5.2 million in 1944
1947	\$732,449	<i>Duel in the Sun</i> (US) \$ 6 million in 1946
1948	\$1.,000,000	<i>Joan of Arc</i> (US) \$8.7 million in 1948
1949	\$1.,250,000	
1950	\$1,100,000	
1955	\$900,000	<i>Ten Commandments</i> (US) \$13.5 million in 1956
1960	\$1,000,000	Ben-Hur(US) \$15 million in 1959 Mutiny on the Bounty (US) \$19 million in 1962 Cleopatra \$40 million in 1963
1965	\$1,500,000	
1970	\$1,750,000	
1975	\$3,100,000	Superman (GB) \$55 million in 1978
1980	\$9,400,000	
1985	\$16,800,000	<i>Rambo III</i> (US) \$63 million in 1988 <i>Who Framed Roger Rabbit</i> (US) \$70 million in 1988
1990	\$26,800,000	<i>Terminator 2</i> (US) \$99 million in 1991
1995	\$36,400,000	True Lies (US) \$115 million in 1994 <i>Waterworld</i> (US) \$172 million in 1995 Titanic (US) \$200 million in 1997
2000	\$54,800,000	
2003	\$63,800,000	

Sources: Hampton (1970) pp 209; Negative costs calculated from data in the Film Daily Yearbook 1941 pp 35 (U.S. production costs (\$150 million) / 477 features = \$314,465); Film Daily Yearbook 1950 pp 83; Film Daily Yearbook 1951 pp 87-90; U.S. Economic Review pp 19; 1997 US Economic Review: Theatrical Data; Robertson (1988) Guinness Movie Facts and Feats pp 32; U.S. Entertainment Industry: 2002 MPA Market Statistics; Vogel (2004) pp 90; MPAA ; Robertson (2001) pp 33.

The Greenlight: The decision to proceed into production

This section showed that after careful consideration has been given to the quality of the project (screenplay, genre, stars, director and producers), its potential revenues, its probable marketing costs and the size of production budget, and that if the Studio head and senior team are convinced that there will be sufficient market demand for the movie to achieve the studio's revenue goals and that it does possess marketable elements, the greenlight is given for the screenplay to proceed into production.

STAGE SIX: PRODUCT DEVELOPMENT

Movies are developed in three stages: – pre-production, production and post-production. In pre-production, significant planning and preparation goes into all aspects of production including script development, hiring hundreds of cast and crew, legal contracts, payroll and film insurances, cinematography, casting and rehearsals, costumes and make-up, location scouting and agreements, travel and logistics, set design and construction, on-set catering, music and sound design, editing and special effects, and financial management and accounting. In the production phase the film shoots in-studio or on location following a pre-planned daily schedule that needs to be adhered to prevent the film from running over budget. All technical departments working on the movie record daily progress-against-plan, difficult conditions encountered and other issues to enable producers to monitor daily progress and keep the film within approved budget parameters. Footage shot each day is rushed to the film laboratory and 'dailies' i.e. processed footage are returned to the director on-set and to the producers so that they can evaluate quality in terms of footage shot, performances and direction and decide what changes that may be required.⁴⁸ In post-production the film is edited into the scripted sequence, music and other sound, optical effects and computer-generated imagery (CGI) are added by technical specialists. The film director supervises the finalisation of his/her cut of the completed movie. Some powerful directors have final say on the final cut.

Screening the 'dailies' enables problems to be detected during production and for quality improvements to be made while the film is still shooting. Zanuck regularly screened the

⁴⁸ "Dailies are film delivered daily from the laboratory of film material shot on the preceding day. The dailies are generally reviewed and approved by the director and others before a particular set is struck" (Cones 1992 p. 125).

dailies which enabled him to suggest ideas for improvement to the director during the actual film production (Behlmer 1993 preface p. xx).⁴⁹

The Hollywood studios were also the first-movers to commercialise most of the major film innovations that improved the quality of the cinema experience for audiences – Universal’s Carl Laemmle is credited with creating the movie star system. Famous Players-Paramount’s Adolph Zukor was the driving force in the industry’s conversion from short films to feature length movies. Disney introduced the first full-length animated feature film. Whilst Pathe had hand-coloured films, true colour film processes like technicolor and its major rivals were first used in Hollywood movies by M.G.M. Warner Brothers and 20th Century Fox were the first movers in developing talking pictures. Fox introduced the first large screen process Fox Grandeur and later Cinemascope, which used a French-designed anamorphic camera lens for which Fox acquired the patents, and it became the industry standard. Universal introduced the first computer-generated special effect in *The Andromeda Strain* (1971) and surroundsound in *Earthquake* (1974).

This section demonstrated that product development in the movie industry is a major undertaking and expensive process involving hundreds and sometimes thousands of employees and suppliers on a project basis and that the Hollywood studios approach involves agreed goals, detailed planning, large scale organisational logistics and a system of management controls to ensure quality outcomes and that projects can be completed according to approved budgets. It also showed that Hollywood has led the world in introducing major technical innovations that have raised the quality of product development in the movie industry.

STAGE SEVEN: MARKET TESTING

This topic was discussed in Chapter Six, however to briefly summarise, the historical evidence showed that the Major studios have market-tested the movies for over eight decades. For example, in 1924, creative differences within M.G.M. about the most appropriate ending for *Tess of the d’Urbervilles* were resolved when the film was test-marketed and then re-edited following the audience response to the movie: “*the original*

⁴⁹ An extreme example of Hollywood’s commitment to achieving the highest quality outcomes is the case of *Back to the Future* (1985) when Universal approved Steve Spielberg’s very late decision to replace the lead actor Eric Stolz with Michael J. Fox. This occurred several weeks after shooting had already begun and incurred heavy additional costs. On viewing the dailies, Spielberg had not been happy with what he saw on-screen of Stolz in the lead role. The movie with Fox playing Marty McFly went onto become a blockbuster and Fox was widely thought by fans and critics alike to have been the perfect casting (Davey and Cohen 2005).

ending was then tried out in New York and San Francisco and the verdict of the public was the original ending". In 1925, *The Merry Widow* "The film was previewed in June in Pasadena. And scenes 'were trimmed'" (Eyman 2005 pp. 97-99). By the late 1920s /early 1930s, the Majors market-tested all of their movies prior to release.⁵⁰ Today all Major studio movies are market-tested.

STAGE EIGHT: COMMERCIALISATION

The final stage of the Booz Allen new product development process was commercialisation of the product and its market introduction. In the movie industry, this equates to the striking of the 'answer print' – the final version of the edited film, which is then turned over by the producer to the distributor to market and release. Chapter Seven and Chapter Nine provide an in-depth discussion on the film distribution and promotional capabilities of the Hollywood studios compared to rival film industries. These chapters use historical evidence to demonstrate that the Majors in Hollywood controlled global distribution channels since the First World War and remain without any serious challenge from potential competitors. They also showed that Hollywood employed sophisticated strategic marketing practices and since the silent era not only developed superior marketing skills and promotional expertise but continually outspent rivals in terms of marketing expenditures to launch new movies. A comparative summary of the new product development approaches taken by Hollywood and its rivals is shown below in Table 7.11.

Table 7.11 Booz Allen comparison table: Hollywood vs the world

Booz Allen category	Hollywood Majors	Rest of the World
Idea generation	<p>Established producers and talent agencies bring projects to the Majors</p> <p>Hollywood has greater resources for acquisitions</p> <p>Majors gain early access to new novels via agents representing writers.</p> <p>Majors each have locked-in supply arrangements with leading independent studios that bring them projects.</p>	<p>Independent filmmakers have to locate new material themselves.</p> <p>Independent producers receive material from writers., read books, plays, magazines and news stories but have far fewer resources for acquiring new material.</p> <p>Independents lack the same connections as the Majors.</p>

⁵⁰ "All films designed for mass appeal are previewed under false names before big audiences to test them for reaction, after which the film may be put back for reconstruction. Comedians such as Buster Keaton demand as many as six previews" (Fawcett 1932 pp 28-29). "We previewed in Highland Park, San Bernadino, Pasadena,' remembered Margaret Booth 'we were always previewing. You'd preview two, three, four times until you got it right" (Eyman 2005 p. 92).

Booz Allen category	Hollywood Majors	Rest of the World
Idea screening	Hollywood has long operated a screening process involving readers that filters poor material.	Most independents are small businesses and read scripts themselves.
Concept development and testing	<p>Concepts for Major studio movies are pre-tested with target audience members using focus groups.</p> <p>Hollywood operates a rigorous in-house system of script development involving creative peer review and input, resulting in many re-writes and revisions.</p> <p>Movies are packaged with attractive key creative elements – stars, directors, writers to attract finance and the green –light by producers and talent agents.</p>	<p>Most independents lack the financial resources and/or marketing orientation to use concept-testing research.</p> <p>Independent producers outside Hollywood’s orbit seek development funding from government agencies.</p> <p>Independent scripts go through fewer drafts. Few indies use script editors.</p> <p>Stars and directors make decisions about the project based on a lower quality script.</p>
Marketing strategy	<p>The Majors formulate marketing plans prior to greenlighting a movie.</p> <p>They analyse potential demand, identify target segments and estimating potential revenues.</p> <p>They begin prepare advertising materials during pre-production.</p>	The primary marketing strategies for independents outside Hollywood is to “shop” the script to distributors in order to raise pre-sales to make the film.
Business analysis	<p>The Majors conduct a feasibility study and cost-benefit analysis comparing revenue projections from film and other ancillary markets against production and marketing costs.</p> <p>They review the creative “package” and then make a cost-benefit analysis and decide on whether to green-light the movie.</p>	<p>Independents outside Hollywood are small businesses requiring cash flow to survive.</p> <p>If sufficient finance is secured to make the film they proceed into production.</p>
Product development	<p>The Majors invest more resources in all stages of production.</p> <p>Studios review dailies and suggest changes to the director. Editing provides a further opportunity to fine-tune the product.</p> <p>Hollywood budgets are larger and include extensive use of special effects (CGI) to improve the quality of their movies.</p>	<p>Indies have lower budgets for all stages of production.</p> <p>Independent producers review dailies and suggest changes to the director. Editing also provides a further opportunity to fine-tune the product.</p> <p>Independents usually lack the available budget to utilise extensive special effects (CGI).</p>
Market testing	<p>Major studio movies are tested with target audiences then re-edited.</p> <p>Marketing launch strategies are refined based on market research findings.</p>	<p>Independents don’t test-market their films with target audience samples.</p> <p>The final-cut is usually decided, by the producer, without he benefit of an audience response.</p> <p>Independents outside Hollywood screen</p>

Booz Allen category	Hollywood Majors	Rest of the World
		at film markets or festivals to acquire distribution for any unsold territories.
Commercialisation	The Majors book films to avoid head-to-head clashes with other studio releases of similar genre. Major studio marketing budgets can be as high as the film budget	Independents struggle to get screen time in multiplexes dominated by Hollywood product. Independent marketing budgets are much lower.

7.4 CHAPTER SUMMARY

The guiding question for product development established in Chapter Three was: To what extent did the dominant firms design products to meet customers' needs and match market conditions? What evidence exists in the historical data to support or counter any case?

This chapter showed that compared with rivals, Hollywood has consistently employed a rigorous new product development process that matches the eight stages recommended by the Booz Allen study and a marketing orientated approach to making movies. Evidence presented in this chapter, in footnotes and in Appendix 10 showed that most independents working outside the orbit of Hollywood do not adhere to the eight stages of the Booz Allen new product development process and that this often results in under-developed scripts that find difficulty raising finance, or if they are produced, lack the necessary creative quality and elements to make them commercially successful. In terms of Vorhies and Harker's (2000) six key marketing capabilities, this chapter showed that the Major studios in Hollywood have matched their definition by operating a superior new product development process to their rivals around the world. The ongoing global demand for Hollywood movies from theater chains and their box office success confirms their commercial superiority over rival products and has enabled the Majors to remain a dominant force in world cinema since the First World War.

CHAPTER 8: THE MAJORS' DISTRIBUTION CAPABILITIES

8.0 INTRODUCTION

The previous chapter demonstrated that the Major Hollywood studios have for many decades employed a market orientated and rigorous new product develop process designed to identify properties with the most commercial potential. The historical evidence presented in Chapter Six, Chapter Seven and in Appendix 10 revealed that rival film industries and smaller independents studios tend to have a less commercial orientation, ill-defined new product development processes and rarely use market research inputs at any stage of a film's life. The conclusion drawn was that the Major studios in Hollywood possessed comparatively superior product development capabilities to their rivals and that this has been a critical success factor contributing to Hollywood's dominance.

This chapter will examine the historical data on the movie industry to determine what role that distribution capabilities (another of Vorhies and Harker's 2000 six core marketing capabilities that contribute to the firm's competitive advantage) played in the acquisition and maintenance of market power.

A set of guiding questions was established in Chapter Three to direct the research. For distribution capabilities, the questions were: To what extent did the dominant firms effectively manage distribution channels? What evidence exists in the historical data to support or counter any case?

To facilitate this analysis, it is necessary to first define 'distribution' and then to place it within a theoretical marketing context in order to identify what constitutes effective channel management and areas in which firms that possess superior distribution capabilities would be likely to excel. The historical evidence will be examined to determine if the Major studios in Hollywood did possess superior distribution capabilities leading to an evaluation in the concluding chapter of what role distribution competencies may have played in their rise to market leadership and maintenance of that market power.

Definitions: Marketing channels and film distribution

Marketing channels can be direct or indirect, however manufacturers rarely sell their products directly to end-consumers. Typically, intermediary firms possessing specialised capabilities in the physical logistics of distribution and industry-specific marketing expertise

act in the role of middlemen, adding value to the exchange process by providing manufacturers with intimate knowledge of markets and scale efficiencies in distribution resulting in lower costs to retailers by spreading overhead over a range of products and providing them with continuity of product supply (Stern and El-Ansary 1982 p. 5-6; p. 145).

The term 'distribution' refers to the movement of products (including the transfer of ownership or title) from manufacturer through to retailers that on-sell to end consumers. This movement occurs through a marketing channel comprising "*sets of interdependent organizations involved in the process of making a product or service available for use or consumption*" (Kotler 2000 p. 490). Within the movie industry the intermediary that acquires films from producers/studios (manufacturers) and licenses them for exhibition to the cinema operator (retailer) is known as the film distributor.

Channel design and channel strategy

The purpose of distribution channels is to facilitate the physical flow of product from manufacturer to end-consumer through more efficient buyer searching and sorting processes (Stern and El-Ansary 1985 p. 105). "*A good rule off thumb in product-channel fit is to match complexity of the product with the 'touch' of the channel. The goal should be to push products down into the lowest cost channel that can deal with them. That's the way to make more profit and often more sales.*" (Friedman and Furey 2000 p. 59). ¹

So market leaders face important decisions about what distribution strategy to adopt, for example channel length because shorter channels with fewer intermediaries are less expensive and more efficient to operate (Sharma and Dominguez 1992), or whether scale economies can be gained through a strategy of intensive market coverage or should market exposure be selective or even exclusive? They also face critical operational decisions in buying (product acquisition, risk management) and selling (target selection, sales policies, negotiation parameters), logistical management (taking possession, storage, inventory management, transport), financing (inventory investment, credit extension to buyers), cost control and profit maximisation. Distribution costs are high, so minimising transaction costs in day-to-day operations as a 'key efficiency criterion' in channel design (Bello and Lotha 1995), which is also influenced by buying habits, the nature of the product, competition, the

¹ "*For many products, distribution costs, including selling costs, can be as much as 30-40% of a product's cost*" (Koselska 1992).

business environment and upon the firm's strategic goals (Sims, Foster and Woodside 1977 p. 22).

Channel leadership and channel relations

Appreciable channel power occurs in highly concentrated industries and leadership is based on the size and economic power of the firm (Sims et al 1977 pp. 165-168). The literature has defined channel power as the ability of the leader to influence decisions of other members (Gaski 1984). Indicators of channel power are dependence (El-Ansary and Stern 1972; Etgar 1976; Kale 1989); power sources (Gaskin and Nevin 1985) and role performance (Anderson and Narus 1984; Frazier 1983; Frazier and Summer 1986).

Large firms face strategic decisions about whether or not to control the channel and about channel design – its structure, membership, co-ordination, member motivation and performance. In American business, four vertical channel co-ordination scenarios have been observed: 1) Corporate control (i.e. single ownership through vertical integration. 2) Contractual channels e.g. franchising. 3) Administrative control which is an informal (non-contractual) channel in which other members defer to the leader's expertise or are influenced by persuasion and 4) non-integrated channels in which a loose coalition of autonomous buyers and sellers co-operate informally (non-contractually) on a transaction by transaction basis (Sims et al 1977 p. 178-182).

Marketing channels are not only economic but also social systems because social interaction plays a key role in managing, co-ordinating and controlling distribution systems. Effective relationship management has been shown to be a critical success factor in international exports (Katsikeas, Goode and Katsikea 2000) as cultural differences need to be appreciated. Power can be coercive or non-coercive (Ennew, Unusan and Wright 1993), so issues of power and conflict also need to be carefully managed by channel leaders (Rosenbloom 2000).

8.1 CONTEXT: GLOBAL FILM PRODUCTION OUTPUT

To place Hollywood's longstanding channel dominance into a global perspective, Table 8.1 below shows that prior to 1920, U.S. films accounted for 66% of all movies made but after that America's share declined, ranging from 36% down to 5.4% of total global output. It also reveals that since the First World War, four nations – America, India, Japan and Italy have together accounted for between 42%-81% share in every decade except the 1970s,

when their combined output dropped to 13% of world production, yet although being major producers, India, Japan and Italy have never seriously challenged Hollywood's exports.

Table 8.1 Market share based on total world output for annual feature film production for the largest seven producer-nations over the period 1914-1999 (see Appendix 12)

	1914-1920	1921-1929	1930-1939	1940-1949	1950-1959	1960-1974	1975-1979	1980-1989	1990-1999
USA	66%	36%	26%	29%	12.3%	5.4%	4.9%	7.1%	11.5%
India	?	4%	10%	14%	11.3%	11.1%	16.8%	22%	55.4%
Japan	?	19%	20%	10%	15.7%	13.4%	9.9%	8.8%	9.0%
Italy	1%	1%	2%	5%	5.6%	7.3%	4.7%	3.2%	3.6%
France	?	2.5%	7%	5%	4.9%	4.7%	6.1%	4.3%	5.1%
Germany	11%	17%	7%	4%	4.1%	3.0%	2.1%	1.9%	2.2%
Britain	5%	4%	7%	4%	4.1%	2.9%	1.6%	1%	1.7%
Top 7 producer nations	83%	83.5%	79%	71%	69.3%	47.8%	46.1%	48.3%	58.5%
Rest of the world	17%	16.5%	21%	29%	30.7%	52.2%	53.8%	51.7%	41.5%
World film output per decade	11,964	16,445	18,985	13,962	23,953	48,141	16,980	36,030	28,490

Source data: market shares have been calculated from raw production output data in Robertson (2001) pp. 16-17. See also Appendices 8.3 and 8.5.

8.2 PRE-HOLLYWOOD DISTRIBUTION

Pathe was the first globally dominant film company with a world market share estimated between 50-90% (Cawkell and Smith 1972; Cowen 1988 p. 2 of 7; Puttnam 1997 p. 43; Segrave 1997 p. 3 and Abel 1999 p. 48; p. 57; Hayward 2000 p. 196). Pathe operated on an unmatched scale, with its French and American studios mass-producing short films; with its own corporate distribution channel comprising 41 foreign branches around the world and 31 U.S. sales offices (Segrave 1997 p. 3) and a French cinema circuit. Pathe's rival Gaumont also operated film studios and cinema chains but ran only 10 international sales offices (Garcon 1994 p. 27), while Danish rival Nordisk – the world's second largest exporter until 1914, “*established outposts in a cluster of European cities including London, Budapest and St Petersburg*” as well as in New York (Nowell-Smith 1997 p. 154; Puttnam 1998 pp. 42-43). By comparison, most pre-Hollywood American studios only began establishing export arrangements through European agents from around 1910 (see Appendix 13). ² Table 8.2 below indicates that the leading American studios of the early silent era badly misread the U.S. market, reducing their annual output just as the 1905-1908 nickelodeon theater boom occurred, creating sudden demand for short films, enabling Pathe and its rivals to rapidly penetrate the U.S. market.

² Appendix 13 shows that international channel co-ordination by all other leading film studios was what Sims et al (1977 p. 178) would describe as a mix of non-integrated co-ordination or formal contractual channel arrangements with overseas agents. It can be seen that none operated a formalised corporate channel like Pathe and Gaumont.

Table 8.2 Major U.S. studios production output vs European imports 1904-1908

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: AFI data

Until then, Edison had contained domestic rivals through decade-long litigation, claiming they infringed his patents on moving picture cameras and projectors. In 1908, Edison called a truce, persuading seven major American competitors and Pathe, to pool their patents and form the Motion Picture Patent Company (MPPC) in an attempt to monopolize the U.S. market (Anderson 1985). All producers and exhibitors were required to become licensed and pay ongoing royalties.

The MPPC also established America's first national distributor – the General Film Company (GFC), to buy movies from licensed studios and supply them to licensed exhibitors. This provoked a competitive response from an array of small independent companies that had been excluded. Most initially supplied films to an independent distributor - the Sales Company, but factional splits resulted in its demise and the formation of rival distribution combines - Mutual Film and Universal.

From around 1911, the industry transitioned from short films to the more popular feature length films show-casing movie stars, a new concept that captured the public's imagination, just as national distribution structures and large theater circuits were developing in the large American market.

European production was halted by wartime hostilities from 1914-1918 when major studios in France, Italy, Germany and Britain were unable to continue operations and supply international markets. The emerging studios in Hollywood exploited that situation and replaced them as the major film suppliers. The Europeans never recovered (Bakker 2003). By 1917, Famous Players-Paramount had emerged as the dominant Hollywood studio, marking the ascendancy of the Majors to global market leadership (Sklar 1994 p. 145).

8.3 DISTRIBUTION STRATEGY AND CHANNEL DESIGN

Factors influencing design of channel structures and distribution strategy are barriers to entry, orientation of intermediaries, the product, customers, corporate goals, competition and environmental factors (Stern and El-Ansary 1982 p. 251). Changing market dynamics in the movie business from 1910-1920 created opportunities to bring order and structure to the distribution sector in the U.S. market and internationally. This chapter argues that the rise of the Hollywood Majors as channel leaders was facilitated by the following factors:

a) Low barriers-to-entry in national distribution i.e. the demise of the MPPC and General Film Company (the only national distributor). This created a market based on pure competition between 1912-1917.

b) Changes in product form and consumer demand i.e. replacement of the aging small-capacity nickelodeon theatres and their short film programs by much larger capacity movie theatres and emerging theatre circuits that required an ongoing supply of high quality feature-length films with popular movie stars in order to attract regular audiences.

c) Weak competition due to three key factors: 1) The decline and demise of the established old-line American studios (Edison, Biograph, Vitagraph, Essanay, Lubin, Selig and Kalem) that were members of the MPPC and had backed its policy of short film programming rather than switching to financially riskier, bigger budget feature films. 2) The retreat from the American and international markets by the major European studios Pathe and Gaumont (France), Cines (Italy) and Nordisk (Denmark) when production declined during the First World War. 3) The short business life of well-financed new entrants in Hollywood (Mutual Film, Triangle, World Film and Superpictures) and demise of other potential rivals Metro Pictures and Goldwyn Pictures that were both financially rescued and absorbed through acquisition to create Loews-M.G.M.

These factors created opportunities for the strongest of the emerging Hollywood studios – Famous-Players-Lasky-Paramount, Universal and Fox Film, to construct efficient marketing channels that facilitated the industry transition from the old ‘state’s rights’ regional film exchanges to national distribution in the U.S. and in international channels between 1910-1920.

The ‘state’s-rights’ model restricted growth

The ‘state’s rights’ film exchanges had reduced search and sorting costs for nickelodeon owners and film studios thus adding value to the exchange process.³ The key problem with this pre-Hollywood distribution model was that it was a ‘think-small’ concept because it restricted distributors to a contracted state territory that limited their potential for geographic growth. Consequently they lacked critical mass in the scale of distribution and therefore the ability to grow their financial resources and develop into national or international businesses. Similarly, country-by-country distribution in foreign markets is based on the same concept and may also have hindered development of the distribution sector internationally as well as in America.

While the General Film Company’s national distribution model had signaled the future direction of the movie business, the GFC itself failed because it did not adapt to changing market dynamics as public fascination with movies and movie stars escalated and theatre circuits developed from the early 1910s as market demand for feature films grew. By 1912 the GFC was a spent force because it refused to change its policy of short film distribution (the established business model) and switch to distributing financially riskier bigger budget feature length films (Izod 1988 pp. 32-33).

Paramount’s distribution strategy and business model

The next section will discuss how Hollywood’s Major studios replaced Pathe’s market dominance and how Paramount Pictures (founded in 1914) emerged as the dominant studio and channel leader by 1917 and held that position until the Great Depression. The analysis will show that Paramount achieved this by creating a short-length corporate channel in which it became a vertically integrated producer-distributor-exhibitor. Paramount established domestic and international distribution infrastructure that provided large economies of scale and significant global market power that ensured that its movies were seen in theatres around the world. It operated a large sales team and implemented business practices including a temporal release strategy for its movies based on discriminatory pricing. This enabled it to optimize its sales to theatres and obtain premium film rentals. Paramount established the business model and distribution strategy that other major Hollywood studios copied until the television age. Paramount’s early distribution strategy strained channel relations with theatre

³ “Intermediaries arise because they can perform in the process of exchange because they can increase the efficiency of the process” (Sims, Foster and Woodside 1977).

operators resulting in a series of anti-trust suits over time that culminated in 1948 with a U.S. Supreme Court ruling against Paramount and four other Hollywood studios, forcing them to exit the theatre business.

Paramount's distribution strategy and business model

Paramount was conceived as a national distributor in 1914 by a group of film exchange operators led by W.W. Hodkinson - a former GFC film exchange manager (Zukor 1953 p. 123). It quickly became the market leader and forged a marketing channel and business model that underpinned Hollywood's market dominance throughout the Studio Era. It brought together five major regional networks within the U.S. market to form a national distribution company that had such a critical mass of film product that distribution revenues would finance future production slates. This made it unique.

The theory underpinning Paramount's new distribution paradigm was that the independent producer's main difficulty was (and still is) raising loans from institutional lenders to finance the making of expensive feature films. Sale prices of short films to nickelodeon theaters were based on the actual length of the film, so producers were not entitled to any profits or ongoing royalties if it was a box office hit. Thus, many producers lacked the collateral to offer as security for a loan. As small businesses with no viable plan for growth, raising the necessary \$25,000- \$30,000 production finance to make a five-reel feature film was almost impossible. They were forced to *pre-sell* their films to various state's rights distributors for a flat fee in order to raise production finance from which they paid themselves a producers fee out of the movie's budget.⁴ This same economic model is used today by independent producers.

Paramount contracted Adolph Zukor's studio Famous Players to deliver 52 films per year; producer Jesse L. Lasky to deliver 30 films per year and a few smaller independents to deliver a total of another 22 films per year, providing an annual output of 104 movies, enough to meet the entire programming requirements of a theatre for a whole year. Paramount signed an exclusive 25-year output deal with those producers, guaranteeing them an advance of \$35,000 for each five reel feature film that also included an advance on advertising costs for the release that would be recouped first, from the gross film rentals before any monies flowed back to the distributor and the studio. After that, the gross film

⁴ Sklar (1994 p. 142) compared the state's rights film exchanges to "traders in the commodity market, contracting to deliver at a specified time and price, feature movies they did not yet possess, that did not, in fact, exist. To fulfill this commitment they would underwrite the production of a required number of features, providing capital out of their own accumulated profits or from advance payments from exhibitors."

rental was divided 65% to the producer and 35% was to be a distribution fee to cover distribution costs of 25% (excluding the advertising that had already been recouped) and providing the distributor with a profit margin of 10% (Zukor 1953 p. 125; Puttnam 1997 p. 83). This 65%-35% gross film rental split between producers and distributors persists today.

Where gross film rentals averaged \$100,000 (\$80,000 from the U.S. domestic market and \$20,000 derived from foreign territories) the producer would earn a net profit of \$35,000 per picture after production costs of \$30,000 had been covered and after repaying the production advance from Paramount and other production-related overheads (Donahue 1987 pp15-16).

The Paramount business model was a win-win deal for both the producer and the distributor. It provided the needed production finance to the producer and a guaranteed marketing channel to enable the film to be exhibited around the world. It also provided the producer with the possibility of profits derived from the gross film rentals and this eliminated the need for the producer to pre-sell their movie for a flat fee. The distributor was guaranteed a supply of films, had the right of first recoupment from gross film rentals to cover any advances paid for production and advertising costs and had a guaranteed distribution fee of 35% to pay business overhead plus an in-built 10% profit margin.

The downside of the Paramount deal for producers like Zukor and Lasky was that they were merely contracted suppliers to the distribution company and did not control the distribution and marketing of their movies. Zukor became dissatisfied because he believed that Paramount's distribution strategy failed to optimise financial returns on his pictures (Donahue 1985 pp. 15-16). He rationalised "*If someone was going to assign pictures to theatres at different rental rates, a producer might drive a harder bargain for his own pictures than a distributor would*" (Sklar 1994 p. 145). Zukor and Lasky decided to merge their film studios in 1916 and "*Zukor quietly began buying up Paramount stock*", engineering Hodkinson's removal and Zukor replaced him as President at the annual general meeting as Famous Players-Lasky took control of Paramount (Dick 2001 p. 11; Eames 1985 p. 11).

The Famous Players-Lasky-Paramount combine joined Hollywood's first Major studio Universal as a vertically integrated producer-distributor. The new corporation now had such size and scale in terms of production output and channel power that it was able to dictate terms to the America exhibition sector by forcing theater owners to take Paramount's entire block of films rather than choosing individual movies from the sales catalogue (Donahue

1985 p. 16). The new distribution paradigm that Paramount created was such an attractive business model, that it was soon adopted, by other Major Hollywood studios.⁵

Paramount's channel leadership

With the formation of large theatre chains and increasing public and media interest in movie stars, market demand increased. The top six stars that drew audiences to theatres, including the biggest star of the era - Mary Pickford, were all contracted to Paramount, so it's sales force were able to offer exhibitors a range of films from top theatres movies to low budget films (Kozarski 1990 p. 71-72). Consequently many theatres could not afford to be without a supply of the theatres and magnitude of Paramount's annual output of 90-100 movies and this enabled the distributor to impose block booking on exhibitors, forcing them to take Paramount's entire program. Some exhibition circuits were powerful enough to bargain for a less output but most weren't and by 1917, Paramount was the all-powerful channel leader (Sklar 1994 pp 145).

Paramount's distribution strategy triggered a competitive response from many exhibitors faced with its sudden channel power and the prospect of paying higher film rentals. They formed the First National Theatre circuit, creating a booking combine with significant buying power that grew as more theatres joined the circuit from the initial 26 members in 1917 to 639 theatres in 1920. First National also established its own movie studio First National Pictures and a distribution company and quickly moved to sign up popular stars including Charlie Chaplin and it raided Paramount's stable to sign Mary Pickford.

Faced with deteriorating market share as many of its theatre customers defected to First National, as well as the sudden emergence of a serious vertically integrated competitor with the greatest purchasing power in the business (Huettig 1944 pp. 33-34), Paramount entered the exhibition business as a defensive strategy (Zukor 1953 p. 195). Backed by Wall Street capital, it embarked upon an ambitious program of theatre acquisition (Sklar 1978 p. 146)

⁵ For example, the seeds of Metro-Goldwyn-Mayer's distribution company that was formed by merger in 1924 were sown earlier through its predecessor Metro Pictures. *"Metro was formed in 1915... It grew out of a previous combination that had been put together the year before by Al Lichtman, a clever young salesman... then peddling films for Adolph Zukor, (who) had the bright idea of getting a bunch of little exchanges around the country to put up money for the production of films. He saw that they were clamoring for pictures. By acting as the middleman, he wanted to obtain backing from them for the small producers who would then sell their pictures exclusively through them. The idea was commercially attractive. Some twenty-odd exchanges joined the scheme and Lichtman lined up some likely products for his little Alco (Al Lichtman) Company".* One of Lichtman's partners sent Alco bankrupt but *"the exchange men who had given it faith and finance were anxious to see it carried on. A committee of swindled franchise holders were recruited to see what could be done. On this committee was L.B. Mayer"* (Crowther 1957 p. 43). *"Alco failed but the group meshed. Besides that, they now had an effective distribution and exhibition group, lacking only a mechanism to supply product. They decided to stay together. In January 1915, the shareholders reorganized as the Metro Pictures Corporation. Capitalisation was \$300,000. Metro subcontracted with independent producers for their supply of motion pictures. The same idea would be brought to fruition after World War I by the formation of First National Exhibitor's Circuit"* (Eyman 2005 p. 42).

First National's viability was undermined by Paramount's acquisition of the Balaban-Katz circuit – a leading chain within First National, by mid-1925 the exhibitor-combine failed and it was acquired by Warner Brothers (Izod 1988 pp. 76-77). By the end of the 1920s, Paramount operated the largest theatre chain in the world.

In an increasingly competitive American market from 1917-1919 during these 'theater wars', three well-financed and vertically integrated Hollywood producer-distributors went out of business – Mutual Film, World Film and Triangle. Fox Film was also vertically integrated but was forced to expand its theatre holdings in order to remain competitive and Loews Inc. acquired Metro Pictures in 1920 and Goldwyn Pictures, merging them in 1924 to create Loews-M.G.M. a vertically integrated producer-distributor-exhibitor that became an instant Hollywood Major.

Channel structure analysis

It can be seen that Hollywood employed a corporate channel strategy in which the oligopoly of Major studios were vertically integrated and quite literally owned the industry's marketing channels. It was more efficient because it eliminated outgoing costs previously paid as commissions by producers to foreign sales agents and it added value to the marketing exchange process by eliminating the need for the Major studios to follow the standard industry model in which independent studios pre-sold their movies to distributors in order to raise production finance and thereby forego profits and royalties from a box office hit.

Paramount's model of three-sector vertical integration (production-distribution-exhibition) kept the money in-house. The theatre real estate provided the collateral required to obtain bank loans for the necessary finance to produce the studio's annual slate of movie productions and weekly theatre revenues were used to cash-flow the corporation (Huetting 1944). Distribution fees were kept in-house and paid the overhead at Paramount Pictures, so transaction costs were minimised by the short channel length in which one corporation owned all parts of the channel and thereby eliminated outgoing costs. In addition, the intellectual property was retained within the corporation enabling it to realise profits and royalties from hit movies.

Hollywood's intensive distribution strategy

A critical channel decision concerns the required level of market exposure to ensure effective diffusion of products. Firms have three basic options a) exclusive distribution

through few outlets; b) selective distribution is a wider strategy but still focuses on a limited number of outlets and c) intensive distribution where manufacturers seek to make products as widely available as possible (Kotler 2000 pp. 496-497).

Proponents of the resource-based view (RBV), argue that providing customer value (in this case – to cinemas) is a critical success factor in the development of competitive advantage (Fahy and Smithee 1999). Other key elements of competitive advantage within the RBV paradigm are that firm-specific resources drive business strategy and that differentiation should therefore be based on development of resources and capabilities that are inimitable, immobile and difficult to copy (Silver and McDonnell 2007). Consequently, it is difficult to imitate resources based on intellectual property rights (movies) or if resources are closely inter-connected. The Majors channel-centric strategy and global distribution capabilities provided them with such differentiation.

Like Pathe before them (see Appendix 8), the Hollywood Majors adopted and maintained an intensive global distribution strategy, giving them the widest possible market exposure for their movies. This approach has enabled them to maintain channel dominance and resulting market power over many decades and ‘fits’ Friedman and Furey’s (2000) concept that channel differentiation is a means of sustaining competitive advantage. Porter’s (1980) five forces model was developed within the strategic positioning school and contends that firms can optimize their performance within highly competitive industries by how they position themselves relative to competitors. In that respect, no rival studios or foreign film industries have been able to match the distribution know-how and capabilities of the Hollywood collective in terms of providing cinemas with a certainty of supply of the highest theatres, commercially attractive movies (big budgets, big stars, big effects), supported by a global distribution infrastructure, significant marketing budgets and marketing launch expertise.

Running a global distribution network is an expensive business.⁶ Since the 1920s, the Major studios have maintained the largest North American and international distribution networks and have operated on a size and scale that has remained unmatched by competitors since Hollywood became dominant (see tables 8.3 and 8.4 below).

In the 1970s-1980s, the annual cost of that scale of distribution operation was \$25-30 million with an extra \$50-60 million required for production finance to make a slate of films on that

⁶ “To operate efficiently, a distributor requires a worldwide system of exchanges and enough cash to finance about 30 pictures a year” (Balio 1987 p. 88).

scale. “Only 11 firms had effective national distribution systems (in 1970), the big seven Major studios and four other national distributors of significance” and together those eleven distributed 74% of national releases (Conant in Balio p. 551). The four “others” were Buena Vista (Disney), Allied Artists, AVCO Embassy with 16 U.S. branches and 12-15 films per year, and A.I.P. operating 28 film exchanges (Donahue 1987 p. 223). Of these independents, only Disney evolved into a Major studio.⁷

Effective distribution was fundamental to box office success

Independently-made movies acquired and distributed by Majors were able to secure a theatrical release but the channel dominance of the Majors and their ownership of the most profitable theatres blocked access to other competitors and by 1944 independent distributors had basically vanished from the U.S. market (Huettig 1944 pp. 143-150).

Academy award winning independent British producer David Puttnam who later became President of Columbia Pictures observed that the 1930’s Alexander Korda’s commercial success in America with *The Private Life of Henry VIII* encouraged Britons to believe that they could compete with Hollywood in terms of producing big budget films but they neglected to consider that the film had been a box office success because United Artists had distributed it and handled the marketing campaign. “Without effective American distribution it was impossible for such big budget films to recoup their costs – the same holds true today” (Puttnam 1997 p. 159).

Independent films carry higher financial risks

Independent producers face comparatively higher business risks than the Majors because their financial survival rests on the commercial success of a smaller number of pictures in an industry where a movie’s box office performance is completely uncertain until it is released (DeVany 2004). An independent’s survival can even rest on the success or failure of just one movie as Sir Lew Grade’s British studio I.T.C. discovered when it risked \$40 million

⁷ Disney films were initially distributed through U.A. and then R.K.O. until the studio set up its own distribution company Buena Vista in 1954. Disney was able to justify its own distribution network because its animated product and live films were products that had a longer lifecycle than most Hollywood movies and could be re-released to new generations of children every 7-10 years. Disney created marketing synergies with its Disneyland theme park that opened in 1954 and with the Disneyland TV show on the ABC network that helped to create ongoing demand for Disney movies. As the Disney film library grew in size, it provided sufficient volume to feed Buena Vista, enabling Disney to retain monies paid previously as a 30% distribution fee to R.K.O. and U.A., and also to control and market its own releases (Izod 1988 p. 162).

producing *Raise the Titanic*, a film that flopped badly. Britain's previously successful Goldcrest studio failed decades later for similar reasons (Eberts and Ilott 1990).

The scale of the Major studios output and control of their own global distribution networks provides a source of competitive advantage unavailable to smaller independent rivals. The losses from movies that fail to perform at the box office can be offset against film rentals from other movies in their annual slate. Independent distributors with far smaller output don't have that same capacity and consequently investors and banks enjoy greater security financing a larger slate of pictures with the Majors than they do with independents and single-picture financing (Izod 1988 pp 127).

The Majors' channel dominance

The Majors' intensive distribution strategy is evident in Table 8.3 below. It provides historical snapshots of their market exposure compared to that of smaller rivals in the American market and reveals a pattern of wide scale operations across the U.S. from the 1930s – 1960s, followed by a reduced scale from the 1970s onwards. Some rivals were able to develop similar scale operations for brief periods but did not survive.

Table 8.3 North American (U.S. + Canada) film exchanges/sales offices of Majors and Mini-Majors

Studio	1909	1914	1916-1929	1934	1939	1949	1959	1969	1979
Pathe (France)	31								
M.G.M.				32	32 + 1	32	33	33 + 6	Via U.A.
Paramount			National + 6 in Canada 1916-20	41 + 6	37 + 6	34 + 6	33 + 6	29 + 6	20 + 6
Fox		12		30 + 6	31 + 6	31 + 6	32 + 6	32 + 6	24 + 1
Warner Brothers			26 (1927)	33 + 6	31 + 6	31 + 6	32 + 6	31 + 6	18 + 5
RKO				26 + 6	32 + 6	32 + 6	-	-	-
United Artists (UA)				26 + 6	25 + 6	26 + 5	26 + 6	31 + 6	28 + 6
Universal				33 + 6	33	32 + Canada	31 + 1	30 + 1	22
Columbia				31 + 1	31 + 1	31	31	31	17 + 1
Buena Vista							15		
Monogram Pictures				31	30	31			
Republic Pictures					34 + 6	32 + 1			
Eagle Lion (Rank)						4 + 1			
Lippert						28			
AVCO-Embassy								15	19
Allied Artists							31	32	

Raw data sources: *Film Daily Yearbook* 1921 p. 265; *International Motion Picture Almanac* 1934-35 pp 835-863; 1940-41 pp 668-720; 1950-51 pp 364-419; 1960 pp 402-481; p. 771; 1970 pp 478-552; p. 728; 1980 pp 447-493; Izod (1988) p. 162.

8.4 HOLLYWOOD DOMINANCE OF FOREIGN CHANNELS

Table 8.4 below and Appendix 14 also provide historical perspective by showing the comparative scale of the Major studios' foreign distribution networks compared to smaller rivals. They clearly demonstrate the comparative disadvantages faced by the Majors' smaller rivals e.g. the 'mini-Majors' – National General, Cinerama, AVCO-Embassy, A.I.P., Cannon and New World. None of these challengers emerged as a serious threat to Hollywood's Majors and none of them survived in the long term. Appendix 14 shows that from the mid-1930s – the early 1970s, the biggest Majors – Warner, Fox, M.G.M. and Paramount maintained large global networks generally above 90 offices worldwide. U.A. developed that scale of operation from the 1950s-1970s, Universal operated about half that number, while poverty row studios Monogram and Republic, Britain's Rank/Eagle-Lion and later Allied Artists had a smaller global presence typically with 12 international branches or less.

Table 8.4 'Foreign' distribution branches of Major film studios outside North America

Studio	1909-1914	1918-1920	1934	1939	1949	1959	1969	1979	1988	1995	2005
Pathe (France)	41		-	-	-	-	-	-	-	-	-
Gaumont (France)	10		-	-	-	-	-	-	-	-	-
Fox Film (20 th Century-Fox after 1934)		20	107	101	75 + 4 agents	135	120	104	Fox 9 Fox-Columbia 2	Fox 18 Fox-Col 5 1 Fox-WB 1 Di-Fox 10 agents	
M.G.M. MGM-UA in UIP 1981-2001 with Universal and Paramount then via Fox - 2001-05			117	116	116	113	47	CIC 41	UIP 19 UIP-Warner 1	UIP 31 UIP-Warner 1 6 subs	2001-2005 by Fox 2005 Sony
Warner Brothers			69	75	105	107 + 4 agents	85	65	Warner 9 Warner-Disney 2 Columbia-Warner 3 UIP-Warner 1	Warner 31 Di-Fox 1 Fox-Warner 1 UIP-Warner 1 6 subs	
Paramount Formed CIC with Universal in 1970 which became UIP from 1981		40	96	94	48	96	94	CIC 41	UIP 19 UIP-Warner JV = 1	UIP 35 + 23 reps	UIP 35 + 23 reps
RKO	-	-	-	61 + 3	106	-	-	-	-	-	-
United Artists (UA) Merged with MGM in 1981 distributed via UIP 1981-2001			41 + 19 sub-distrib	72 + 19 sub-distrib + 16 agents	71 + 14	87 + 16	88 + 8	62	UIP 19 UIP-Warner 1	UIP 31 UIP-Warner 1 6 subs	

Universal Formed CIC with Paramount in 1970 which became UIP from 1981		20	65 + 6 agents	46	42	36 + 8 agents	36 + 8 agents + 1 rep.	CIC 41	UIP 19 UIP-Warner JV = 1	UIP 31 UIP-Warner 1 6 subs	UIP 35 + 23 reps
Columbia Columbia-Tristar from 1991			?	61 + 24 agents	26	41	37	34	Columbia 7 Fox-Columbia 2 Columbia-Warner 3	Col-Tristar 33 Fox-Col 5 Di-Fox 1 agents 2	
Disney / Buena Vista			-						Buena Vista 3 via Warner Bros 2	Buena Vista 15 Di-Fox 1 Agents 2	
Monogram				1	9						
Republic				1	11 + 17						
Eagle-Lion (Rank)					7 + 1						
Allied Artists						14	13 + 2				

Raw data sources: Segrave 1997 p. 3 p. 11; Garcon 1994 p. 27; Film Daily Yearbook 1921 p. 265; International Motion Picture Almanac 1934-35 pp 835-863; 1940-41 pp 668-720; 1950-51 pp 364-419; 1960 pp 402-481; p. 771; 1970 pp 478-552; p. 728; 1980 pp 447-493. Screen International Film and Television Yearbook 1988-89 pp 29-183. Amdur and Johnson 1995 pp. 257-280. Thompson, Anne (2005) 'End of an Era for UIP' Hollywood Reporter Sept 07,2006 www.hollywoodreporter.com/thr/article_display.jsp?vnu_content_id=1001055597

Around the time that 'New Hollywood' emerged in the mid-1970s and annual revenues from 'foreign' territories began to grow in importance, two key trends become evident in Table 8.4, a) reduction of the number of international branches and b) increased channel dominance by the Majors through formation of joint ventures or sub-distribution arrangements in foreign markets e.g. C.I.C. (Universal-Paramount) in 1970, that evolved into U.I.P. (Universal-Paramount-MGM-UA) from 1981-2001, Fox-Columbia in two countries in the 1980s, Warner-Fox in three territories, and Warner-Disney in two countries.

Rank could not compete with Hollywood

Since Hollywood established its international domination around 1917-1918, Britain's Rank Organisation was the largest foreign competitor of any size and scale that Hollywood has faced in foreign markets. Rank was at the peak of its economic power as a vertically integrated film company after the Second World War. It was Universal's largest shareholder with a 25% equity stake; it owned its own British studios; a distribution company; large theatre chains that enabled it to control the British cinema market (Hollywood's largest export market). Rank also owned its own international film distribution subsidiary - Eagle-Lion Films, which in 1948 operated eight overseas branches in the U.S. and Canada and expanded that to twenty eight exchanges by 1950. Eagle-Lion also operated branches in

Canada, Czechoslovakia, Denmark, France, New Zealand and Palestine. Table 8.5 below shows that Rank/Eagle Lion's presence in world markets was dwarfed by the international presence of the Major Hollywood studios. At that time, Warner Brothers distribution offices were located in 105 countries, Paramount operated 104 overseas branches, M.G.M. and Columbia Pictures had 89 and 88 foreign sales offices respectively; 20th Century Fox operated 75 branches, R.K.O. had 50 and Universal operated 42 overseas offices. Even Hollywood's poverty row studios Republic and Monogram had wider international representation than the much wealthier Rank Organisation.

Table 8.5 Snapshot of the world's largest film companies foreign market exposure in 1948

Film Company	U.S. / Canadian branches	Number of foreign distribution sales offices in 1948
Warner Brothers	31 + 6	105
Paramount	32 + 6	104
MGM	32	89
Columbia Pictures	31	88
United Artists	25 + 6	85 + 20 sub-distributors
20 th Century-Fox	31 + 6	75 + 6 agents
R.K.O.	32 + 6	50
Universal	32	42
Republic Pictures	32 + 1	11 foreign sales offices + 33 franchised agents
Monogram Pictures	31	9 foreign sales offices
Rank / Eagle Lion	Based in New York (8 regional sales managers) and Toronto (1)	6 other foreign sales offices located in Czechoslovakia, Denmark, France, New Zealand, Palestine and in Australia (through Rank's 50% ownership of Greater Union and its distribution subsidiary British Empire Films.)

Over time, global distribution has become an increasingly important revenue source for the Major studios. International markets outside North America are known as 'foreign' territories and have grown in importance as the ratio of annual film revenues from the American and foreign markets reversed. In 1927, the lucrative U.S. market provided 75% of the Major's annual revenues and 'foreign' markets provided only 25% (Kent in Kennedy 1927 p. 226). Table 8.6 below shows that at around the time the Majors were ordered to sell off their theatre holdings in 1948, foreign territories had increased to 40% of total studio revenues.

Table 8.6 Historical snapshots of the changing world box office revenue mix for American movies

	Annual box office revenues from U.S. / Canada	Annual box office revenues from all foreign markets
1927	75%	25%
1930s	60%	40%
1949	60%	40%
1953	60%	40%
1950s-1970s	70%	30%
Late 1970s	50%	50%
2000s	40%	60%

Sources: Kent in Kennedy 1927 p. 226; Bahn, Chester B. and Andrus, Winfield (1949) "Motion Picture Industry Statistics" Film Daily Yearbook 1949 pp 71; Carroll 1953; Golden 1957; Mayer 1978 p. 74; Hollinger and Littleton 2005; MPA 2005.

By the late 1970s, “*world markets outside the U.S. and Canada accounted for close to 50% of distributors revenues for American films*” (Mayer 1978 p. 74). Since the early 1990s, ‘foreign’ markets have provided 60% of annual revenues with North America now providing the remaining 40% (MPA 2005).

Appendix 13 shows that the first of the Hollywood Majors to enter foreign markets was Universal that established branches in Berlin and Copenhagen (Thompson 1985 p. 194-212). By the Studio Era, “*the Major American companies - Fox, Universal, and Famous Players-Lasky (Paramount) had comprehensive networks of offices around the world. If European countries were to compete with the Americans in a serious way, it was clear that the films produced in Europe would have to match the high-quality production values that were now the norm for American films. Making such films was an expensive business and as remains the case today, few European producers could expect to recoup the production costs of a major film in their own, relatively small national markets. Additionally, their ability to earn revenues in foreign markets was severely limited because they lacked the multinational distribution networks like Hollywood’s*” (Puttnam 1997 pp 84)

Appendix 14 shows that with the exception of Pathe and Gaumont, Hollywood’s American and foreign rivals all took a minimalist approach to international distribution. Predominantly they used a contractual or administrative channel strategy as per Sims et al (1977), selectively opening a few sales branches in key cities like London and using sales agents in other territories on either a formal or informal basis in what Sims et al term contractual or administered channels.

Comparatively, Pathe and Gaumont and later the Hollywood Majors used their resources to establish entirely corporate-owned channels. Table 8.5 also indicates that Paramount and M.G.M. – the two largest Majors of the Studio Era, operated substantial corporate channels comprising over 100 branch offices each in foreign territories.

Not only did the Majors possess superior distribution resources enabling them to outperform smaller competitors in foreign film distribution but U.S. legislation actually facilitated their overseas market penetration.

While Federal anti-trust laws under the Sherman and Clayton Acts prohibit any form of collusion within the U.S. market, the Webb-Pomerene Act of 1917 passed by the U.S. Congress was specifically designed to boost exports for the booming American economy after the First World War, by allowing firms to legally collude outside the United States in

order to penetrate overseas markets. Webb-Pomerene allowed American firms to “*operate together in countries where individual operation is impossible*” (Mayer 1978 p. 77).

Consequently, the Major studios in Hollywood have a long history of international partnerships in film distribution. An early example of such co-operation occurred in 1925 when Paramount and M.G.M. rescued the financially ailing German film conglomerate Ufa, a firm that had until then “*overwhelmingly dominated their home market*”, by forming a three-way distribution company called ParUfaMet. This joint distribution company gave the studios direct access to the German market under a Government backed agreement that allowed the new company to release one foreign film (i.e. Hollywood movie) for every German film released (Puttnam 1998 p. 90-91; Higham 1993 pp 101-102).

Outside America, Germany and Japan had the two largest film industries (see table 8.1). While Japan was insular and focused on its home market, the German industry emerged from the First World War as a serious rival to Hollywood during the silent film era. The Major German studio was Ufa, a vertically integrated film company with a large annual production output of movies. Immediately after the war, Ufa benefited from the deflationary economy that followed that made imports too expensive for German exhibitors, as well as making German films cheap exports for other nations. However in 1924, massive loans were made to inflate the German economy and the currency stabilised eliminating Ufa’s previous price advantages.

America was “in vogue” in Europe and Hollywood invaded the German market. By end of 1924, the Majors held 40% market share in Germany and the government introduced quotas. By autumn 1925, Ufa was facing bankruptcy and was saved by the \$4 million advance from Paramount and M.G.M. in return for the rights to distribute Ufa films and their own movies through the creation of ParUfaMet. By 1927, Ufa had repaid the outstanding loans but thereafter was a depleted force in the world market and was subsequently sold to new investors (Puttnam 1997 pp 111-112).

The Second World War however created significant problems for Hollywood by closing the largest export markets in Europe. *Variety* reported that in 1939, the Italian government had placed restrictions on Hollywood film imports with Mussolini’s son stating “*there is a place in Italy for about 30 good American films*” (Speck 1940 p. 75). Similarly, the German propaganda ministry “*gradually choked the American market in Germany*” and in its protective areas – Austria, Czechoslovakia and Poland (Trask 1940 p. 73). *Variety* also reported that continental Europe and the Orient had become lost markets for Hollywood but

the nations of the British Empire unaffected by the war, and Latin America, remained prosperous markets for the Major studios (Steen 1941 p. 57).

The post-WW2 environment in Europe with decimated national economies and the East-West political division of Europe made it unprofitable for the Major studios to re-establish their own individual distribution networks across the continent. After 1945, *“the State Department was more than prepared to assist the (Hollywood) cartel to maintain its domination”* during European reconstruction (Segrave 1997 p. 142). The Motion Picture Export Association (MPEA) was specifically established by the MPPDA to assist Hollywood to re-enter European markets devastated by the war. And from 1945-1957, *it operated as the sole distribution agency for the Majors in Europe*, booking their films into European cinemas, negotiating financial terms for those bookings and signing contracts on their behalf. *“Without such an organization, it is highly questionable whether the substantial revenues from abroad which have done so much to alleviate the vast difficulties of the domestic industry, could actually have been achieved”* (Mayer 1978 p. 77).

After 1957 and strong foreign government opposition to the MPEA cartel, the Majors began to re-establish their own individual distribution networks throughout the world but these were very expensive to operate, particularly during the late 1960s and early 1970s when the U.S. movie industry was in a deep recession and the Majors were in financial chaos and were being taken over by larger conglomerates.

Cost savings achieved through joint-ventures in foreign distribution

In order to reduce the significant operating costs of global distribution, the Major studios began forming international joint-venture distribution companies in various combinations from 1970 onwards (Anonymous in *Variety* December 25th, 1957; Arneel 1970).

Paramount and Universal jointly formed C.I.C. (Cinema International Corporation) in 1970 to handle the international release of their movies in Europe (McDougal 2001 p. 366) and it then picked up M.G.M. and Disney territories in 1973 (Squire 1983 p. 125-126). *“In a series of economy moves, the Majors have combined and merged some of their foreign distribution facilities. Paramount and Universal have joined forces as CIC, MGM and 20th Century Fox are sometimes partners, as are Columbia and Warner Brothers”* (Mayer 1978 p. 75-76). By the 1970s it had become *“common practice to share overseas distribution facilities”* and in South Africa, M.G.M. partnered with CIC to form CIC-Metro (Shepperson and Tomaselli in Kindem 2000 p. 190). *“With a release slate of 20+ pictures in 1992, Bill Mechanic believed*

Disney needed its own distribution network. Since 1987, Disney had a five-year pact with Warner Brothers International and while the Mouse House maintained P&A budgetary and creative control under the deal, all campaign decisions had to be channelled through the Warner lot rather than the individual territory offices. When Mechanic got the greenlight for BVI from corporate, he had 11 months prior to their first release 'Sister Act' to open roughly 13 overseas branches and make 40 sub-distribution deals. Today, BVI branches number 27' (D'Alessandro 2003 p. 16).

Other joint-venture combinations during the 1990s included Fox-Columbia in Australia, Hong Kong, Ireland, Taiwan and Thailand; Di-Fox (Disney-Fox-Warner) in Venezuela; Fox-Warner in Chile and UIP-Warner in South Africa (Amdur and Johnson 1995).

The original intention for C.I.C. had been to include Warner Brothers, as a third founding partner but this did not eventuate. However in 1973 after M.G.M. withdrew completely from distribution, C.I.C. signed a deal to handle M.G.M.'s foreign distribution (Izod 1988 p. 78; Balio 1985 p. 443; 553; Mayer 1978 p. 75-76). More consolidation occurred in 1981 that further strengthened Hollywood's grip on international distribution when M.G.M.'s owner Kirk Kirkorian acquired United Artists and merged the two studios. The new entity MGM-UA became a full financial partner in C.I.C., which was then re-named United International Pictures (U.I.P.) and distributed all movies from four of the eight Hollywood Majors - Universal, Paramount, MGM and UA in foreign territories outside America making U.I.P. the global market leader.⁸

After many complaints from foreign producers and distributors about UIP's market power retarding the commercial prospects of European film industries, the American studio cartel came under increasing scrutiny from the European Union under EU anti-monopoly laws (Andrews 1998).

⁸ The three studio partners in U.I.P. "also owned, either individually or jointly through U.I.P., a large number of theatres in foreign cities (which was permissible under the 1948 anti-trust settlement), including Famous Players, the second largest chain of theatres in Canada, United Cinemas International, the largest chain in Britain and France, and UCI Cinemas which had nine hundred screens across Japan, Germany, Spain, Italy, Brazil, Portugal and Taiwan, including many showcase theatres. The Universal-Paramount partnership, with its overseas distribution consortium and ownership of foreign theatres, has in place abroad many of the elements of the former studio system. In 2005, U.I.P. was the single largest distributor of films in the international markets, handling not only all the movies of Universal and Paramount but most of those of the 'studio-less studios' including USA Films, DreamWorks, Focus, and Artisan. Since it's overseas operations are not restricted by American anti-trust laws, U.I.P. can use practices such as block booking, clearances, and blind bidding, all of which are now proscribed in the United States. In most cases it offers only output deals, in which it, not the theatre owner, selects the films to be shown over specified periods" (Epstein 2005 p. 102-103). However, the European Commission began to investigate U.I.P.'s market power in 1998 (Andrews 1998) which eventually led to Universal and Paramount's ultimate decision to disband U.I.P. in 2005 and operate their own international distribution networks as they had done in Old Hollywood.

In 2000, MGM-UA left U.I.P. and contracted 20th Century Fox to handle international distribution for its movies. This arrangement lasted until the acquisition of MGM-UA in 2005 (Boliek 2005; Sperling 2006) when new owner Sony took over domestic and international distribution for both studios. DreamWorks replaced MGM-UA's product supply contracting UIP to handle its movies in territories outside North America (McNary 2005).

In 2005, U.I.P. announced that it would dissolve with Paramount and Universal dividing up the global network of U.I.P. distribution offices and then rebuilding their own individual worldwide distribution operations as they had done during the Studio Era (Thompson 2005).

The critical role of global infrastructure and distribution know-how

Withdrawal from distribution in 1973, ultimately undermined M.G.M.'s ability to compete efficiently with the other Majors and since that point, the once-dominant studio gradually faded as a market power, now owned by Sony and functioning only as a studio brand within that corporation. If M.G.M. could not survive, then other potential rivals to Hollywood's Majors face a daunting challenge in terms of possessing the necessary resources to construct a global distribution network, having the distribution know-how, relationships with exhibitors and promotional capabilities to compete effectively with the Majors in global markets.⁹

8.5 CHANNEL ADMINISTRATION

The next section examines the Major Hollywood studio's distribution capabilities in the areas of product acquisition, sales organization, logistics and financial management.

⁹ "In 1973, M.G.M. sold its seven domestic branches and thirty seven overseas branches.....Efficient marketing required screening rooms for exhibitors or their booking agents in each major metropolitan area. Paramount, for example, operated twenty branches in the U.S. and Puerto Rico, and six in Canada... To compete other national distributors needed similar marketing organization" (Conant in Balio 1985 p. 552). "Survival means expertise in foreign distribution. A producer must know how to negotiate the release of his or her film market by market beyond the United States and Canada. A producer needs an international web of major distributors in all foreign markets; sales and advertising staff experienced in first-run release outlets, ad budgets and exhibition terms in all foreign markets; a service department to effect proper print utilization in all foreign markets; an accounting department for collections, ongoing accounts and first-run playoffs in all foreign markets and proper representation at the major film festivals and markets" and the Majors know that superiority in foreign distribution channels is "having the necessary muscle to get the best play dates" (Schneble, and Rainer, in Squire 1983 p. 122-124).

Acquisitions: Hollywood products matched audience needs

From the mid-1910s to the end of the Studio Era, the Majors produced a regular supply of formulaic but popular movie entertainment comprising a range of genres featuring famous stars. Studio movies were heavily publicized and until the television era began in the early 1950s, they attracted weekly mass attendance at cinemas around the world, including the Majors' own theatre chains in the United States. By owning the most profitable theatres in the world's wealthiest market – the United States, the Majors enjoyed guaranteed exhibition for their movies under a business model in which theatrical revenues were the only source of income for a movie and it was the theatrical revenues that cash-flowed their studio operations (Huettig 1944).

Hollywood has consistently produced the world's most commercially successful movies as shown in the all-time top 200 box office hit movies adjusted for inflation (<http://www.boxofficemojo.com/alltime/adjusted.htm>). Data from that 2006 chart shown in table 8.7 below shows that of the top 200 box office hit movies of all-time, only 16 independent movies gained a place, and all but one were American-made films. 8 were from Disney, one was a Metro picture released prior to the merger creating M.G.M. The other 184 movies in the top 200 were all Major studio releases and no foreign films made the all-time Top 200 list.

Table 8.7 2006: Independently distributed movies in the Top 200 all-time box office hits (adjusted for inflation)

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: Box Office Mojo

A similar pattern can be observed in an earlier *Variety* chart (table 8.8 below) that shows very few independent films were able to achieve global box office success even at a time when the Majors were economically vulnerable during a period of steep economic decline from 1950-1974.

Table 8.8 1959: Limited independent box office hits

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Source: "All-Time B.O. Champs" in *Variety* January 7th, 1959 pp 9

Regulating product supply

For over nine decades, the Majors have applied a rigid editorial policy to determine what movies get made and what gets released (Dale 1997 p. 28). Their distribution companies have filled-out their rosters by acquiring completed independent movies deemed to have commercial potential and they simply "pass" on projects or films that they believe possess little audience appeal. For example, in 1950, despite Britain's Rank Organisation owning a 25% equity stake in Universal, the latter refused to distribute a backlog of 150 Rank films and the British studio was forced to use a smaller independent U.S. distributor Pentagon Pictures to distribute those films into the U.S. market (Segrave 1997 p.146). None became a box office hit.

Post-1948: The Majors had to devise new distribution strategies

After the enforced sale of their theatres under U.S. anti-trust laws and the loss of guaranteed exhibition through their own theatres, film production became a much riskier business for the Majors as each movie had to be financed and marketed independently and the cost of world wide distribution and marketing became too expensive to continue mass producing movies in the new television era.

With the fragmentation of the regular weekly movie-going audience that stayed home to watch television and without that guaranteed theatrical exhibition, movie production and distribution became so expensive that it was only worthwhile making high-yielding blockbusters for mass audiences because producing smaller films for a limited audience became too risky (Donahue 1987 p. 31). Former Columbia President David Puttnam stated

that distribution is a far more predictable and profitable business than production (Puttnam 1997 p. 219).

Consequently, after 1950 the Majors all significantly reduced their annual output of movies to supply to theatre (see Appendix 15). Production of B movies for theatrical release ceased altogether with low budget movie production migrating to television and becoming the domain of the TV movie-of-the-week.

The Majors increasingly adopted a blockbuster strategy in which they invested in far fewer films but much bigger budget ‘high concept’ movie spectacles that could marketed as a cultural event and would attract mass audiences back into the theatres to see them (Wyatt 1994). Bigger budget, event-movies also increased business risk, distribution and marketing costs. *“This made the studios interested only in the motion picture equivalent of a home run”* (Sklar 1994 pp 289). These studio-financed ‘tent-pole’ movies were and still are supplemented each year with a wider slate of independently produced movies in which the Majors partially invest, co-produce or simply acquire for distribution as completed films.

Reduced Major studio output in the 1950s created a product shortage that opened marketing channels to an influx of independent films particularly from Europe and Japan. However, exhibitor demand for Hollywood movies remained intact because they still featured the world’s biggest stars and spectacle and still received the most intensive marketing. By comparison, the independent films still could not compete effectively at the global box office as is evident in Table 8.8 above.

Controlled product diffusion

Underlying the Major studios’ channel dominance has been their ability to manage market demand by regulating the flow and controlling the diffusion of new products into the market. This has two aspects to it – regulation of the amount of new product available (Appendix 15) and the Majors’ ability to optimise product lifecycle yield through controlled diffusion strategies.

Temporal release strategy based on price discrimination

Central to Hollywood’s successful distribution methods over time is a strategy of tightly controlled new product-diffusion that segmented theatres based on price discrimination and

involved the time-based release of movies flowing through a process of sequential zones, runs and clearances. In Old Hollywood, the Major studios followed Paramount's lead establishing 'protection' through a system of zones, runs and clearances that guaranteed exhibitors willing to pay premium priced film rental terms for new movies that they would be given 'first-run' status in a protected geographic zone and for an agreed time period specified contractually between the distributor and exhibitor. After the run finished, the movie moved down to a lower run theatre in the same zone. Lower run theatres paid less film rental but waited longer to show the movie. These market areas or zones provided theatres with geographical exclusivity for the period of the movie's run which was the contracted time period over which programmers agreed to license a movie from the distributor and to exhibit it continuously in their theatre over that time. A 'clearance' was the period of time "*which must elapse between runs of the same feature within a particular area or in specified theatres*" (Cones 1992 pp. 82; 456; 557).

Theatres were segmented and classified as first, second, third, fourth or fifth run theaters according to their earning potential and location. The foundations for such a system preceded Hollywood and were laid in the early 1900s when some exhibitors were willing to pay premium prices for exclusive access to the most-popular movies. The GFC implemented a similar system in 1910 but it was refined by Paramount and adopted by all of the Major Hollywood studios after the First World War.

Until the 1950s-1960s, first run theatres were typically the largest and most profitable city-based movie palaces – opulent cinemas that began appearing from around 1912 and were modelled on Europe's grand legitimate theatres. After the first run movies were released sequentially over time to second, third and other lower-run theatres they gradually diffused into non-metropolitan markets (Gomery 1978).

Product lifecycle management for movies is time-critically important

The commercial success or failure of cultural products like movie entertainment, artistic, or sporting events can be dramatically and rapidly impacted by positive or negative perceptions of the product or brand and subsequent positive or negative word of mouth.

In film distribution, product lifecycle management is therefore time-critically important because it is the first run release of a movie that establishes its brand equity and ultimately determines its commercial success in subsequent runs whether they be second, third or fourth run theatres during the pre-television era or in the post-theatrical release to home video and

television markets in the digital age. First run theatrical release is a showcase that establishes brand equity and facilitates buyer demand for the movie in subsequent runs and release windows.

Until the multiplex era, distributors' releases were typically narrow and designed to prolong the product lifecycle of a movie to optimise film rentals as it passed through different runs in theatres around the world. From the 1950s, television was the only after-market for additional revenues and movies were not typically licensed for TV broadcast for years after the initial theatrical release. In the post-Studio Era, until the home video boom of the 1980s, this temporal distribution strategy served as a barrier to entry by contractually ensuring that movie theatres were the only means by which consumers could watch movies during an agreed 'window' of protection.

However, distribution strategies for movie releases changed significantly in the 1970s-1980s from a narrow and linear release for big event-movies to a much wider saturation release of 'tent-pole' movies as the large theatre chains built multiplexes to replace their ageing single and double screen theatre stock and needed product to fill those new screens. At the same time, distributors switched from a reliance on newspaper advertising to launch movies to saturation TV advertising as newspapers declined in importance compared to the growth of network television.

In the digital age, today's movie release follows the same basic first-second-third run pattern except that home video and television exhibition windows have replaced the different classes of cinema. Theatrical release is now essentially the first run that establishes the movie as a brand. Runs have become "windows" with premium pay TV occupying the second run, followed by home video release as the third run, Pay TV market as the fourth run and free-to-air television as the fifth "run" however the post-theatrical windows for movie release have compressed significantly as DVD release edged closer and closer to the initial theatrical launch date (Silver and McDonnell 2007).

Movie release strategies

Strategically planned diffusion of movie releases was a business priority for the Major studios in order to extract optimal film rentals from exhibitors. They achieved this by employing a distribution strategy in which they carefully regulated the flow of product and rate of diffusion into the market.

In a lecture to the Harvard Business School in 1927, Paramount's distribution chief Sidney Kent emphasized that movies were perishable products: "*Time is what we sell and if we lose a week we cannot replace that week*". He explained that the industry had rapid depreciation of values with the film negative (production cost) being 80% written off in the first year, with 50% of revenues realized in the first 90 days. For the average movie, another 20% was liquidated over the second year of the film's life and "*at the end of the second year the negative is carried on our books at one dollar*" (Kent in Kennedy 1927 p. 222-223).

Two decades later in 1949, the same message was emphasized by another Major studio in an article on film distribution that appeared in Universal's in-house publication '*Progress*'. "*A film is a highly perishable product, lives on popularity, requires fast and expert handling. Action is therefore quick, and inside of six months, a feature has played all runs and netted the major portion of its revenues*" (Alin - Ed. 1949 p. 4)

Until 1950, the Major studio business model was based entirely on box office revenues because no post-theatrical markets for films existed in the pre-television era. So the film distributor's objective was to maximize film rentals from first run theatres that yielded the most money before booking the film into second run theatres and then into third, fourth and fifth run theatres. Paramount aimed "*to tie each print (of the movie) in a solid sequence without gaps so that 100% of its time is used*" (Kent in Kennedy 1927 p. 222) and Universal believed that "*the test of a good booker is his ability to utilize every possible opportunity to keep a print in play. He will sometimes circuit prints from one town to another. Large (film) exchanges have more than one booker and each one is assigned certain accounts to handle*" (Alin 1949 p. 8).

During the Studio era, this temporal release strategy enabled the Majors to implement business practices called block-booking and blind-bidding as part of the system of protection for exhibitors willing to pay premium prices for the best theatres movies from Hollywood. In the post-1975 New Hollywood era, the temporal release strategy has been transposed onto the new media markets as 'release windows'. Post-theatrical sales price to home video and to Pay TV is determined by a formula based upon the level of marketing expenditure to launch a movie and upon its box office success (Wasko 2003; Vogel 2005).

The Majors adapted movie release strategies to optimise film rentals

During the nickelodeon boom from 1905-1908 product supply did not match demand, so film distributors rented multiple copies of these short films to movie theatres located within

their territory. With a running time of 10-15 minutes or less, they were cheap to duplicate and the product lifecycle was short because nickelodeons regularly replaced programming sometimes daily, so movies were rotated between theatres by film exchanges.¹⁰ The brief shelf-life of short silent films was replaced by the time-controlled release strategy that emerged in the Studio Era in Old Hollywood because longer talking pictures (5-7 reels i.e. 60-90 minutes) were more expensive to produce and “*it made no commercial sense to retain the old practice of renting a picture simultaneously to as many houses that wanted it so long as the prints held out. That meant in essence that you were competing with yourself, and the result was likely to be brief runs at low prices in half-filled theatres*” (Sklar 1978 p. 144).

The Majors led by Paramount extended the product lifecycle (film runs) to extract more revenue from higher film rentals by providing exclusivity through runs and clearances. Table 8.9 below shows the average release of a major film was 300 prints during the Studio Era in the 1930s and 1940s. After 1948, the Majors faced a far less certain market because they no longer enjoyed guaranteed exhibition in their own theatres and movies had to be individually marketed. The impact of television and population migration into the suburbs during the 1950’s and 1960s facilitated the spread of suburban cinemas, resulting in an increased number of more geographically dispersed first-run theatres that shortened theatrical runs i.e. the average movie’s lifecycle reduced (Waterman 1979 pp 182).

Table 8.9 Average number of prints for new releases in U.S. market 1932-1957 + actual prints in release 1960s-2000s

	1932	1940	1950	1957	1970	1980	1990	2000-2005
Majors	300	250	300	300	6 323 40 (The Godfather – 1972) 409 (Jaws – 1975) 862 2064 (Grease – 1978)	1078 (Raiders of the Lost Ark – 1981) 1101 (E.T. – 1982) 1532 (Beverly Hills Cop – 1984) 1339 (Ghostbusters – 1984) 1028 (Top Gun – 1996)	2195 (Apollo13 – 1995)	2,938 (Gladiator – 2000) 3,653 Mission Impossible 2 – 2000 Harry Potter – 2004 8,000 + prints in 3800 theatres
Indies	130	100	130	130			16 429 706 (American Beauty 1999)	77 304 557 (Chicago 2002) 800

Sources: *Film Daily Yearbooks* Industry Statistics 1933; 1941 pp 39; 1950 pp 87; 1958 pp 113;
www.the-numbers.com www.boxofficemojo.com

¹⁰ “The rise of the nickelodeon consumption of film had created a market condition which seems strange in retrospect. The nickelodeon program consisted of a number of reels, from three to five, often changed daily. This resulted in a tremendous consumption of subjects, since the subjects were normally just one reel long. The clamorous demand was for film, film, film – regardless of theatres or content. The only requirement was that it be new. The basis of value was age. First run film just out of the can from the factory was worth on its first day from ten to twenty times as much in rentals as it was on the thirtieth day...This made release dates arbitrarily fixed by the producer of large importance. Competing exchanges strove to get as much as one day’s advantage in the shipment of film” (Ramsaye 1926 reprinted 1986 p. 467).

Wider releases increased the rate of product diffusion

Despite changing market conditions, table 8.10 above shows that release patterns in North America remained relatively stable even after 1948, with an average 300 print release during the first run. Comparatively, independent movies were only released into 100-130 theatres.

However, the release strategy for *Jaws* in the summer of 1975 revolutionised Major studio marketing practices and changed the way tent-pole movies were released (Wyatt 1994). Previously, projected blockbuster hits were released at Christmas but Universal decided to release *Jaws* during the summer, traditionally a flat period for box office during the long summer vacation period (Schatz in Turner 190-191). Universal suspended the release of all of other movies during summer 1975, focusing its marketing effort on *Jaws*. It was the first Major studio blockbuster supported with saturation TV advertising - a more expensive approach than the traditional movie-launch driven by newspaper advertising. Consequently, Universal decided to employ a much wider theatrical release, launching *Jaws* onto 409 screens across America to take early advantage of the intensifying demand that it created with the hype from its marketing campaign (Sackett 1990 p. 241).

The enormous box office success of *Jaws* broke the mould for the standard release of around 300 prints. By comparison, the biggest hit of 1972 had been *The Godfather*, which like *Jaws* was a pre-sold cultural event based on a best selling novel. Supported primarily by an intensive press campaign it was initially released into only 6 theatres but later 'plat-formed' wider into 323 theatres. *Jaws* out-grossed *The Godfather* by 50% becoming the first movie to earn U.S. \$100+ million in film rentals.

From that point, the Major studio increasingly adopted a blockbuster marketing model, involving increasingly wider releases and supporting them with increasingly bigger marketing budgets. Wyatt (1994 p. 78) argues that the spiralling productions raised the economic break-even point and the Majors had little choice but to rapidly establish the movie's brand to try to drive audiences into the multiplexes.

Prior to *Jaws*, saturation booking had been used as a dumping strategy in the mid-1950s to market B movies. In late June 1959, independent producer Joe Levine insisted on a 600 print release through Warner Brothers for his B movie *Hercules Unchained* with 126 bookings in Boston and 95 in Philadelphia (Hayes and Bing 2004 p. 230). Supported by an intensive press advertising campaign the movie broke house box office records in many of those theatres despite a short shelf-life.

By the early 1980's a tent-pole movie like *Raiders of the Lost Ark* was released simultaneously into 1000+ theatres and by the 1990s blockbusters like *Apollo 13* were issued to 2000+ theatres. *Gladiator* was released into almost 3,000 cinemas across America in 2000 and by 2004 the tent-poles like *Harry Potter* and *Superman Returns* were booked into 4,000 theatres but multiple prints of those movies were actually showing on 8,000 screens within those multiplexes (Snyder 2004; Allison 2006).¹¹

Blockbuster marketing

Hollywood's blockbuster strategy has become standard marketing practice since mid-1970s (Schatz in Turner 184-185) and Christmas was replaced by the summer as the peak box office season during which 40-50% of annual revenues are earned (Bart and Guber 2002 p. 211).

8.6 SALES ORGANISATION IN NORTH AMERICA

Manufacturers like movie studios face important and complex decisions regarding the nature and structure of their sales organization: 1) Employ commissioned sales agents on an exclusive or non-exclusive basis or alternatively 2) Develop a company sales team and determine the most appropriate sales force organisation that best matches the needs of the firm and customers. Using agents has an economic attraction because it lowers fixed costs by reducing salary and administration costs and it also provides firms with flexibility to cheaply enter and test new markets or to switch agents in the event of non-performance. However firms using agents also face three primary trade-offs: Loss of control because agents run their own business and may put their own self-interest first; indirect customer relationships because the agent is an intermediary and higher costs paid in commissions should products succeed and achieve high volume sales (Johnston and Marshall 2003 pp 101-103).

¹¹ Saturation booking enables the Majors to recoup their costs far more quickly than a narrow release would allow because the terms of standard industry revenue sharing deal that splits the box office between theatres and distributors, favours the distributor who receives the lion's share during the early weeks (Diorio in *Variety* March 26th, 2002). However if a movie is popular and its lifecycle can be extended then the revenue sharing terms begin to switch to favour the exhibitors. In past decades when films played on less screens for much longer runs, theatres realised a larger share of the revenue. It also blocks screens to Hollywood's rivals e.g. in 2002, the Bond film *Die Another Day* and *Harry Potter and the Chamber of Secrets* together accounted for 66% of all screens in the U.K. market (Allison 2006).

Internal sales teams provide greater strategic control but also carry higher fixed costs, so strategic decisions about centralisation and decentralisation need to be addressed (Cron and De Carlo pp. 183-187). Firms must also decide whether to organise the sales team based on geographic sales territories, around products or brands, by customer type (segments) or to create sales specialists e.g. key account managers and / or technical sales people.

The data for tables 8.3 above and 8.10 below was drawn from company profiles of all studios and distribution companies appearing annually in the *International Motion Picture Almanacs* that list the regional structures, sales branches and key managers for all movie companies. These tables show that the most common form of sales organization by the Major studios and also used by their smaller rivals has been a geographic territory structure with highly centralized control. Table 8.10 below compares two historical snapshots from 1940 and 1980 that demonstrates similarities in the Major studios' sales organizations in North America that have existed since the rise of Hollywood.¹²

Table 8.10 Snapshots of Major studios sales organization in North American market 1940 and 1980

1940	Major distributors North American Sales Organisation	1980	Major distributors North American Sales Organisation
Warner	6 sales districts – East, Central, South, Prairie states, West and Canada	Warner	5 sales regions – East, Mid-West, West, South and Canada
Paramount	4 sales divisions – East, South, West and Canada	Paramount	5 sales divisions – East, Central West, South and Canada
Fox	3 sales divisions – East, Central, West and 7 districts (incl. Canada)	Fox	5 sales divisions – East, Central, West, South and Canada
M.G.M.	4 regional sales divisions – East, South, West and Canada	M.G.M.	Withdrew from domestic distribution in 1974 – United Artists sold MGM films
R.K.O.	3 sales divisions and 8 districts. – East + Canada; South + West; Shorts + Foreign sales		-
Universal	2 sales divisions – East and West	Universal	4 regional sales managers based in N.Y., Chicago, Dallas and L.A.
U.A.	5 sales regions – East, Mid-West, Far-West, South and Canada	U.A.	7 sales regions – North-East, Atlantic, Mid-West, West, North-West, South and Canada
Columbia	2 key account managers selling to cinema circuits. 1 manager selling short films 1 manager responsible for foreign sales.	Columbia	4 sales divisions – East, West, South, Canada

Raw data sources: *International Motion Picture Almanac* 1940 p. 668-720; *International Motion Picture Almanac* 1980 p. 433-492.

¹² Since the late 1910's, the Hollywood Majors have all operated an extensive North American distribution network of 31-32 branches strategically located in key cities across the U.S. and Canada that doubled as film exchanges and sales offices. In a lecture at Harvard University in 1927, Sidney Kent the distribution chief for Paramount Pictures stated that its sales team was organized into five divisions – East, Central, West, Canada and short films. Each division had 4-5 district managers and each district comprised 12-15 branches with over 40 branch managers supervising a total sales force of 156 salesmen each of whom was allocated an annual sales quota. And by the mid-1920s, Paramount was operating a *key account management* sales program in which the studio had identified for specialized handling of the key theatre accounts that provided 75% of revenues. Kent also indicated that the other major studios employed similar sales organisations (Kent in Kennedy 1927 p. 214-218). For example, Columbia also used a key account management system with two senior executives responsible for major cinema circuit accounts (Quigley–Ed. *International Motion Picture Almanac* 1940 p. 668)

A Universal brochure on its film distribution activities published in 1949 states that the sales team was organized into three divisions – East, South and West, each supervised by divisional managers who spent most of their working time in the field supervising eight district field sales managers. The 31 branches comprised 90-100 salesmen each responsible for a specific zone and territory and each servicing 50-100 movie theatre accounts (Alin 1949 p. 8, 13).¹³

Thirty years later, in the 1980's, the Majors maintained the same basic organizational strategy. 20th Century Fox had five divisional managers covering the Northeast and headquartered in New York; Central based in Chicago; Canada; the West (based in Los Angeles) and Southern Central / Southeastern states also based in L.A. Fox's network comprised 26 sales offices in the United States and 6 in Canada and each branch, supervised by branch manager, comprised sales staff, film bookers and cashiers (Myers 1983 in Squire 1983 p. 276). During the 1980s, Warner Brothers operated four divisions of sales executives in the United States– East, Mid-west, West and South, and a fifth division in Canada (Reardon 1992 in Squire 1992 p. 310).

In contrast, when independent studio Walt Disney established its own distribution company Buena Vista in 1954 it operated a streamlined version of the standard branch structure for U.S. and Canadian markets through eight districts and only 15 branches, operating them as a sales offices but not as film exchanges, preferring instead to courier film prints by courier from the labs to cinemas This realized considerable cost savings for Disney (Izod 1988 p. 162).

Analysis of tables 8.3 and 8.4 above reveals that from the 1980s, the Majors increased the number of sales regions but significantly reduced the number of branches to service their regions. This strategy was facilitated by the growth of multiplex cinemas that replaced the older single and twin screen theaters, the exhibition sector became more concentrated and with fewer major theatre chains and therefore fewer theatre programmers to deal with to book movies onto the same number of screens. Consequently the Major studios responded by centralizing their sales approach to the chains, reducing the number of branches but increasing the number of regions to enable more focused management of key cinema chain accounts.

¹³ These distribution salesmen carried with them promotional material such as blow ups of trade paper reviews and promotional brochures about future movies planned for production within the next year to help them persuade theatre programmers to book their movies (Alin 1949 p. 9).

8.7 LOGISTICS MANAGEMENT

Precision logistics management expertise required on a massive scale

During the Studio Era, precise logistics management on a massive scale was required in order to ensure that theatres received the right movie print on the right day. The Majors each produced 50-100 movies per year, each requiring 200+ prints that had to be shipped from the processing laboratories to their film exchanges, then by road or rail or sea and then on to one of the 20,000 movie theatres across America, then back to the film exchanges for inspection, repair and then re-shipment out to another theatre, to arrive by a specific day, to coincide with the marketing launch campaign for the movie in that specific locale. There was no room for error.

Today that task is even larger with a typical blockbuster release involving 4,000 prints and each movie to arrive at one of the thousands of multiplexes and booked to play on one of America's 38,000 screens by the launch date of the movie. Thus significant logistical management expertise is essential for that scale of operation to run smoothly with minimal errors to ensure that the Majors do not send the wrong print to a movie theatre. Such expertise developed earlier but was perfected by all of the Majors during the Old Hollywood Studio Era. Universal operated "*a highly synchronized system of film distribution that functions through 31 film exchanges, strategically situated so as to render the speediest service* (Alin 1949 p. 4)." ¹⁴

8.8 COST CONTROL

Cost savings through outsourcing to specialized intermediaries

Despite public perceptions of Hollywood's lavish spending on movie budgets movies, star salaries, special effects and big budget marketing campaigns, the distribution arms of the

¹⁴ At Universal in 1949, approximately 200 prints of a movie were shipped from an eastern film-processing laboratory to each film exchange across America and then around the world. Upon arrival, identification details of each print were individually written into a central record card system. Each reel of film was inspected then moved to the storage vaults with its own in-out record card that could be cross-checked against the master booking record. The programming, accounting and sales staff were immediately notified of the films arrival at the exchange. Circuit sales were negotiated by branch managers and after the sales team returned with contracts containing proposed film hire terms with the movie theatres the contracts were sent to head office for approval. After they were returned, the programming staff booked the play dates and the films were shipped to theatres. Prints were moved around between theatres via the exchanges to optimize use of each film print. Upon return to the film exchange at the end of the run, prints were again inspected, repaired and either shipped to another theatre or stored in the vault at the end of the movie's life Alin (1949).

studios have tightly controlled costs. The Major studios have a long history of outsourcing using specialized intermediaries in the distribution chain in order to realize cost savings.¹⁵

Today, both the physical shipment of trailers, film prints and all in-theatre promotional and point-of-sale materials is outsourced to Technicolor that operates a large warehouse in Los Angeles known for its mechanized efficiency e.g. “*an experienced operator can process 130 trailers an hour*” and dispatches them out to the multiplex theatres across North America (Hayes and Bing 2004 pp 174-175).

Key marketing elements outsourced to specialist providers

Universal and Paramount employed advertising agencies in the 1910s and 1920s (see Chapter Nine) and market research was outsourced to specialized intermediaries by 1939.¹⁶ Other elements of the Majors’ distribution and marketing have also since been outsourced to value chain specialists.¹⁷

8.9 CHANNEL RELATIONS

Hollywood’s distributor ‘know-how’ is a competitive advantage

A key task for market leaders is to effectively manage channel relations and ‘dependence’ is an indicator of channel power (El-Ansary and Stern 1972). While movie studios need to get their product exhibited table 8.11 below demonstrates that there are many thousands of cinemas around the world that are totally dependent upon a reliable supply of commercially attractive movies in order to attract audiences. Hollywood’s track record of box office

¹⁵ For over seventy years, the National Screen Service handled the physical distribution of trailers and accessories i.e. posters, lobby displays and other promotional and point of sale materials associated with the marketing launch at theatre level while the Majors’ own film exchanges handled the distribution of film prints to theatres. “*National Screen originally became the distributor of trailers for the major motion picture distribution companies in 1919. At that time, the Majors conceived the concept of showing sample scenes to a captive audience and realized that the cost and problems of distribution would be a distraction from the companies’ principal job of selling feature films.*” (Michel, Martin in Squire 1983 p. 374)”.

¹⁶ George Gallup’s Audience Research Inc. for M.G.M.’s *Gone With The Wind* and Leo Handel’s Motion Picture Market Research Bureau established in 1942 that serviced R.K.O. and other Major studios (Fiske and Handel 1946, 1947; Bakker 2003 pp. 101-130). In ‘New Hollywood’ key providers of outsourced market research to the Majors have been Joe Farrell’s National Research Group (NRG) since the 1970s and more recently MarketCast and OTX (Hayes and Bing 2004 pp. 248-249).

¹⁷ After the Studio Era, the Majors cut operating costs by reducing the size of their in-house advertising, publicity and exploitation teams by outsourcing key elements of marketing to other specialized suppliers. High profile advertising agencies like Ogilvy & Mather, Young & Rubicam Leo Burnett, DDB, Saatchi & Saatchi and Grey Worldwide have handled the advertising accounts for their Major studio clients for many years. Key elements of production of marketing materials are also outsourced with the specialist creative agencies that prepare trailers, TV and radio spots based in Los Angeles or New York (Goldberg 1991 pp 44). “*Trailer houses in Hollywood have proliferated over the last decade from a handful to about 50 major and boutique companies. Five of the top trailer houses are Ant Farm, Intralink, Cimarron, Trailer Park and Aspect Ratio*” (LaPorte 2006 p. 1).

success is unrivalled and it has operated *the only distribution system that has been able to provide continuity* to theatres in terms of an ongoing supply of commercially attractive movies that feature the world's most popular movie stars. The absence of any commercially viable and reliable alternative product supply creates dependence upon Hollywood and enables the Majors to remain channel leaders and dictate terms to exhibitors and other channel members.

Table 8.11 Snapshots in time of total number of movie theatres in the world

	No. theatres U.S. / Canada	No. foreign theatres	No. world theatres	source
1928	U.S. 20,500 Canada 1100	Europe 27,338 Others 8,403	57,341	Film Daily Yearbook 1929 p. E
1948	U.S. 20,068 Canada 1639	Europe 54,071 Others 15,449	91,226	Film Daily Yearbook 1949
1967	U.S. 17,900 Canada	Europe 101,154 Others 30,190		Film Daily Yearbook 1968 pp 98-101
2006			150,000 multiplex screens	Australian International Movie Convention 2006 (Fithian 2006)

Early channel conflict

The 'theatre wars' that erupted in 1917 when theatre operators formed First National in response to the sudden channel power and unfavourable distribution terms imposed by the Famous Players-Paramount combine indicates that initially channel relations were poorly managed. Paramount's competitive response was to vertically integrate further and enter the exhibition sector. By the mid-1920s, Zukor had acquired many of the leading theatre circuits that were the backbone of First National thus undermining its economic base and eliminating it as a competitive threat. From that point, Paramount and the other Majors remained essentially unchallenged until the brief rise and fall of the mini-Majors in the 1980s.

Block booking and blind-bidding strained channel relations

During the Studio Era, block booking was a strategy imposed by the channel-dominant Majors on cinemas around the world (Segrave 1997 p. 11). The Majors rented their movies in blocks, which meant that exhibitors had to take an entire block of a Major studio's films in order to acquire the most-commercial movies featuring the most popular stars. "*Block booking may be defined as the simultaneous leasing of groups of films at an aggregate fixed price upon the condition that all the films in the given block be taken. In practice, this meant*

that the unaffiliated exhibitor had to take the entire block as offered or none at all" (Huettig 1944 in Waller 2002 pp 214).¹⁸

Under block booking, theatres were buying 'blind' from the Major studios because many of the movies in the forthcoming year's program were either not yet in-production or film prints were unavailable for early screening. So studio movies were sold in-advance to the theatres on the strength of a brochure carried by the distribution company's sales representatives that contained a brief synopsis, cast list, publicity photographs and if the film was completed some critics reviews from first release markets (Greenfield in Brouwer and Wright 1990 p. 513-514; Brassoﬀ 2000 pp. 14-15). The independent exhibitor thus relied upon the studio's brand reputation, its line-up of stars and its commercial track record to meet theatres' needs for theatres commercial product.¹⁹

Block booking served as a barrier to entry by denying Hollywood's competitors access to the most profitable movie theatres. Many independent exhibitors lodged complaints and a number litigated claiming restraint of trade because as businesses they wanted the right to select their own programming content that they believed would suit their local market rather than being forced to take the entire program from a Major studio that invariably comprised a mix of good and bad commercial product. The U.S. courts determined that block booking was a restraint of trade and it was deemed to be an unfair business practice in the 1948 Paramount Consent Decree and declared illegal in the United States. Since 1948, Hollywood movies have been sold individually to movie theatres and each marketed as a new product launch in its own right by the Majors' distribution arms.

Block booking was a business practice that caused significant channel conflict between the Majors and exhibitors around the world that ironically was created as a market response by

¹⁸ To illustrate this point: *"The Fox contract for the year commencing August 13, 1933 and ending July 31, 1934 offers to licence for exhibition a maximum of 52 and a minimum of 40 pictures, the only exception being 'such photoplays as distributor is required, by contract, to obtain the consent or approval of the producer or other party to the terms and conditions of licensing the exhibition thereof. But what this exception really means is that when a producer thinks that he has a picture which is worth a lot more money than usual, he can take that picture out of the regular 'block' for which the exhibitor has already contracted, and force the exhibitor to sign another contract for that single picture at an increased 'ante'. This exception to block booking turns out to be a 'heads I win tails you lose' proposition for the exhibitor."* (P.S. Harrison 'Give the movie exhibitor a chance!' 1935 in Waller 2002 pp 211)

¹⁹ This practice guaranteed the Major studios predictable market demand for from theatres around the world and with the introduction of talking pictures in 1927, they began distributing a weekly package of film entertainment that eliminated the need for theatres to engage live acts and musicians to supplement silent film programs (Hanssen 1999). *"Providing a complete program (an "A" film, "B" film, shorts, cartoons and newsreels) was a further means of maintaining control in the market"* (Izod 1988 pp 99).

distributors to satisfy exhibitor demands.²⁰ Paramount Producer Jesse Lasky confirmed that block booking was a response to exhibitor demand in a speech to the Harvard Graduate School in 1927.²¹

Hollywood's response resolves the channel conflict

In an attempt to foster improved channel relations with the many independents that remained hostile to block booking, the Majors eventually modified the practice reducing blocks to a much smaller number of films: *"Finally the distributors agreed that they would sell pictures in blocks of five, where they would license five pictures in a group and the exhibitor would have the right, if he wanted, to buy group one or group three. He had to buy five, and was granted a cancellation clause, which meant that he could license the five pictures in that block and eliminate one of the five"* (Greenfield in Brouwer and Wright 1990 p. 513-514).²²

Managing channel relations with exhibitors

Market demand from movie theatre programmers is stimulated by the brand name and track record of the movie studio for supplying strong commercial product and its marketing expertise. Whilst star power does not guarantee box office success it can provide programmers with some level of confidence that the movie contains commercially marketable elements that can attract audiences (Mayer 1978 pp. 43-45; Jowett and Linton 1980; p. 40; DeVany 2004 p. 87).

When that is combined with Hollywood's ability to distribute films on a global scale, using decades of distribution know-how and considerable marketing force in terms of advertising

²⁰ An early form of block booking began between 1902-1905 when the commercial base of a movie theatre business was beginning to emerge. A series of narrative movies telling stories became the industry's first true box office hits. *A Trip to the Moon* (1902) and *The Great Train Robbery* (1903) reignited a waning public interest in moving pictures that occurred around the turn of the century: *"it is a commonly held notion projected motion pictures by 1898 had lost much of their novelty"* (Balio 1985 pp. 11). *"Movies had become a standard entertainment commodity in museums, arcades and vaudeville theatres, but the public was beginning to tire of their sameness (vaudeville acts, circus turns, scenic views"* (Csida and Csida 1978 pp 138). In an increasingly competitive market, exhibitors needed a guaranteed and regular supply of fresh films for their theatres, so it became industry practice that annual contracts were agreed that guaranteed exhibitors a supply line of product from particular film studios (Donahue 1987 pp 7) thus initiating the practice of buying movies in blocks.

²¹ *"Block booking, or selling groups of pictures in advance. Why does the exhibitor use that method of buying? Because the theater represents his sole means of livelihood and he wants to be sure he will have a good attraction at his house every week. Therefore he will not wait and see what the market has to offer. As salesmen of rival companies come along with attractive catalogs of their productions, they tie up the time of the theaters. If a theater has 52 weeks to book and has already tied up 40 weeks at large rentals, what will be our chance of doing business if we approach them months later? Even though we have a product proved superior by screen examination, there will be no opportunity to sell it, as practically the whole season will already be contracted for"* (Lasky in Kennedy p. 104-105).

²² A 'block' typically comprised an 'A' feature, a 'B' film and two programmers e.g. a newsreel, cartoon or short films. (Goldberg 1992 pp 163)

expenditures to launch new blockbuster movies, Hollywood has developed a sustainable competitive advantage that makes its movies highly attractive to exhibitors and motivates them to maintain strong commercial relationships with the Major studios distribution arms.

The Majors have for many decades nurtured long-standing relationships with exhibition chains through channel bonding strategies such as a) studio-sponsored events for exhibitors e.g. the Buena Vista/Disney International Marketing Conferences in Paris in 1985; b) through publicity tours by movie stars to promote new releases (O'Brien 1985 p. 178-179, p. 184, p. 197) and c) through regular attendance by the Majors distribution and marketing executives at an annual program of national and international exhibitor conventions to discuss industry issues and to promote new studio product e.g. ShowWest every March in America, Cinema Expo in Europe each June, the AIMC in Australia in July/August; ShowEast in the U.S. in October and CineAsia every December (Anonymous *Variety* 1929). *"Watching Disney pump Finding Nemo at ShoWest with a brand of razzle dazzle she could not help but roll her eyes. Disney's motion picture chairman Dick Cook, Pixar financier Steve Jobs and founder John Lasseter then took turns schmoozing the assembled exhibitors."* (Hayes and Bing 2004 pp 104-109)

The antecedents of involvement are personal relevance and situational factors (Zaichovsky 1986; Andrews, Durvasula and Akhter 1990). These conferences and studio sponsored conventions are designed to be a channel-bonding exercise that stimulates high involvement from exhibitors by showcasing forthcoming movie product and also enabling theatre owners to mingle with Hollywood studio executives and occasionally with movie stars in a stage-managed environment. This enhances the Majors' brand equity with exhibitors and raises their level of involvement and commitment to the studios as brands. *"You can take a strong brand to the bank – and companies do, with brand equity showing up on the balance sheet"* (Friedman and Furey 2000 pp. 6).

Table 8.12 Distributors channel bonding with exhibitors

Activity	Evidence	Era	Sources
Key account management	Major distributors sales organization includes senior executives responsible for managing accounts of large theatre circuits	Since the Studio Era	Kent in Kennedy 1929 p. 214-218 (Paramount) Alyn 1949 p. 13 (Universal)
Movie premieres, previews and star publicity tours	Regular distributor-exhibitor socialising at screenings of major new movies	Since the Studio Era	Photos of film premieres and movie star tour by Charlton Heston in O'Brien 1985 p. 178-179, p. 184
Exhibitor conventions, film markets and film festivals	Major Hollywood studios executives regular presence at: - ShoWest (1974) ever March in the U.S. - AFM in March - Cannes in May - Cinema Expo International (1991) June in Europe - Australian Movie Convention (1945) July - Venice film festival in Aug/Sept - ShoEast (1984) in October in the U.S. - CineAsia (1992) December in Asia	Since 1920s in North America Since 1970s in Europe and Asia/Pacific	Anonymous <i>Variety</i> 1929 'Sid Kent addressing Memphis convention' October 30 th , 1929 p. 20 Exhibitor convention websites - see www.showeast.com/filmgroup/about_us/index.jsp
Studio sponsored marketing conferences	Buena Vista / Disney flew exhibitors from around the world to Paris in 1985 and Zurich in 1986 for a conference that screened forthcoming product, reviewed marketing campaigns and territory results.	Post-studio era	The author attended these conferences – see photo and caption in (O'Brien 1985 p. 197).

Sources: Kennedy (1927); Alyn (1949); O'Brien (1985); www.showeast.com/filmgroup/about_us/index.jsp

Business relationships are maintained through the Majors' day-to-day account management of their large theatre chain customers (Kent in Kennedy 1927 p. 214-218; Alin 1949 p. 8, 13) and also through exhibitor liaison activities such as the marketing trip by studio executives to meet with senior management at Australia's largest cinema chain: "*Paramount executives, Marty Kutner, President of Worldwide Sales, Gordon Weaver, Vice-President Worldwide Marketing and Leslie Pound, Vice President, International (are) here with Hy Smith, President of Publicity and Advertising for discussions with U.I.P. and Greater Union staff*" (O'Brien 1985 p. 188).

As Huettig (1944) noted during the Studio Era, the Majors competed as movie studios but they were also each other's best theatre customers creating a symbiotic relationship. They supplemented their own studio's product by also acquiring movies from rival Hollywood studios. The combined total annual output from the Major studios was enough to ensure that weekly programming remained fresh in order to continue attracting a regular theatre going audience during the pre-television era. Consequently, close business relationships existed between distribution executives at Majors and their formerly studio-owned theatre circuits that persisted even after the Paramount Decree in 1948.²³

²³ "The distribution business changed when the divorcement (the break up of studios and theatres) went into effect. The former relatives were expected to deal with each other on an adversarial basis. However, the now-independent circuits continued to favour their place of birth, and since they controlled so many of the best theatres, little changed. The studios had their favourite customers, and the circuits had their favourite suppliers" (Goldberg 1991 p. 163).

Today the movie business continues to be a tight relationship-based community in which senior executives, managers and other personnel from the distribution-exhibition sectors frequently do business and socialise at international film festivals and film markets (Cannes, Venice and the A.F.M.) as well as regularly attending movie previews and premieres at pre-screening and post-event functions (see O'Brien 1985 p. 188, p.193).

The roots of this socialising culture can be traced back to the early days of embryonic Hollywood when the movie moguls and their key executives all knew each other personally and socialised together. Employment longevity at the Major studios is notoriously short, so many studio personnel have previously worked at a number of other studios which creates a Hollywood studio community closed to outsiders.

Hollywood uses overwhelming marketing force to brand movies

Two sets of statistics contained in Table 8.13 and 8.14 below reveal that Hollywood has also consistently used overwhelming marketing force when launching new movies. In 1939 for example, Hollywood spent 59% of total world advertising expenditures, most of it in print media.

Table 8.13 U.S. Movie industry advertising expenditures in 1939

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Source: (1940) "Motion Picture Industry Statistics" Film Daily Yearbook 1940 pp 37

By 2005, the average cost to market a Hollywood blockbuster was U.S. \$32 million – much larger than the entire film production budget for the great majority of independent films from around the world. Such levels of expenditure not only ensure that the Majors can launch movies and get them noticed in a cluttered global film market but they also act as a barrier to entry to smaller independent studios by motivating exhibitors to maintain their line-of-supply relationships with Hollywood in order to attract the largest audiences.

Table 8.14 Average marketing costs for Major studio movies and subsidiaries (e.g. Miramax)

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Source: MPAA Economic Review 2005

8.10 CHAPTER SUMMARY

Distribution – the key to the Majors power in studio era

Distribution capabilities were the fourth of Vorhies and Harker's six key marketing capabilities that signified a market-driven firm. The introduction to this chapter established that the purpose of distribution channels was to facilitate the physical flow of products from manufacturer to end customers through efficient searching and sorting processes (Stern and El-Ansary 1985 p. 105) and that channel leaders possessing superior distribution capabilities would be more likely to establish shorter channels because they are less expensive to operate; scale economies through intensive market coverage and would be likely to excel in product acquisition, selling, logistical management, cost control and careful management of social relations with channel members.

This chapter identified historical evidence that demonstrated that the Major studios did establish short length, corporate-owned channels and that they employed strategies of intensive market coverage that provided significant market power.

Geroski and Vlassopolous (1991) note that market leadership positions can be based on the control of the infrastructure that supports a particular market and control of that infrastructure can play a large role in determining the manner in which market power is exploited. The basis of the Majors' channel power was that they developed and maintained comprehensive national and international distribution networks on a scale unmatched by rival film companies since the First World War. This enabled them to develop the distribution know-how to command optimal play-dates and the most advantageous film rental terms (see Chapter Ten) because they provided movie theatres with an ongoing supply of high theatres, commercially attractive product. Hollywood's use of movie stars and

special effects to tell entertaining stories has made their movies universally popular with audiences.

Hollywood's commercial success is demonstrated by its ongoing dominance of all-time box office charts. The Major studios allocated substantial resources to drive and stimulate demand for their products, and the evidence showed that the Majors tightly managed distribution costs and excelled in efficient logistics management to facilitate the physical flow of products to theatres. Since the 1920s, the Majors have operated key account management strategies with large theatre chain customers and a system of highly centralised sales force control.

Friedman and Furey (2000 p. 8) argue that a critical issue in competitive strategy has been to find *"an advantage that has some staying power in a competitive market place."* They argue that channel innovation *"is separating market winners from market losers"* and that some successful corporations have managed to build a sustainable competitive advantage based on channel differentiation. *"A sound market coverage model – one that connects the right products with the right customers, is the cornerstone of an effective, high growth channel strategy."* (Friedman and Furey 2000 p. 28)

For nine decades, the Hollywood Majors have used their scale of market coverage and distribution know-how to differentiate their firms with their customers. Independent and foreign rivals have simply been unable to compete because film distribution in the movie business is not a level playing field. The Major studios hold all the cards that count to dominate the market.

In terms of Vorhies and Harker's third core marketing capability, the Majors have been highly effective in managing their distribution. Another indicator that they were market-driven firms.

CHAPTER 9: THE MAJORS' PROMOTIONAL CAPABILITIES

9.0 INTRODUCTION

In applying Vorhies and Harker's (2000) core marketing capabilities model to determine if dominant firms in the movie business were market-driven, Chapter Eight demonstrated that the Hollywood Majors possessed superior distribution capabilities enabling them to outperform rivals and that this has been a significant contributing factor to their acquisition and maintenance of market dominance.

Promotion is another of Vorhies and Harker's (2000) "*set of (six) marketing capabilities that provide a foundation for a market-driven approach*" resulting in superior firm performance. They defined promotion as "*advertising, sales promotions and personal selling activities*". This chapter examines the historical data to determine if the Hollywood studios possessed superior promotional capabilities to rivals.

A set of guiding questions was established in Chapter Three to direct the research. For promotional capabilities, the questions were: To what extent were the dominant firms effective with their promotional / communications capabilities? What evidence exists in the historical data to support or counter any case?

The first task will be to more accurately define 'promotion' within a theoretical marketing context and then identify the kind of promotional capabilities that superior performing firms in the movie industry would be likely to possess. The historical evidence can then be examined to determine if the dominant movie studios did possess that same set of promotional capabilities enabling an evaluation of what role they may have played in the acquisition and maintenance of that market power in the concluding chapters of this thesis.

Definitions: Promotion and the promotional mix

Promotion has been defined as "*developing and spreading persuasive communications about an offer*" (Kotler, Brown, Adam and Armstrong 2004 p. 350) and as: "*The co-ordination of all seller-initiated efforts to set up channels of information and persuasion to sell goods and services or promote an idea*" (Belch and Belch 2001 p. GL10).

Traditionally the major communication tools within *the promotional mix* have been mass media advertising, sales, sales promotion and public relations although direct marketing and

Internet marketing have recently become increasingly important elements (Belch and Belch 2001).

In the movie business, the promotional tools most often used to launch new movies have been advertising, publicity, promotional tie-ins and merchandising and in this chapter these core promotional capabilities will be examined as well as the Majors' trade advertising and public relations (PR) capabilities in relation to a selection of key publics. However, personal selling also occurs within the trade when film distributors persuade movie theatres to book and play their films under licence. The Major studios sales organizations and competencies were analysed in the previous chapter on distribution capabilities.

The term 'exploitation' will appear often within this chapter. Prior to the 1970s, exploitation was the general term used within the movie business to describe marketing.¹ Since the 1970s exploitation departments were reconstituted and re-badged as *marketing* departments.

The diffusion process and the role of promotion

The rate of adoption of new products and services varies because customer readiness to buy can be influenced by a range of factors that are determined by the firm's marketing mix i.e. creation of appealing new products that satisfy a need or desire, appropriate pricing, effective distribution and persuasive promotion. Customer readiness to buy is therefore contingent upon the firm's marketing communications and also word-of-mouth recommendation from trusted sources. Rogers (1983) diffusion-of-innovation model categorises customers into one of five groups based on past behaviour based and likelihood to adopt new products.² An empirical study that analysed a sample of thousands of movies drawn from *Variety's* box office charts established that motion picture revenue dynamics are extremely uncertain (DeVany and Walls 1996, 1997) that "*the dynamics of choice are so complex that they can't be predicted*" (De Vany 2004 p. 65)³ and the majority of movie lifecycles are a ski-slope shape not a bell-curve as represented in Roger's diffusion model.

¹ "Exploitation was all of the advertising, publicity, merchandising, licensing and promotion of a motion picture, and, in a broader sense, any use of a film, soundtrack album or other product for one's own profit or advantage" (Cones 1992 p. 176).

² 'Innovators' are pioneering first purchasers. 'Early adopters' are next and often act as opinion leaders influencing others through personal recommendation and can play a significant role in persuading the next group, the 'early majority' are more cautious but still buy new products ahead of the rest of the population. The 'late majority' wait for general market acceptance of the product and 'laggards' are mistrustful of change and new technology.

³ "Motion pictures can be modelled as a competition for the top fifty spots in a tournament. A few films achieve a high rank in their first week, but most will not. If a film gains acceptance it may increase its rank over time, but its revenues eventually must fall as it exhausts its potential audience" (DeVany 2004 p. 15),

This occurs because the movie industry is a *hits-driven business* that can be subject to rapid shifts in audience tastes due to changing fads and fashions (Lieberman 2002), so commercial success relies on film companies having the marketing capabilities to optimise the rapid early take-up of new products and due to the large financial risks involved with big budget blockbusters, the Majors need to ensure that new movies ‘open’ successfully. “*The nemesis of show business marketing is the extremely short shelf-life of the product. A film is a retail product, it has only one to two weeks to convince an exhibitor to keep it on his shelf*” (Weisberg 1983).

Effective marketing communications strategies are critical for commercial success

A key task for movie marketers is therefore to use powerful marketing communications to persuade innovators, early adopters and the early majority to see a movie in the first weeks of release. “*Communication links people to together and creates relationships*” (Duncan and Moriarty 1998 p. 2-3), so it is critically important for firms to seeking to facilitate relationships with customers to effectively manage their communication programs because the fourth ‘P’ – “*promotion is rooted in communication with customers and other stakeholders*” (Spotts, Lambertt and Joyce 1998 p. 214). Communications strategies may be designed primarily to persuade consumers to buy products but they may also have other influencing motives e.g. lobbying governments to reconsider policies or legislation unfavourable to the industry; to alter negative stakeholder perceptions about products, brands or the firm; or to nurture positive perceptions to create gatekeepers or advocates. Consequently different tools and media channels are available to marketers to enable them to achieve their desired objectives.

The promotional mix and integrated marketing communications

The promotional mix is an umbrella term encompassing the range of available communications tools and promotional activities required to persuade people to buy. “*Marketing communications represents the collection of all elements in a brand’s marketing mix that facilitate exchanges by targeting the brand to a group of customers, positioning the brand as somehow distinct from competitive brands, and sharing the brand’s meaning – the point of difference – with the brand’s target audience*” (Shrimp 2003 p. 3). Movie companies possessing superior promotional capabilities could therefore be expected to have well-developed expertise in advertising, film publicity, public relations, promotions and other communications tools within the promotional mix and to be adept at co-ordinating marketing communications to achieve a consistent marketing theme across various media channels.

9.1 HISTORICAL CONTEXT:

North America was the world's largest market until 1990s

The large and affluent American market accounted for the majority of global box office until the 1990s, so promotional success there was critically important. At the time talking pictures emerged, the large and relatively affluent American movie market accounted for 75% of global box office (Kennedy 1927). In 1940, 'foreign' markets accounted for 40% of Major studio revenues (Carroll 1953). It was not until the early 1990s that 'foreign' box office from the rest-of-the-world grew large enough that it surpassed the annual box office provided by American audiences (See Chapter Eight, table 8.8). Consequently, the primary focus of this discussion will be on the promotional capabilities of the dominant film companies within the American market. It should be noted that since foreign box office became the largest revenue source, Hollywood's worldwide dominance has actually increased, indicating that the same superior promotional capabilities that it possessed in the home market have successfully been transposed to international markets.

During the Studio Era when Hollywood owned large theatre circuits, movie marketing was partially de-centralised, with theatre managers trained in exploitation (promotional) methods playing an active role in local promotions. Following Divorcement and the sale of the those theatre chains, and in the light of the growing influence of TV advertising on consumers and the later introduction of multiplex cinemas, the Majors have increasingly used saturation-advertising campaigns to support the ever-widening releases of their blockbusters.

9.2 HOLLYWOOD AND THE MEDIA

Promotional channels and methods were well-developed by 1910

Circus marketing and the showmanship approach of P.T. Barnum heavily influenced the development of movie marketing (Weir 1932; Gaines 1990). However, the circus influence went beyond the movie business and can be seen to have shaped the direction of many American advertising, publicity and promotional practices. Appendix 16 lists a selection of significant milestones in the development of promotional channels within the United States and table 9.1 below summarises the key media channels and marketing methods used during various stages of the movie industry lifecycle.

Table 9.1 Key communication channels and methods used for movie marketing by film eras

Era	Push-pull strategy	Key communication channels and methods used
Pre-Hollywood 1895-1914	PUSH – Studios sell to film exchanges that sell/rent to theatres that locally promote their programs/films with mostly below-the-line campaigns. After 1910, feature films required individual campaigns. A mass audience had a regular movie going habit.	ADVERTISING Posters, out-door advertising, amusement notices and display ads in newspapers, trailers. PUBLICITY Newspaper and magazine publicity SALES (marketing to theatre owners) Product catalogs, press books, studio newsletters, trade advertising (corporate ads and movie ads), PROMOTION Postcards, handbills (heralds), flyers (couriers), street banners, theatre marquees, lobby cards, MERCHANDISING Special movie programs/booklets, merchant tie-ins
‘Old Hollywood’ - The Studio Era 1915-1949	PUSH - PULL Studios / distributors sell/rent blocks of movies to theatres, publicise and advertise stars and movies in mass media while theatres handle local promotion using below the line campaigns. A mass audience had a regular movie going habit.	ADVERTISING Posters, out-door advertising, amusement notices and display ads in newspapers, trailers, PUBLICITY Newspaper and magazine publicity SALES (marketing to theatre owners) Product catalogs, press books, studio newsletters, trade advertising (corporate ads and movie ads), studio-exhibitor marketing conventions. PROMOTION Postcards, handbills, flyers, banners, theatre marquees, lobby cards, theatre foyer displays. MERCHANDISING Special movie programs/booklets, merchant tie-ins. movie souvenirs. NEW MEDIA / NEW METHODS Fan magazines, radio sponsorship, movie award publicity, national ad campaigns in print media
TV Era 1950-1974	PUSH-PULL Studio/distributors sell movies individually to theatres and market them using mass print media and above-the-line campaigns for blockbuster movies. Declining theatre involvement in local below the line promotion as the mass market fragments.	ADVERTISING Posters, out-door advertising, amusement notices, national advertising campaigns in print media, on radio, on television, trailers. PUBLICITY Newspaper and magazine publicity, fan magazines, movie award publicity, SALES (marketing to theatre owners) Product catalogs, press books, studio newsletters, trade advertising (corporate ads and movie ads), exhibitor conventions. PROMOTION Flyers, brochures, theatre marquees, theatre foyer displays, TV, radio, newspaper. MERCHANDISING Special movie programs/booklets, merchant tie-ins NEW MEDIA / NEW METHODS TV advertising and some TV publicity – making of the movie short films.
New Hollywood 1975-2006	PUSH-PULL Studio/distributors sell movies to theatre chains. Studios market movies individually using intensive media campaigns.	ADVERTISING Posters, out-door advertising, amusement notices, national advertising campaigns on TV, in print media, on radio, trailers. PUBLICITY TV, newspaper, magazine publicity, movie award publicity. SALES (marketing to theatre owners) Product catalogs, press books, studio newsletters, trade advertising (corporate ads and movie ads), film markets and festivals, exhibitor conventions. PROMOTION Brochures, flyers, theatre marquees, theatre foyer displays and standees, TV, radio, newspaper. MERCHANDISING Special movie programs/booklets, national and international merchandising tie-ins. NEW MEDIA / NEW METHODS Internet – movie websites, online fan / community websites, discussion forums, blogs, trailer placement on video / DVD

Sources: Drinkwater 1931, Lewis 1933, Sinclair 1933, Zukor 1953, Crowther 1957, Csida and Csida 1978, Zotti 1983, Balio 1985, Staiger 1990, Gaines 1990, Goldberg 1991, Dick 1997, Lukk 1997, Puttnam 1998, Abel 1999, Robertson 2001, Grieveson 2002, Wasko 2003, Eymann 2005.

When Table 9.1 above is read together with Appendix 16, they demonstrate that advertising, publicity and promotional (exploitation) practices were already well-developed and that many media channels used for modern movie marketing were already in place and being used for the purpose of marketing communications by the time Hollywood began to emerge as the dominant force in world cinema. The implications are that whilst early movie marketing might seem primitive relative to contemporary practices, the Hollywood studios have continually and consciously exploited the available media channels-of-the-day to market their movies and they strategically designed their communications campaigns to optimally influence movie attendance.

The core media strategies of the dominant film studios

In the early silent film era prior to 1920, electronic media did not exist. The core promotional strategy used by early studios like Pathe was below-the-line, selling directly to exhibitors of all kinds in fairgrounds, museums, café cinemas, vaudeville / music halls, legitimate theatres and later to sales exchanges. The studios used salesmen, sales catalogs and spot advertising.⁴

Trade press used to strategically target exhibitors

From 1905, as demand escalated during the nickelodeon boom, exhibitors contracted blocks of films to guarantee a reliable supply and sales catalogs declined in importance. Studios began placing advertisements in the emerging trade press (*Billboard*, Pathe's *Views and Film Index*, the Moving Picture Exhibitor Association's *Moving Picture World* and *Variety*), using this new channel to stimulate demand for their films from exhibitors (Staiger 1990 p. 6).

Through the decades, the Majors have also placed trade advertisements in publications like *Variety* and *Hollywood Reporter*, announcing the box office gross of hit movies to persuade exhibitors that the significant demand exists and that they should book a film into their own theatre (Laemmle in Balio 1976 pp 163). The trades have also been used not only to signal 'theatres' product to exhibitors but also as a channel by which the Majors can publicly pay homage to creative talent for film-making excellence i.e. relationship marketing.⁵

⁴ Exhibitors marketed locally to attract audiences and they adopted standard promotional tactics from circus and vaudeville – handbills, one sheet posters and amusement notices that they placed in newspapers.

⁵ "Pricey full-page or double page ads have frequently appeared in national newspapers for several (Oscar) contenders" (Hayes 2001).

The Majors: media mix strategy and advertising expenditure

During the early silent film era, nickelodeons used street barkers, theatre marquees, 'A' boards, posters, heralds (handbills), couriers (flyers), lobby cards and amusement notices in order to attract passing-by trade to pay to see a program of short films. After 1910, public fascination with movie stars escalated and feature films became more common, requiring individual movie promotional campaigns to differentiate them from programs of 8-10 short films still playing in most locations. As permanent movie theatres began to appear, studios again used circus-marketing tactics - lobby cards, 24 sheet billboards and display ads in local newspapers to market their programs. They also developed marquees to attract attention and dressed theatre lobbies 'like giant theatrical sets' to create awareness and atmosphere (Gaines 1990 p. 2).

The Majors initially used below-the-line strategies to stimulate audience demand for movies. They supported the new fan magazines (e.g. *Motion Picture Story*, *Photoplay*) that began appearing from around 1911-1912, exploiting this new publicity channel, placing stories about stars and movies. By 1919, fan magazine readership exceeded one million (Staiger 1990 p. 10). Statistics for media expenditures prior to the late 1930s are unavailable, however Table 9.2 below is based upon data published in the *Film Daily Year Book* 1938 and indicates that the majority of the Hollywood's advertising budgets were spent in print media - newspapers and magazines, despite the introduction of commercial radio seventeen years before in 1920 and its wide diffusion in the twenties.

Table 9.2 Movie industry advertising expenditure in U.S. market 1937

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Please consult the hardcopy thesis
available from the QUT Library

Source: Film Daily Year Book 1938 p. 37.

By the end of the Studio Era, Major studio expenditure on print advertising had declined in real terms from \$63 million in 1937, to \$53 million in 1949 and radio had emerged as a significant advertising channel used by Hollywood to promote its movies, displacing outdoor advertising, accessories and direct mail in the expenditure on the promotional mix (see Table

9.3 below). From the late 1930s, the Majors began using radio as a promotional channel creating special programming in conjunction with commercial sponsors.⁶

Table 9.3 Movie industry advertising expenditure in U.S. market 1949

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Source: Film Daily Year Book 1950 p. 71

During the 1950s, major event movies like Paramount's *The Ten Commandments* and M.G.M.'s *Ben-Hur* were released exclusively to a few key theatres in major cities and were launched with large print campaigns, intensive publicity and promotion and played on large screens as television began to diffuse widely in America. The Majors media relationship with TV followed the same pattern as radio, beginning with synergistic content and promotional activity through the new medium e.g. *Disneyland* launched in 1954 and *Warner Brothers Presents* ran from 1955-1957 (Terrace 1980 p. 488; p. 490). An early example of a Major studio using it for paid advertising was a saturation TV campaign for a movie launch on June 24, 1953, when Warner Brothers released the B movie *Beast from 20,000 Fathoms* in Los Angeles and New York simultaneously to 1500 theatres. It was a dumping strategy for a low-budget science fiction movie designed to drive young adult audiences into theatres to facilitate rapid recoupment of marketing costs before bad word of mouth might take effect (Hayes and Bing 2004 p. 145).

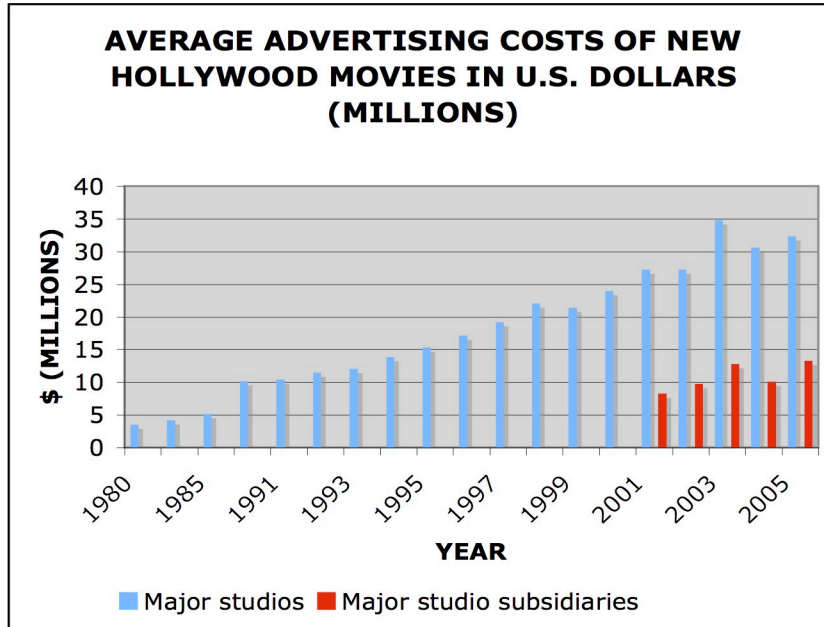
Throughout the 1960's and 1970s, newspaper advertising remained the key media channel for the launch of new Hollywood's movies but increasingly, they were supported by spot TV and radio advertising.

Universal transformed Hollywood's approach to marketing blockbusters with the wide release of *Jaws* (1975), employing the usual intense publicity and promotional effort befitting an event-movie but the key media channel used to launch the film was television using a saturation TV campaign and introducing the era of 'high concept' blockbuster

⁶ The *Lux Radio Theatre* was hosted by Cecil B. De Mille and featured weekly plays based on forthcoming Paramount movies (<http://www.otrsite.com/logs/log11008.htm>); the *Good News* show that promoted MGM's movies and stars and was sponsored by Maxwell House (<http://www.podcastpickle.com/casts/11846/#>) and *Leo Is On The Air* – another MGM radio publicity vehicle for its movies that ran from 1937-1946 (<http://www.otrcat.com/leoontheair.htm>).

marketing (Wyatt 1994). As New Hollywood increasingly adopted a blockbuster production strategy in the 1980s, film budgets escalated and so too did marketing launch budgets (see Figure 9.1 below).

Figure 9.1



Data sources: MPAA 1998, 2000, 2003, 2005. www.mpa.org

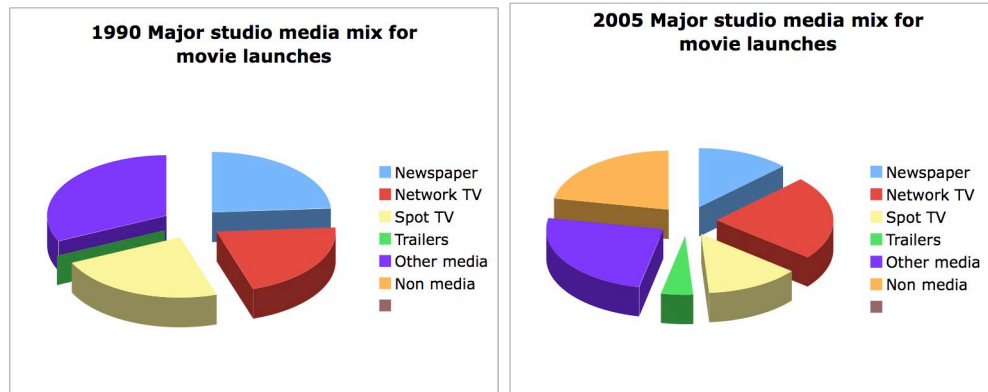
Since the 1980s, Hollywood again responded to the introduction of new technologies by modifying its advertising strategies to exploit new media opportunities presented by cable, satellite and the Internet. Table 9.4 and Figures 9.2 and 9.3 below, show a declining reliance on newspaper and spot television advertising, a steady reliance on network television advertising and increasing use of new media and below-the-line tactics to support the launch of new Hollywood movies.

Table 9.4 Major Studio media mixes for marketing launches: 1990-2005

	Newspaper advertising	Network TV	Spot TV	Trailers	Other media - Cable TV, network TV, network radio, spot radio, magazines, billboards and the Internet (after 2001)	Non-media - Market research, publicity, promotion, production costs, exhibitor services
1990	23.8%	21.2%	23.0%	?	32.0%	
1995	19.5%	23.0%	24.4%	4.6%	28.4%	
2000	15.6%	23.8%	18.3%	6.4%	19.5%	16.3%
2005	12.7%	23.2%	12.9%	4.4%	24.9%	21.9%

Data sources: MPAA Economic Reviews 2000, 2002, 2005 www.mpa.org

Figures 9.2 and 9.3 Major studio media mixes 1990 v 2005



Data sources: MPAA Economic Reviews 2000, 2002, 2005 www.mpa.org

Hollywood always used overwhelming marketing force

Consistent and comprehensive industry data on movie advertising expenditure over time is unavailable, however Table 9.5 below provides a statistic drawn from the *Film Daily Year Book* 1940 that shows a historical ‘snapshot’ from which insights on movie marketing expenditure can be drawn – that Hollywood, has historically invested far more heavily than its rivals when advertising its movies.⁷

Table 9.5 Hollywood vs rest of the world - advertising expenditures - 1939

This table is not available online.
Please consult the hardcopy thesis
available from the QUT Library

Source: (1940) “Motion Picture Industry Statistics” *Film Daily Yearbook* 1940 pp 37

By 2005, the average cost to market a Hollywood blockbuster was U.S. \$32 million (MPAA 2005), a far higher budget than the production cost of most independent films from around the world. These levels of expenditure not only ensure that the Majors can launch movies and get them noticed in a cluttered global film market but they also act as a barrier-to-entry for smaller independent studios by motivating exhibitors to maintain their line-of-supply relationships with Hollywood knowing that Major studio movies will be marketed effectively.

⁷ Paramount President Adolph Zukor’s willingness to invest typified Hollywood’s approach: “Our company’s 1931 program calls for increased appropriations for the production of greater pictures and more money to advertise them” (*Film Daily Year Book* 1931 p. 549).

Sennett (1989) described 1939 as ‘Hollywood’s golden year’ in terms of motion picture theatres and it was the peak year for advertising expenditure during the Studio Era (See Appendix 19). Hollywood began spending heavily on radio advertising and promotion while newspaper advertising declined until block booking was banned in 1948, after which point the Majors were then forced to market every movie individually and they increased advertising expenditure in newspapers and broadcast media, first in radio and then on television. Appendix 19 provides a series of periodic snapshots of the total annual advertising expenditure in the U.S. market dominated by Hollywood since the First World War, using data drawn from *Film Daily Year Books* during the Studio Era and into the 1950s. Table 9.6 below highlights rapidly escalating expenditure by the Major studios on film production and movie marketing budgets between 1980-2005.

Table 9.6 Production and marketing costs of a Major studio release 1980-2005

Major Studio Expenditure	1980	1990	2000	2005
Average film budget (negative cost)	\$ 9.4 million	\$26.8 million	\$ 54.8 million	\$ 60 million
Average P&A budget (prints & advertising)	\$ 4.3 million	\$ 11.7 million	\$ 27.3 million	\$ 36.1 million
Film print costs	\$ 0.8 million	\$ 1.7 million	\$ 3.3 million	\$ 3.83 million
Advertising costs	\$ 3.5 million	\$ 10.2 million	\$ 24 million	\$ 32.3 million

Source: MPA 1998, 2005

Hollywood’s media power is further highlighted by Table 9.7 below that compares the average marketing costs of Major studio movies to those of their smaller subsidiary companies like Disney’s Miramax and Warner’s New Line. The average marketing expenditure on a movie produced by those subsidiaries generally exceeds the film production budgets of most rival independent films from around the world. For example, Britain’s *The Full Monty* (1997) cost \$3.5 million to make and had a marketing (P&A) budget of only \$3.5 million (www.the-numbers.com/movies/1997/FULLM.php). French film *Amelie* (2001) cost \$10 million to produce and the average cost to launch a French film in France is 340,000 Euros / U.S. \$ 446,000, while comparatively the Majors spend double that sum with an average of 662,000 Euros / U.S. \$896,000 to advertise a Hollywood movie (Europa Cinemas 2006).

Table 9.7 Average marketing costs for Major studio movies and subsidiaries (e.g. Miramax) 1985-2005

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: MPAA Economic Review 2005

Corporate Advertising

Since the early silent era, movies have been branded with their studio's corporate trademark appearing prior to the film - Pathe's Rooster, Paramount's mountain, Universal's revolving world, M.G.M.'s Leo the lion and Columbia's lady with a torch etc.⁸

Universal was the first Major Hollywood studio to employ a national advertising campaign in 1913 to promote its corporate brand and its movie line-up, spending \$250,000 "*to promote the Universal program through newspapers, magazines, billboards and miscellaneous media.*" Paramount followed in 1915 with a national campaign promoting the studio brand, its movies, stars and theatres and placed almost 12 million advertisements (Staiger 1990 p. 13).⁹

As national distribution arose and the Majors began to vertically integrate in the U.S. market, with some studios operating their own movie theaters, Paramount contractually committed to increased marketing and to national advertising by establishing an exploitation department in 1915. Other Majors followed and their exploitation departments began implementing national promotional campaigns advertising future productions in magazines and press; using trailers and the 'making-of-the-movie' shorts in theatres to promote forthcoming attractions. They also organised national promotional tie-ins and their theatre managers were trained in exploitation techniques to promote films locally. In other words, the film industry adopted standard marketing channels for the era (Staiger 1990 p. 9-10 and see table 9.1 above).

Hollywood partially de-centralised promotion until 1960s-1970s

For the first fifty years of the industry, while the evidence shows that the Majors invested significant sums in national advertising, publicity and promotional opportunities, movie

⁸ Pathe was a pioneer in corporate branding in the movie industry placing ads in the film trade press to promote the firm's corporate image to the exhibition sector and to movie audiences. The Rooster trademark became synonymous with theatres. (Abel 1999 pp 14-15 and pp 44). "*The first and most significant of Pathe's moves was to promote itself as the maker of 'high theatres' films. Pathe's films d'art had a double purpose: to 'educate' the masses but also to attract and hold 'better classes'.* Throughout 1908, Pathe took great pains to publicise this move to theatres films - in major daily newspapers like the New York Tribune" (Abel 1999 p. 127-129).

⁹ Paramount continued to promote its corporate brand over the years and in 1933, Harvard Professor of Marketing, Howard Lewis observed: "*The Paramount-Publix corporation has spent tremendous sums in the Saturday Evening Post and elsewhere to convince the public that if it is a Paramount picture it must be good. It is to be seriously doubted whether the trade name of a distributor, with the possible exception of Paramount, carries much weight with the ordinary patron*" (Lewis 1933 p. 237).

marketing was partially de-centralised. Theatre managers were proactively engaged in the local promotion of new product to local media. Paramount-Publix trained it's theatre managers in exploitation (promotional) methods.¹⁰

The fundamental difference between Hollywood's marketing approach between eras is that after divorcement and the sale of their movie theaters, the Majors increasingly adopted centrally-implemented saturation marketing campaigns to support the widening releases of their blockbusters (Wyatt 1994) and the local promotional role of theatre management declined, particularly after multiplex cinemas began to proliferate.¹¹

However, perceptions that a blockbuster strategy supported by intensive integrated marketing communications campaigns are a post-1975 marketing practice are not supported by the historical evidence. During the Old Hollywood Studio era, the Majors referred to their tent-pole movies (blockbusters) as 'specials' or 'super specials' (Zukor 1973; Behlmer 1993) and there have been many Major studio movies prior to 1975, that fit Wyatt's (1994) 'high-concept' criteria with a theme easily explained in a few sentences, that were the centre of large-scale, tightly orchestrated marketing campaigns including synergistic merchandising opportunities.¹²

9.3 HOLLYWOOD'S PRINT ADVERTISING CAPABILITIES

A discussion on marketing communications theory in the introduction to this chapter indicated firms possessing superior promotional capabilities should be expected to excel in a) formulation of successful promotional strategies, b) creation of effective 'selling' messages, c) selection of efficient media channels and d) investment of sufficient financial resources in media to achieve desired marketing goals. In the last section it was shown that the Major studios in Hollywood have long invested far more heavily in advertising movies

¹⁰ "Training sessions were conducted in the Paramount theatre – 20 stories below Sam Katz's office. Each class of about 50, learned the system and options for local promotion and publicity. They were told to expect to create an event a day so as to draw free media attention. Publix experts taught neophytes how to plant pre-written stories in the newspaper" (Gomery in Waller 2002 pp 129).

¹¹ After the Majors sold off their theatre chains they no longer had the available manpower in the theatres, so marketing was centralised during the 1950s-1970s. With the advent of the multiplex era, a cinema design designed to reduce staff numbers, theatre chains retained very few head office publicity promotions people and rarely have any located in a multiplex location.

¹² Examples of such pre-1975 blockbuster campaigns are profiled in the Chapter Eleven and include: *The Jazz Singer* (Warner -1927); *Gone With The Wind* (M.G.M. – 1939); *The Ten Commandments* (Paramount – 1956); *Gigi* (1958); *Ben-Hur* (M.G.M. – 1959) and *The Sound of Music* (Fox – 1965). "Blockbusters – a term coined in the 1920s to denote a movie whose long line of customers could not be contained on a single block – are not new, but their 21st century equivalents, which cross the boundaries of myriads of global markets, are capable of generating such tsunamis of earnings that a single one can keep an entire studio afloat for years. 'If it were not for a single (Sony) film in 2002, Spider-man, Sony would have had the second worst year in it's history'" (Epstein 2005 p. 236).

than rivals from around the world and that they also utilised a wide range of the available media channels during each era. As new technology emerged (radio, television, the Internet) the Majors also adapted their media mix strategies to exploit these new media in the marketing of their movies.

This next section analyses and discusses Hollywood's broad approach to developing effective creative advertising campaigns. Quite literally, thousands of independent productions have over time, been financially backed or acquired as completed films and then marketed by Hollywood studios. However, an analysis of the all-time hit movies list contains very few truly independent films i.e. those not marketed by a Major studio (see Chapter Eight table 8.7). Hollywood's ongoing track record of success in the box office charts around the world for nine decades demonstrates that no competitor firms or rival nations in the movie industry have even come close to competing on level terms with the Majors' prowess in advertising, publicity and promotion.

The author undertook a content analysis of press ads and posters of one hundred of the biggest Major studio movies, with 12-15 selected from each decade from the 1920s-2000s (see Appendices 22 and 23). This analysis reflects changing studio approaches over time to the delivery of creative messages in advertising movies. It demonstrates that in terms of creative execution, during the 1920s, pen and ink hand-drawn ads and posters primarily focused on popular stars and their names were generally larger in font size than the movie title, indicating that star-power was used to sell movies. Film titles were custom-designed with each movie given its own unique font. Advertising design was clean and simple and could be undertaken while the movie was still in production.

During the 1930s, as technology improved and photography was introduced, the Major studios' creative strategies to 'sell' movies changed: *"Motion picture advertisements made dramatic changes in the thirties. Pen and ink drawings were replaced by clear, well-defined half-tone photos of stars and scenes. Many ads used both pen and ink drawings and halftones, reverse and positive type and overlays creating punch and depth of a three dimensional effect"* (Noah 1980 pp 31).

In the 1930s, many posters were still hand-drawn artist's sketches and continued to place a greater visual emphasis on movie stars to stimulate interest in forthcoming movies. In contrast, press ads from the same decade focused more on branding the film. Movie titles were larger and more prominent than they had been in the 1920s ads, immediately drawing the eye to the movie title and surrounding it with photos of stars or scenes from movies.

However, this created a far more cluttered design than in the 1920s, as the Majors used print ads to try to visually communicate what the movie was about in order to stimulate desire and persuade newspaper readers to go to the movie. The design and creative message strategies of ads and posters of the 1940s were similar to those of the 1930s however a greater percentage of press ads became star-driven (see Appendix 23).

Significant changes in media expenditure and creative message design are evident from the 1950s onwards after Divorcement, due to the increased importance of television as an advertising medium. While expenditure on newspaper and magazine advertising declined from \$66 million in 1939 (Film Daily Year Book 1940 p. 37) to \$ 43 million in 1948 (Film Daily Year Book 1949 p. 65), it rose again to \$50 million from 1950 onwards as the Majors were then forced to finance and market each movie individually. The Majors increased media spending on radio (\$11.5 million) and also allocated small amounts for spot TV buys during the new medium's early years (Film Daily Year Book 1951 p. 83). Reference to Table 9.11 and to Appendix 25, shows a heavier creative emphasis on the film title in movie ads and posters during the 1950s.

From that point onwards, the key creative message in Hollywood's newspaper ads and posters has been on branding each movie with heavy emphasis on the movie title. Stars began to be featured more prominently in the newspaper ads and posters of the 1960s and 1970s but branding the movie remained the primary creative goal (see Appendix 25 for examples).

In the late 1960s as the Hollywood studios fell into bankruptcy during a steep industry recession, newspaper ad design became busier and more cluttered, many featuring a collage of images (scenes and stars). Heavier emphasis was again placed on stars in perhaps desperate attempts by studio marketers to entice lost audiences back into movie theatres.

With the advent of New Hollywood and the era of 'high concept' movie marketing, the design of press ads became simpler and cleaner with far less clutter. A consistent creative focus since the 1970s has been on a single strong and consistent image that creatively dominates the print ads from the Hollywood studios e.g. the string puppet in *The Godfather* ads, the shark in *Jaws*, the road leading to the mountain in *Close Encounters* ads and Indiana Jones, his hat and whip in *Raiders of the Lost Ark*.

This however raises the question is this significantly different from creative design in previous eras? Poster designs for Major studio movies from various eras and from various genres that demonstrate that in reality, nothing much has changed over time in the way Hollywood brands its movies can be viewed at the following weblinks:

The Shiek (1921) http://www.filmsite.org/posterpages/p_sheik.html
The Thief of Baghdad (1924) http://www.filmsite.org/posterpages/p_thie.html
The Jazz Singer (1927) http://www.filmsite.org/posterpages/p_jazz2.html
The Song of Songs (1933) http://www.impawards.com/1933/song_of_songs.html
Ladies They Talk About (1933) http://www.impawards.com/1933/ladies_they_talk_about.html
King Kong (1933) <http://carteles.metropoliglobal.com/paginas/pgrande.php?id=97388&caso=2>
Hopalong Cassidy Returns (1936) http://www.impawards.com/1936/hopalong_cassidy_returns.html
The Adventures of Hobin Hood (1938) http://www.filmsite.org/posterpages/p_adve1.html
Gone With The Wind (1939) http://www.filmsite.org/posterpages/p_gone.html
Moon Over Miami (1941) http://www.impawards.com/1941/moon_over_miami.html
Casablanca (1944) <http://carteles.metropoliglobal.com/paginas/pgrande.php?id=187166&caso=2>
The Ten Commandments (1956) <http://carteles.metropoliglobal.com/paginas/pgrande.php?id=174768&caso=2>
Gigi (1958) http://www.filmsite.org/posterpages/p_gigi.html
Ben Hur (1959) http://www.impawards.com/1959/ben_hur.html
The Sound of Music (1965) http://www.filmsite.org/posterpages/p_soun.html
Love Story (1970) http://www.impawards.com/1970/love_story.html
MASH (1970) <http://www.impawards.com/1970/mash.html>
The Godfather (1972) http://www.impawards.com/1972/godfather_ver1.html
Jaws (1975) <http://www.impawards.com/1975/jaws.html>
Raiders of the Lost Ark (1981) http://www.impawards.com/1981/raiders_of_the_lost_ark_ver1.html
Bugsy (1991) <http://www.impawards.com/1991/bugsy.html>
Gladiator (2000) http://www.impawards.com/2000/gladiator_ver1.html

In these posters the movie title is clearly branded. A strong single image that was carried over into other promotional materials dominates the poster design. Appendices 24 and 25 contain weblinks to a selection of posters from different decades that demonstrate even from Hollywood's earliest days, studio marketers clearly understood the principles of targeting, segmentation, branding and positioning. Appendix 26 contains an analysis of a wider selection of newspaper ads for movies from the 1920s than is shown in Appendix 22. It highlights the evolution of Hollywood's branding strategies, creative design and key points of differentiation that were common to movie ads from 1920 until the present day.

In terms of advertising design, early Hollywood studio press ads clearly show their hyperbolic circus roots or a theatrical/vaudevillian influence that generally continued until the 1970s, when film scholars argue that ‘high concept’ advertising emerged using a single consistent theme and one strong clear image to brand the movie.¹³ Reference to the newspaper ads and posters for 1920s (*The Jazz Singer*), 1930s (*Gone With The Wind*), 1940s and 1950s (*Gigi*) also provide evidence of pre-1975 high concept movie production and marketing (see Appendix 24 and 25).

Few could argue that creative ad design has become more sophisticated as advertising has evolved throughout the 20th century, however movie advertising and marketing campaigns from the Studio Era also exhibit evidence of high concept, which can probably be interpreted in marketing terms as strategic branding, effective positioning, integrated marketing communications and synergistic promotional strategies.

9.4 HOLLYWOOD’S TRAILERS DOMINATE WORLD SCREENS

The movie trailer has significant advantages over other forms of advertising because captive audiences sit in a darkened cinema watching larger-than-life promotional images on a large screen without any distractions. As Harvard Marketing Professor Howard Lewis observed in 1933: “Trailers constitute a direct consumer appeal to a class of people easily influenced by such appeals, those already disposed to attending motion picture theaters. The exhibition of trailers can be timed so as to yield the best possible results, since generally they are only used for pictures exhibited at a particular theater on specific dates. Patrons cannot avoid submitting to the appeal, whereas printed advertising may not be read” (Lewis 1933 p. 248-249).¹⁴ An effective trailer can not only create early brand awareness but can also stimulate interest and even intense desire to see a movie e.g. Columbia’s 1998 re-make of *Godzilla*:

¹³ “High concept functions as a form of differentiated product primarily through two routes: through an integration with marketing and merchandising and through an emphasis on style” (Wyatt 1994 p. 19). It is about an aesthetic look to the campaign that reflects the aesthetic of the film and the fact that the film is a package of highly marketable elements including star-power, and a pitch or tagline that clearly explains story of the film in a few simple sentences that can be expressed as a simple marketable theme. The music soundtrack is another marketable element that can be integrated into the marketing through music videos and related merchandising. Frequently cited examples of ads and poster artwork that typify high concept advertising can be seen in Appendix 38 in the press ads and poster artwork for *Love Story* (Paramount - 1970), *M*A*S*H* (Fox - 1970), *The Godfather* (Paramount - 1972), *Paper Moon* (Paramount - 1973), *The Great Gatsby* (Paramount - 1974), *Jaws* (Universal - 1975), *Star Wars* (Fox - 1977), *Heaven Can Wait* (Paramount - 1978) and *Close Encounters of the Third Kind* (Columbia - 1978).

¹⁴ Hollywood has continually used trailers as a key method of advertising for forthcoming attractions for over ninety years. They were introduced with the 1913 serial *The Adventures of Kathlyn* and originally followed the movie to convince audiences to ‘see next week’s episode’ (Hayes and Bing 2004 p. 124).

“had a teaser campaign that wherever the trailers played the crowd went nuts, whooping and shouting and cheering” (Anonymous 1998 Fortune June 8).¹⁵

A visit to the website of any major Hollywood movie shows that Majors make a wide selection of trailers for their tent-pole movies from which their local marketing team in each country can select an appropriate positioning for the film to attract the primary and secondary target audiences. To illustrate, for *Superman Returns* (2006), Warner Brothers made fourteen different trailers available for download from IMDB.com that variously position the movie as a triumphant return of the famous comic book hero to hardcore fans, as an action film to appeal to young males or highlighting the romantic interest between Lois Lane and Superman to interest female audiences (<http://www.imdb.com/title/tt0348150/trailers>).¹⁶

During the Studio Era when the Majors owned their own theatre chains, trailers were strategically programmed to promote that studio's future attractions. Today, with the enormous cost of producing and marketing Hollywood movies and with increasingly shorter product lifecycles, there is intense competition between studios for trailer placement in multiplex theatres. The Majors also co-operate with each other to ensure strategic placement of their trailers enabling effective targeting. For example, *Star Wars: Attack of the Clones* (Fox) trailer was attached to *Monsters Inc.* (Disney-Pixar) in order to target a family audience (Hayes and Bing 2004 p. 125).

Such strategies and the sheer volume of Hollywood trailers effectively blocks screen-access to smaller independent films and when combined with the cost of making them, they serve as a barrier-to-entry to competitors trying to find a space in a crowded marketplace to announce their products.

9.5 MAJOR STUDIO: TV ADVERTISING CAPABILITIES

While the first television broadcast was made from the 1939 World Fair, the Second World War delayed consumer uptake and TV did not begin to diffuse widely into American homes until the 1950's (Stuart 1976).

¹⁵ *“As crucial as television ads have become, a well-executed trailer arguably has greater impact. The Internet abounds with trailer sites. Enthusiasts can deliver their opinions of it in chat-rooms and stoke advance buzz – pro and con. In theatres, trailers are two and a half minutes of unfettered access to a captive audience, a far cry from ads confronting the passivity and fickleness and daunting scale of television audiences”* (Hayes and Bing 2004 p. 123-128).

¹⁶ *“They used to ask for four trailers now the Majors ask for forty with roughly \$1 million shelled out on a typical trailer effort”* (Hayes and Bing 2004 p. 128).

Disney employed a saturation TV advertising strategy in the 1950s

A widely-held misperception exists that prior to *Jaws* (1975), the Hollywood studios did not engage in intensive TV advertising and that independent producers like Joe Levine (*Hercules Unchained*) in 1959 and Tom Loughlin (*Billy Jack*) in 1971 pioneered the use of a heavy TV media blitz as an integral part of the campaigns to launch their movies.¹⁷

The historical evidence indicates otherwise. Walt Disney was in fact the first of the Hollywood studios to utilise intensive television advertising during the 1950s to launch his movies. “(Disney) would advertise heavily on television in those seasons of the year when viewing was at a peak, releasing films to the cinemas in co-ordination with those campaigns. This practice reversed current orthodoxies, for the greater part of the film industry then believed that the best time to get audiences into the cinemas was during the seasons when television was least attractive” (Izod 1988 pp 163).¹⁸

M.G.M. was another Major studio that used intensive TV ad campaigns prior to both *Billy Jack* and *Jaws*.¹⁹ And Paramount launched *The Godfather* (1972) with a heavy advertising campaign including a saturation TV media buy (Sackett 1990 pp 222). Based on a best selling novel, *The Godfather* had a “pre-sold” audience awaiting its release and it was Marlon Brando’s first major movie in years, which provided a myriad of publicity opportunities. Newcomers Al Pacino, James Caan, Robert Duvall and Diane Keaton became major stars after this film and all four male leads received Oscar nominations. Paramount marketed the film and gave it the full Major studio blockbuster treatment with a massive publicity and promotional blitz orchestrated to transform the movie into the must-see cultural event of the year.

¹⁷ “*Billy Jack’s*” producer, director, writer who sued Warner Brothers for \$51 million, the matter was settled out of court. The parties agreed to re-release of the film with an entirely new marketing approach. They developed a strategy that the movie industry had never used before, they bought heavy saturation advertising in a TV blitz campaign.” (Sackett 1990 pp 218).

¹⁸ Fred Goldberg, a former senior marketing executive at UA and Columbia Pictures recalled: “Disney selected a market and using a map of the area drew a circle around the city representing the range of first rate reception of the local television stations. Disney then booked theatres in every city and town that received the signal and saturated the market with TV spots for the movie. They bartered or traded with stations that programmed the then-popular Mickey Mouse Club and were able to secure TV spots at little or no cost” (Goldberg 1991 p. 180).

¹⁹ “By the end of the fifties, the motion picture industry was heavily dependent upon their archival television. M.G.M. provided exhibitors with a sheet of detailed instructions proving its intention to dominate TV advertising with the same sledgehammer it used to dominate radio: ‘M.G.M. leads the big parade in TV spot announcement campaigns by working out highly selective schedules geared to reach specific audiences. MGM television commercials are sound-on-film, produced to allow time for a station announcer to include the local theatre names and play-dates on each spot telecast. MGM stars themselves, top announcers, actors and commentators contribute to making these sales aids the finest motion picture spots on the air” (Sennett 1998 p. 128).

Jaws (1975) however did mark a turning point in Hollywood marketing because its wide-release strategy during the American summer ran counter to normal distribution practice and intensive publicity and saturation TV advertising were critical elements in the blockbuster success of the movie. Hollywood followed with a spate of big budget blockbusters that were also placed into wide release and supported with intensive television advertising. 20th Century Fox employed a large TV media campaign to launch *Star Wars* (1977) and Columbia Pictures spent a record \$3 million in TV advertising on *The Deep* (1977) to support its then wide-release into 800-1000 theatres (Izod 1988 pp 185).

By the late 1970s, TV had replaced newspapers as the main focus of Hollywood movie marketing because large television ad budgets were required to create the necessary brand awareness to drive audiences into theatres to see increasingly expensive blockbusters going into wide release. David Puttnam noted: “*Until the 1970s a rule of thumb for British producers was that an average of 10% of a film’s budget was spent on marketing. When we released Midnight Express (Columbia Pictures) in 1978 it represented a significant new departure being the first picture for which the expenditure on prints and advertising significantly exceeded the negative cost. Sadly, the lesson of its success was largely lost on British distributors*” (Puttnam 1998 p. 244).

To place this in context, Britain was the largest ‘foreign’ film market, so the significance of Puttnam’s observation is that even in the late 1970s, only Hollywood’s Major studios really understood the role that advertising could play in creating brand awareness and brand equity.

In the face of intensifying competition for multiplex screen-time and with shorter product lifecycles, Hollywood’s blockbusters are now so expensive to make that they are increasingly being released on a day-and-date basis simultaneously around the world in all markets, which makes globally-orchestrated campaigns involving massive expenditures on TV advertising an imperative to attract audiences to the opening weekend. Fox Vice-President in charge of distribution Tom Sherak stated: “*You’re looking to open your movie on a weekend when there isn’t another movie going after your demographic. You used to be able to find a free weekend once in awhile, but you can’t find it anymore because there are too many movies. The summer has started to cannibalise itself. Hence the importance of marketing*” (Shone 2004 p. 238).

This section demonstrated that Hollywood once again adapted its marketing strategies to exploit new advertising opportunities presented the emergence of new technology ahead of

its competitors and that Hollywood has demonstrated superior advertising capabilities to rivals from around the world.

9.6 MAJOR STUDIO: P.R. AND PUBLICITY CAPABILITIES

The introduction to this chapter argued that effective segmentation and targeting is a critical factor in organisational efforts to achieve success in marketing communications through the promotional mix – the fourth “P” of the marketing mix (Shrimp 2003 p. 3). A key communications tool is public relations (PR). *“Attempts to define public relations are frequently conflicting and generally diverse. Some definitions list the kind of organizations that use public relations (all kinds); some dwell on the media used for public relations communications (all media); and still others focus on publics, or target audiences, with which public relations communicates (all publics)”* (Baskin, Aronoff and Lattimore 1997 p. 4) P.R.’s *“purpose is to establish and maintain a positive image of the company in various publics”* (Belch and Belch 2001 p. 22).

A public can be defined as *“any group that has an actual or potential interest in, or impact on, an organisation’s ability to achieve its objectives”* (Kotler, Brown, Adam and Armstrong 2004 p. 168). *“Public relations uses publicity and a variety of other tools – including special publications, participation in community activities, fund raising, sponsorship of special events and various public affairs activities to enhance an organisation’s image”* (Belch and Belch 2001 p. 22).

Thus, firms’ possessing superior public relations capabilities should be expected to excel in: a) correct identification of their publics b) formulation of successful P.R. strategies, c) selection of appropriate media channels c) creation of effective communications messages d) effective management of P.R. programs. The next section will examine the PR and particularly the publicity capabilities of the dominant movie studios.

To place Hollywood’s capabilities into a historical context, American businesses first began using publicity as a marketing practice in the mid-1850s. *“Publicity refers to the generation of news about a person, product or service that appears in broadcast or print media”* (Belch and Belch 2001 p. 22; p. 593). Prior to the emergence of the Hollywood studios, publicity and promotion were already well-established industry practices by circus press agents (Gaines 1990) and by vaudeville marketers (Csida and Csida 1978). *“P.T. Barnum has always been considered the master of press agency”* (Baskin et al 1997 p. 31). Barnum’s

own press agent claimed “ ‘to state a fact in ordinary language is to permit a doubt concerning the statement’. Conversely, exaggeration is a guarantee of value” (Gaines 1990). “Old-time press agents played upon the credulity of the public. Exaggeration, distortion and deception were stock-in-trade. They became masters of the publicity stunt – a planned happening that occurs for the purpose of being reported” (Baskin, Aronoff and Lattimore 1997 p. 29).

Hollywood’s extraordinarily effective publicity machine

The historical evidence below shows that Hollywood’s Major studios have not only excelled in their publicity capabilities but they have since their earliest days adopted a strategic approach to public relations in order to achieve their goals. The simplest way to demonstrate these capabilities is to identify Hollywood’s key publics and examine the evidence attesting to how they have handled communications with some of those publics over time. Key publics for Hollywood studios include: Government, banks and other financiers, the media, the film industry (trade press, film exhibitors, competitors, suppliers e.g. stars, agents, lawyers), staff working for the Majors and their subsidiary companies, the fans and the wider movie audience. This section will focus on government relations, the media, the financial community, fans and movie audiences using several historical snapshots to analyse the Majors’ PR and publicity capabilities.

9.7 GOVERNMENT RELATIONS

Hollywood develops strategic a relationship with Washington

The 1910s marked a period of industry shakeout as the emerging Hollywood studios replaced the MPPC members in Edison’s Trust as the American industry’s dominant film companies. The industry still lacked corporate legitimacy and until the successful introduction of talking pictures in the late 1920s, large-scale capital investment remained unavailable to most American film companies due to perceptions of poor theatres corporate governance (Kozarski 1990).

In 1915, in a strategic attempt to re-position the movie industry and to gain legitimacy for the American movie business, Carl Laemmle, then President of Hollywood’s largest studio—Universal, began nurturing a relationship with President Wilson’s administration, offering help with the war effort by proposing that the President address the American people on film via the movie theatres. After initial rejection, Laemmle persisted arguing that movies could

serve as a propaganda tool to disseminate American goods and ideals. “*After watching D.W. Griffith’s The Birth of a Nation, he (Wilson) is alleged to have remarked: ‘It is like writing history in lighting’*” (Puttnam 1998 pp 74-76; 265). Wilson then publicly acknowledged film’s role in exporting America’s cultural values declaring the movie business an essential industry in America’s war effort, guaranteeing continuation of essential supplies despite materials shortages (Puttnam 1997 pp 93).²⁰

In 1916, the U.S. State Department established a motion picture section to assist the industry in international markets (Ulff-Moller 1998). Such political channels in Washington would be strategically exploited in future years by the Hollywood to facilitate international expansion. They still are today.

Hollywood acts to control its image

Despite significant goodwill developed by the movie industry during the First World War, as in the nickelodeon era when some theatres gained an unsavoury reputation for showing immoral films, Hollywood’s image was again tarnished by a series of sex scandals in the early 1920s.

In 1922, the Major Hollywood studios took the PR initiative and formed the Motion Picture Producers and Distributors Association of America (MPPDA) - later re-named the Motion Picture Association of America (MPAA). As founding members the Majors undertook to clean up the industry and agreed to self-censorship of American movies in order to avoid the threat of a federally imposed censorship scheme. The MPPDA under its first President – Will Hays, adopted a strict moral censorship code that ensured that Hollywood movies pandered to conservative values, requiring that movies showed bad acts by any character would not go unpunished or alternatively that the guilty party would reform or seek redemption. It also severely restricted bad language and sexual content. The Hays code was strictly adhered to from 1934 until it’s demise in the face of changing values of an emerging liberal society in 1967 (Sklar 1994 pp 295).

²⁰ “*With America’s entry into the war, and with Europe’s decline into barbarism seemingly unending, Wilson began seriously to think about the political value of cinema. Why not, argued Wilson, put the movies at the service of a great crusade to uphold the values of liberal democracy, which were being put at risk by the Great War?*” (Puttnam 1998 pp 74-76; p. 265).

MPPDA / MPAA serves as a powerful Washington PR lobby

As the official trade organization for the industry, the MPPDA also created a powerful public relations lobby both in Washington and to financial institutions, to try to make it easier to attract new capital.

Since 1922, the MPAA's Washington lobby has frequently helped Hollywood overcome significant trade barriers in overseas markets by enlisting the active support of the Departments of Commerce and State. The MPAA has employed a sophisticated PR lobby in Washington on a range of other issues from piracy to censorship to anti-trust. Table 9.8 below shows that the four Presidents of the MPAA were all extremely well-connected Washington insiders.

Table 9.8 Presidents of the MPPDA (later re-named the MPAA).

Term	President of MPAA / MPA	President's career background
1922-1945	Will Hays	Prior to becoming the MPAA's first president, he was Campaign Manager for Warren Harding's successful 1920 U.S. Presidential campaign. Hays became Harding's U.S. Postmaster General. He also served as President of the Republican National Committee.
1945-1963	Eric Johnson	Prior to his term at the MPAA he was Head of the U.S. Chamber of Commerce. During his term as MPAA President he was asked to undertake two special political assignments representing the United States by Presidents Truman and Eisenhower.
1966-2004	Jack Valenti	Prior to his term as President of the MPAA, Valenti was Special Assistant to U.S. President Lyndon Johnson and was photographed next to Johnson when he took the oath of office following Kennedy's assassination.
2004-	Dan Glickman	1976-1994 U.S. congressman representing Kansas as a democrat. Served five years as President Clinton's Secretary of Agriculture.

Washington supports Hollywood to penetrate foreign markets

Ulf-Moller (1998) argued that the key to Hollywood's success with the French government in neutralising its protectionist quotas in the 1920s, was a policy of confrontation conducted by the MPDDA and supported by the active assistance from both the U.S. State Department and the American Diplomatic Corps in the Paris embassy. Under the provisions of the Webb-Pomerene Act of 1917, Hollywood was able to legally operate as a film export cartel overseas through its trade organisation the MPPDA, which set up its own Foreign Department. It co-ordinated collective action by the Hollywood Majors to respond to and counter protectionist measures employed by European and other foreign governments after the First World War, that were designed to prevent American domination of local industries. Ulf-Moller's research indicates that U.S. government correspondence from the period

confirms that “*motion pictures received special attention*” and that special funds had been allocated to set up a Motion Picture Section within the Department of Commerce that from 1926 onwards acted in an intelligence gathering capacity for the MPPDA.

Propaganda value of Hollywood’s movies

Hollywood once again played a visible and very active role supporting the U.S. war effort during the Second World War when President Truman dubbed American films “*ambassadors of good will*” – formal recognition that the U.S. government saw the propaganda value of movies as a means of espousing the values and virtues of the American way of life, as the world battled fascism and then headed towards a new Cold War with the Communist Bloc (Guback in Balio pp 470-474).²¹

MPEA – America’s response to rising European protectionism

The MPPDA established a sub-division – the Motion Picture Export Association (MPEA) after the Second World War, as a direct response to a rising tide of protectionism in European countries that were attempting to limit U.S. imports. The MPEA operated as a cartel in international markets under the provisions of the Webb-Pomene Act and became the sole export agent for the Hollywood Majors, setting prices and making distribution arrangements for Hollywood’s movies in foreign markets (Guback in Balio 470-474). In 2005, the MPAA again lobbied Washington to secure concessions from China to clamp down on video piracy and ease its import restrictions on Hollywood movies as part of its entry into the WTO (http://www.mpaa.org/press_releases/2005_04_29.pdf).

These snapshots of historical evidence presented above demonstrate that Hollywood clearly acted with strategic intent employing sophisticated PR programs to achieve the goals of the Major studios in terms of corporate image and penetration of overseas markets.

²¹ Semati and Sotirin (1999) analysed the popularity of Hollywood’s movies and its ability to dominate the global film audience market through a political framework. They proposed that the enormous appeal of Hollywood movies is because they projected an appealing democratic ideology that had wide appeal in the twentieth century, during eras when the free world was threatened by totalitarian aggression (Semati and Sotirin 1999). Lord Puttnam also argued that part of the success of Hollywood movies was that they were accessible internationally because they champion appealing democratic values (Puttnam 1999).

CORPORATE IMAGE – PUBLICITY

Carl Laemmle was not the only Major studio boss to strategically use a PR program to alter public perceptions for re-positioning purposes. When Adolph Zukor launched Famous Players, prior to that studio acquiring Paramount, he employed an in-house press agent to manage the studio's corporate image.²² And in his sanctioned biography, Fox Film President - William Fox, stated that he continually sought out opportunities to promote his studio's corporate image.²³

At M.G.M., Louis B. Mayer negotiated a deal with publishing tycoon William Randolph Hearst, for the production company of the latter's mistress (Marion Davis's Cosmopolitan Pictures) to be housed on the M.G.M. lot and in return the Hearst newspaper empire would publicise M.G.M. movies (Mordden 1988 pp 146; Stohr, Kate 2004). Mayer was also actively engaged in high-level Californian Republican Party politics and actively campaigned for his friend Herbert Hoover's successful run for the U.S. Presidency in 1928. Hoover later used his Washington connections to de-rail a hostile takeover of M.G.M. by Fox Film, which was subsequently notified that the acquisition could not proceed by the U.S. Justice Department on anti-trust grounds (Eyman 2005 P. 141-145), providing further evidence of Hollywood's use of strategic P.R. and relationship marketing strategies.

9.8 CORPORATE RELATIONS WITH FINANCIERS

The movie industry achieved its goal of acceptance by Corporate America when Wall Street became actively involved in the industry through a number of significant public listings.

"1925 might be viewed as the year in which the motion picture industry became definitely recognised as stabilised and the stocks of the leaders regarded as safe investments."

Koszarski (1990) states that whilst *Motion Picture* magazine warned its readers in 1915 not to invest in the American movie industry after the financial difficulties that emerged at World Film and at Triangle through inept corporate governance, by 1924-25 this situation had been reversed. *"Barron's reported in 1924 that 'the principle objection bankers make to producers' methods is not so much the sum of money they spend in staging a story, as in*

²² "Schulberg's job was more than getting space in the newspapers. The whole purpose of the feature play was to raise the level of motion pictures, and it followed that we needed a dignified approach to the trade and the public. Our policy was to make only the promises which we could fulfil. Schulberg's booklets and other literature gained a respectful hearing for us" (Zukor 1953 pp 78).

²³ "No second of those contained in the twenty-four hours ever passed but the name Fox was on the screen, being exhibited in some theatre in some part of the world. We saw a newsreel of some men climbing a tremendously high mountain covered with snow. When they got to the top, they accomplished their purpose, which was to unfurl to the wind a banner reading 'Fox Film'" (Sinclair 1970 pp 5; p. 51).

*their failure to keep within agreed limits.’ Three years later, analysts at Forbes magazine pointed to Famous Players-Lasky-Paramount as one firm that had nearly eliminated this problem.*²⁴

In November 1926, Richard Saunders, a senior executive of Famous Players-Lasky-Paramount was quoted in the New York Times: *“it was this slow recognition that certain of the prominent (film) companies had built up proper organisations, along recognised industrial lines which triggered the massive flow of Wall Street money in 1925-26. Because theatre attendance remained a flat 46 million per week in 1924 and 1925, it was clearly efficiency, not increasing audiences, that attracted these investors”* (Koszarski 1990 pp 92). Saunders’ interview with the New York Times positions the industry, and particularly his own firm Paramount, as an integral part of Corporate America, at a time when the movie business was about to require significant levels of investment to fund the transition to sound. Whether this interview was granted after a request by a Times journalist, or whether Paramount’s own publicists organised the feature story, it demonstrates strategic use of PR/media relations to communicate with key stakeholders, in this instance, the business readership of the New York Times, to alter misperceptions.

In 1926, Wall Street had \$1.25 billion invested in movie theatres and \$250 million in production and distribution (Puttnam 1997 pp 127).

Today, the Majors in contemporary Hollywood, are part of much larger global media corporations. They access their annual capital requirements through various sources including long term strategic relationships with banks and other financiers, equity raising on the U.S. stock market e.g. Disney’s Silver Screen Partners (Vogel 2004 p. 88) and they also acquire finance from their own parent companies (Lees and Berkowitz 1981; Wasko 2003 pp 34).

Typically, as listed companies, they manage their corporate relations in the same way as the rest of Corporate America. The webpages of the Hollywood studios all link back to their corporate home page containing Corporate Information, Public Affairs, an online Newsroom and Investor Relations sections that include current and archived media releases, quarterly and annual stock exchange filings. company profiles, annual reports and divisionalised

²⁴ *Forbes reported that Famous Players-Lasky-Paramount was generally within 2 percent of its annual production budget each year and that, out of a dozen costly features in the \$1.5 million range, there was a difference of only \$3000 between the initial budget and the actual cost. ‘That looks as though the industry were on a business basis.’ They noted with approval. – ‘Lasky has figures to show that his factory, which he calls a studio, averages 90% capacity’* (Koszarski 1990 pp 92).

entertainment webpages (see Appendix 27). Behind the scenes, entertainment industry journalists have access to electronic press kits.

9.9 STAFF AND MANAGEMENT RELATIONS

In past eras, newsletters were used as P.R. devices to communicate internally to their management and staff by the Major studios.

‘Universal Weekly’ and Paramount’s ‘Publix Opinion’

Universal was an innovative marketing company under the leadership of Carl Laemmle and published its own studio newsletter *Universal Weekly* (Appendix 28). Paramount-Publix produced an in-house newsletter that was sent out to theatres in a downward flow of information to keep them advised of forthcoming marketing campaigns. Content included sections on advertising and publicity, newspaper rates, marketing campaigns, information on publicity stories planted by the studio, ideas for promotional contests and merchandising tie-ups (see http://cinematreasures.org/news/15321_0_1_0_C/).²⁵

In addition to day-to-day supervisory communication, corporate training programs for management and staff were also used as in-house vehicles for staff relations and communications. Franklin (1928) describes the kind of strategic approach to customer service training provided to staff of Paramount-Publix Theatres with the intention of developing and maintaining a customer-centred culture (Waller 2002 pp. 116-123).

By comparison, like other large businesses today, corporate websites, intranets, extranets and e-mail are the primary media channels universally used by the Majors as main communications vehicles for staff relations. Appendix 27 shows the basic components of the Major studio websites. The Time-Warner website is typically representative and contains a wealth of information on the company; its management; corporate governance; its businesses and brands; investor relations; news items, media releases and career opportunities (www.timewarner.com/corp/). Like most large corporations, studio and distribution staff have security protected Intranet access to the corporate website and access to the information they need to know to do their jobs and keep informed about their company. Corporate e-mails alert staff to important developments.

²⁵ “Advertising ideas formed the core of the confidential in-house publication sent to all managers entitled ‘Publix Opinion’ which Katz started in late 1927. Publix advertising chief functioned as the editor, in essence this was a means of sending ideas down the line, the functional equivalent of the bulletin board for clippings found in the Publix managers school” (Gomery in Waller 2002 pp 133).

9.10 PUBLICITY CAPABILITIES

Film publicity occurs at two points in the life of a movie, during production and leading up to the theatrical release. A studio publicist or unit publicist supervises the PR campaign during production (Goldberg 1991 p. 15). Then, the distribution publicist takes over and implements the publicity campaign for the launch of the movie into the theatrical market. Historically, publicity has played a significant role in Hollywood's marketing communications mix. *"Hollywood employed every economic, social, and psychological trick it could muster to uncover, develop, maintain, and expand its audience. Publicity was the lifeblood of the business, but it arrived in many guises. Personal appearances, marketing tie-ins, contests, fashion plates and old fashioned hoopla all played key roles in the process of selling films and their stars"* (Sennett 1998 p. 20; p. 122). *"Early motion picture publicists carried on the tradition of the circus stunt because this mode of engagement captured the interest of the mass public. The scandals surrounding the lives of stars piqued a different kind of interest. As one film theorist has suggested, the world of sexuality and emotion, banished from the news, overflows into the lives of motion picture celebrities. The publicist and press agent would either fan or attempt to smother the smoking rumour"* (Gaines 1990).

Today, a seemingly endless stream of movie-related publicity permeates the media and is widely evident on TV, cable, newspapers, magazines and on the Internet. Only Bollywood in its domestic market comes close to matching Hollywood's publicity machine for its stars and movies, indicating that the Major studios publicity capabilities remain unchallenged after nine decades.

9.11 MOVIE STARS AS BRANDS

Brand Marketing and film genres

Chapter Eleven on marketing management will show that the Hollywood studios employed branding strategies to enhance their corporate image with their trade customers and used movie and movie star branding, together with film genres, to target and segment the market.

The Majors strategically developed movie stars as brands. Early silent movie actors had received no billing on posters and no credits on films, so while recurring faces became familiar to audiences, their names and real identities were unknown.²⁶

Future Universal President - Carl Laemmle, is credited with creating the movie star system, an idea that he borrowed from legitimate theater, when he poached Florence Lawrence from Biograph in 1909 and signed her for his first film studio – IMP, promising her better financial terms and star billing on movie theatre marquees. Laemmle also exploited public fascination with Lawrence by leaking a news story that she had been killed. As the adoring public mourned, they then issued a press release exposing her death as a hoax and announcing that she had actually signed for IMP (Abel 1999 p. 148; Puttnam 1998 p. 49). This was the first recorded movie industry publicity stunt that received wide press coverage and when Lawrence re-emerged in front of large rapturous crowds in New Orleans, the movie star system had arrived and with it, a significant marketing hook by which Hollywood could publicise its movies.

From the 1910s onwards, Hollywood has ‘engineered’ the creation of movie stars and promoted them as brands as a core marketing strategy designed to stimulate movie consumption. *“To secure an audience, film producers borrowed branding techniques from other consumer goods’ industries, but the short product-life-cycle forced them to extend the brand beyond one product – using trademarks or stars – to buy existing ‘brands,’ such as famous plays or novels, and to deepen the product-life-cycle by licensing their brands. Thus, the main value of stars and stories lay not in their ability to predict successes, but in their services as giant ‘publicity machines’ which optimized advertising effectiveness by rapidly amassing high levels of brand-awareness”* (Bakker 2006).

The Majors carefully constructed and managed the public image of their movie stars demonstrating strategic branding capabilities and heightened sensitivity to key stakeholder perceptions of the behaviour as early as the late 1910s, as demonstrated by Paramount’s careful P.R. management of its biggest star Mary Pickford.²⁷ *“Stardom was completely calculated. Each of the major studios in Hollywood utilised similar star making machinery. After the talent was identified and named, the star would be assigned a studio publicist.*

²⁶ This may account for a growing fascination and mystique surrounding these anonymous early movie stars. Movie-goers referred to them by the studios to which they were contracted e.g. the Biograph Girl was Florence Lawrence and the Vitagraph Girl was Florence Turner (Abel 1999 pp. 148-149).

²⁷ *“Mary (Pickford) liked an occasional drink. For her to take one in public would have been disastrous. Smoking was also taboo. In public for instance, she could not be permitted to toy with a lipstick, a pencil or a bit of paper. From a distance it might be taken as a cigarette.”* (Zukor 1953 pp 175).

Stories were developed - constant polling of the picture magazines, exhibitors and newspapers produced a strict ranking system which controlled every element of an actor's involvement in a picture" (Sennett 1998 p. 34).²⁸

The development of the star system and the careful public relations management strategies used by the Majors demonstrates that they were responsive to the public fascination and demand for information about the stars. It also demonstrates that the Majors, probably fearing government imposed censorship, used their marketing intelligence systems to carefully monitor conservative elements within society worried about the moral degradation during the 1920s and responded by carefully managing the public relations associated with each movie star.

Hollywood created the movie star 'cult of celebrity'

The Majors were highly effective in transforming movie stars into cultural icons that became the main attraction for audiences drawing them to movie theatres. One of the biggest stars of the silent era was Rudolph Valentino: *"The public, especially the women, mobbed the theatres. Adult males were inclined to regard 'The Sheik' with some levity. But the youths began to model themselves on Valentino, especially after he appeared in 'Blood and Sand' for us. Playing a Spanish bullfighter, he affected sideburns, sleek hair and wide bottomed trousers. Soon thousands of boys and young men had cultivated sideburns, allowed the hair to grow long, plastered it down, and were wearing bell-bottomed pants."* When he died, his body lay in state and there was hysteria and rioting (Zukor 1953 pp 210; 219).

The marketing literature on involvement theory can help explain the devotion and fanaticism that true fans exhibit towards their favourite movie stars. *"For the most part, researchers have agreed that an involving, persuasive communication is one that is personally relevant and important to an individual* (Krugman 1965; Zaichowsky 1985). A framework for conceptualising involvement that proposes personal relevance and situational and decision factors are the antecedents of involvement was developed by Andrews, Durvasula and Akhter 1990). And in the psychology literature, an early work on ego involvement argued that personal relevance and situational / decision factors come into play in relation to movie

²⁸ M.G.M. carefully constructed the off-screen persona of Greta Garbo: *"Those he met her (Greta Garbo) found her in every way ordinary; a reason at the beginning for Howard Dietz in New York and Peter Smith in Hollywood to create a publicity machine for her that would limit the number of interviews she gave and would build around her an aura of impenetrable mystery"* (Higham 1993 p. 112).

star fandom: “*We see ourselves in movies. The enormous appeal of motion pictures is due in no small part to the vicarious satisfactions they provide. By projecting ourselves into the characters and situations, we can momentarily escape and audiences are attracted to people with whom they can most easily identify*” (Sherif and Cantril 1947).

Popularity of film genres can also partially be explained by involvement theory. Although the development of film genres preceded Hollywood as westerns, action films, comedies and other genres emerged during the early 1900s as narrative films developed, they have become more than a mere product category because they also enable the Majors to segment the market based on self-selection decisions by audiences. Hollywood uses genres as a device by which the Majors manufacture products that will have a specific appeal and interest to particular audience segments based on psychographic preferences for certain types of entertainment depending upon mood and other benefit seeking behaviours e.g. emotional stimulation via romantic moments in a ‘chick flick’; fear in a horror film or an adrenalin rush in a fast-paced action movie.

Involvement theory supports the view that consumers can feel that particular product categories can be “*specially relevant to their lives*” (Flynn and Goldsmith 1993 pp 357). Thus movie-going remains an important social activity within youth culture. The social consequences of not being part of the major movie event of the year, present a situational and decision factor that could be severely detrimental in some social circles. This factor makes attendance highly personally relevant. Fanatical fans queuing for movie tickets dressed in *Star Wars* or *Star Trek* merchandise are clear indicators of strong feelings of personal relevance and felt-involvement (Zaichowsky 1986 pp 9; Celsi and Olson 1988 pp 210-211) and of people making strong personal connections to such movies through advertising (Krugman 1964) and are examples of highly motivated behaviour directed towards “hedonic/experiential benefits” (Engel, Blackwell and Miniard pp 252-253).

Similarly, research by Thomson (2005) into why consumers developed strong attachments to well known celebrities found that when ‘human brands’ enhance a person’s sense of autonomy (feelings of self determination and their ability to freely make their own choices) and relatedness (the need to belong to a social group), consumers are more likely to form stronger attachments to the star, thus strengthening his/her brand equity. Interactivity was a critical element in building such relationships between human brands and consumers. Hence P.R. activities such as personal appearances, ‘star tours’, media interviews and general publicity about the private lives of the stars are specifically designed to facilitate higher levels of attachment with the human brand and deepen the relationship.

9.12 FAN RELATIONS

Fan magazines and fan clubs.

Fan magazines emerged as a movie phenomenon in early Hollywood and for thirty years they were strategically exploited by the Majors as a key marketing communication channel. *“The fan literature of the 30’s creates the Hollywood style and character. How else would you know that William Powell is a recluse who shuns publicity unless you read about it in four lavishly illustrated stories in four movie magazines during the same month”* (Levin 1971 p. 7).

The first fan magazine was published in 1911: *“Photoplay began as a theatre program and swelled almost overnight to a glossy magazine with a circulation of more than half a million, satisfied the nation’s new mania for any chat about moviemaking, especially stars. Stacks of imitators followed. Most major newspapers began featuring photoplay departments. What began in the press as film criticism led to motion picture news”* (Berg 1989 pp 80). *“Throughout the twenties, the studios were dependent heavily upon the fan magazines for star-related publicity. The fan magazines were extremely popular”* and two dozen fan magazines were available in the early 1930s (Sennett 1998 p. 50-51). By the end of that decade, the combined number of trade and fan magazines had increased to fifty eight (*Film Daily Year Book 1940* p. 37).

Hollywood publicity departments also facilitated the creation of fan clubs for their stables of movie stars. These clubs provided fans with opportunities to engage with their favourite stars. They could acquire photos provided by the major studios and also information packs and they could also engage in a dialogue with other fans through the question and answer and letter sections of these magazines. *“Stars had fan clubs, usually instigated by the studios and easily manipulated for the studio’s own benefit – Deanna Durban’s club had fifty branches”* (Sennett 1998 p. 41). In the 1950s, Walt Disney took the fan club concept one step further creating the Mickey Mouse club for his heavily branded animated star as part of the popular family TV show *Disneyland*. As commercial TV proliferated impacting the box office and movie attendance decline from 1950-1974, the fan magazines disappeared.

In New Hollywood, whilst an array of glossy movie magazines are available, ranging from movie news to cult magazines e.g. *Empire*, *Premiere*, *Film Link*, *Star Wars* and *Star Trek* (<http://www.world-newspapers.com/film-magazines.html>), since the mid-1990s, the Internet

has emerged as a critical communications channel for the Major Studios to connect with fans and the global movie-going audience.

Today, fan involvement is generated through media and particularly via Internet. Websites for studios, movies and stars proliferate as part of the Majors strategically orchestrated global campaigns to launch new movies and the interactive nature of the Web facilitates higher levels of fan involvement, creates awareness of and interest in future movies by enabling fans to post blogs, participate in chat rooms, create online communities and develop their own unofficial web sites dedicated to their favourite stars or movies. Websites like YouTube (www.youtube.com) and My Space (www.myspace.com) also provide fans with the opportunity to produce and exhibit their own movie adventures of their favourite characters such as *Star Trek: New Voyages* based on the original series (<http://www.startreknewvoyages.com/>) and *Star Trek Of Gods and Men* which features a number of well-known actors from the Paramount TV series in a three webisode adventure due for online release in mid-2007 (<http://www.youtube.com/watch?v=iLqxPFe-dxU>).

Paramount's Star Trek.com website even enabled fans to become actively involved with the development of a new screenplay featuring Captains Kirk and Picard (<http://startrek.fanlib.com/>). Such activities heighten fan involvement and intensity and serve as a channel bonding mechanism for the Major studios which is why Paramount tolerates these unofficial Star Trek movies because those fans are not seeking to pirate the copyright or profit from their productions and make them available as free downloads to fans of the franchise.

9.13 MEDIA RELATIONS

Whilst Hollywood relied upon favourable publicity to launch its movies and to make its stars, the journalists that regularly reported on Hollywood were equally dependant upon the Major studios for access to those stars and for information upon which to base their stories about the studios, stars and new movies.

The Majors controlled their corporate image and the public image of their stars by nurturing this symbiotic relationship with the media and still do so today in contemporary Hollywood. During the Studio Era, they approached this at multiple levels within the media,²⁹ and used

²⁹ "In 1939, there were over 300 members of the press on the Hollywood beat. This included nationally syndicated (gossip) columnists like Hedda Hopper and Louella Parsons, East Coast newspaper reporters like Walter Winchell and Dorothy Kilgallen, influential local reporters such as Edith Gwynne of the *Hollywood Reporter* and Mike Connolly of *Variety*, as well as

information – the lifeblood of any journalist, as leverage to influence favourable publicity. “*The studios decided which members of the press qualified for accreditation and which did not. The studios would spend fortunes trying to control the press – and they were willing to lose fortunes – if necessary. When Frank Nugent of the New York Times panned Fox’s Alexander Graham Bell (1939), the studio withdrew all of its Times ads for one year. Studios learned how to make even bad reviews work. When White Zombie (U.A. 1932) debuted at the Rivoli in Manhattan and was butchered by the critics, the studio ran ads quoting the reviews and added the caption ‘when the noses went up, the box office receipts went up as well’*” (Sennett 1998 p. 68-69).

Local media relations in small town America were planned and co-ordinated by the Majors through the issue of ‘press books’ for each new movie and the role that they played is discussed further in Chapter Eleven. Press books contained production notes, star biographies, publicity photographs, finished art for newspaper advertisements, pre-written press releases and articles covering a range of different angles for each movie that could easily be adapted for local purposes (Sennett 1998 p. 69; pp. 132-133; Bassoff 2000). This gave theatre managers the advertising and publicity materials they needed to approach local newspapers and radio stations and to sustain ongoing relations with them.

Hollywood also has a long history that continues to this day of creating special media events for journalists as a channel-bonding strategy. Appendix 29 highlights various tactics designed by the Majors to foster goodwill with journalists and nurture ongoing relations between them and studio publicists in order to elicit favourable media coverage. Such events included special media screenings, press invitations to world premieres, film set visits during production, large-scale press junkets, celebrity-hosted media screenings and movie star tours.

The Majors control media access to the stars and information

Large-scale press junkets are increasingly common in contemporary Hollywood and are used as a publicity device to facilitate brand awareness for new movies in the media and particularly on the Internet. “*The ritual dates back to the 1930s. Junketeers make their living on access to stars, they not only tend to conform to the ground rules, but also go out of their way to fawn over the celebrities*”. The Majors pay for travel, accommodation and provide

copy editors looking for pictures and items to run in the fan magazines (Modern Screen, Photoplay), in addition there were women’s magazines that featured profiles and interviews of Hollywood stars (Redbook, McCall’s) and general interest magazines that put stars on the covers to boost circulation (Look, Life). This was only the first tier A list” (Sennett 1998 p. 48).

journalists with a daily per diem allowance of U.S. \$150-200 (Hayes and Bing 2004 p. 197; p. 203). An M.G.M. press junket in 2003 took a cohort of leading movie journalists to London for interviews with star Reece Witherspoon and typifies the Majors' approach during which every aspect of the event is stage-managed with military-like precision in a controlled environment.³⁰

Film Critics

While Major studio research indicates that most moviegoers don't read critics reviews and therefore don't generally influence attendance of mainstream movies (Goldberg 1991 pp 133), and scholarly research found no significant correlation between critics reviews and early box office results (Eliashberg and Shugan 1997), the latter did find a positive correlation between reviews and later box office receipts, indicating that generally favourable or unfavourable critics' reviews of a new movie are typically more likely to be an indicator of eventual commercial success rather than influencer of that success. Despite such research findings, the Majors still carefully manage film critics, providing them easy access to most movies but occasionally they deny critics a pre-release opportunity to review an important movie if they feel it is likely to attract unfavourable reviews with the intention to stall any negative publicity so that it appears only after the movie's release (Goldberg 1991). The Studios also leverage favourable critics quotes as testimonials that appear in movie advertising campaigns (Marich 2005 p. 240).

9.14 STUDIO PUBLICITY TO ATTRACT AUDIENCES

The historical evidence presented above showed that for the time period, Universal, the first of the Hollywood Major studios, used a sophisticated approach to advertising and publicity from around 1913. It also showed that Famous Players-Paramount – the next Major studio to dominate the movie industry throughout the late 1910s and 1920s established its in-house

³⁰ "A logistical feat involving a dozen studio publicists and a host of videographers, lighting technicians and make up artists yields the crisp, enthusiastic sound bites that convince television viewers and newspaper readers that they are getting an intimate look at their favourite stars. The mechanics of the process do not vary very much. One day, junketeers are shown the movie. Another day is set-aside for broadcasters. Stars, directors and writers rotate from one suite to another. Some (big TV shows) are given extra time for one-on-one interviews. Shepherding the interviewees is a phalanx of studio publicists, personal publicists and managers who make sure that neither the five-minute time limit nor the bounds of decency are ignored. The studio hires the crew and equipment and owns every tape. If anything objectionable is ever said, the studio can halt the interview and then tape over the offending question and answer. Print interviews are conducted in roundtables, clusters of six or seven reporters around a table in a hotel suite. Over a two-hour period, subjects are herded over to roundtables for short intervals. Every few minutes, they switch, so that every table gets every subject." (Hayes and Bing 2004 pp 195-197; p. 203).

exploitation department in 1915 and strategically used publicity and advertising to promote its movies and its corporate image.

In the early years of the Great Depression, Loews-M.G.M. replaced Paramount as the dominant movie studio and remained so until the 1950s. *“No one had a bigger or better publicity operation than Metro Goldwyn Mayer. As befitted its role as a gold plated studio of the era Howard Strickland’s staff turned the business of motion picture publicity into a campaign as complex, widespread and unavoidable as a military invasion. This invasion proceeded along several fronts – personal appearances by the stars, colour and black and white posters, trailers, recordings of theme songs, and newspaper and radio advertisements, as well as product endorsements, book tie-ins, giveaways, and contests. Each M.G.M. exhibitor received a data book that listed the names and addresses for each exchange – the office where the film posters, and all related materials could be picked up and dropped off – as well as the names and circulation figures of all the newspapers and magazines accepting M.G.M. ads, sources for radio (and later TV) announcements, transcribed interviews, sheet music and press releases”* (Sennett 1998 p. 69).

Hollywood is famous for its publicity machine and for its publicity stunts. Carl Laemmle and Adolph Zukor employed the services of publicists (press agents) even before they firmly established Universal and Famous Players-Paramount as Hollywood’s first two Major studios. Appendix 30 profiles 21 famous movie publicity stunts from 1909-2006 that demonstrate that the Majors adopted proven publicity strategies and tactics from established circus and vaudeville marketing practices using stunts, gimmicks and any other means possible in order to grab a headline or to plant a story that would result in press exposure to publicise their movies.

In addition to Hollywood’s seemingly endless ability to facilitate media coverage using publicity stunts, the Majors have also demonstrated an ongoing capability to manipulate media exposure for their movies by stirring up media controversy. Appendix 31 profiles 19 movies produced by the Majors from 1932-2006 that all generated significant publicity due to sensationalised content and controversial themes mostly relating to sex or religion.

9.15 EXPLOITATION OF RADIO AS A PROMOTIONAL CHANNEL

By the 1930s most major cities had at least two radio stations and metropolitan newspapers: *“Nearly everyone owned a radio and many thousands of households tuned in day and night”* (Sennett 1998 p. 53).

The historical evidence also shows that the Majors became expert at exploiting commercial radio opportunities from the outset of the new medium.³¹ Sam Warner convinced his brothers that owning a radio station “*would be a great way to advertise our movies*” so Warner Brothers acquired a Los Angeles station that was re-branded KFWB and began broadcasting in 1925 (Warner-Sperling and Millner 1994 p. 88-89). Market leader M.G.M. was also highly active in using radio as a promotional channel.³² Paramount acquired an initial 50% stake in CBS to promote its movies and RKO used promotional synergies for its movies through the NBC radio network, a corporate sibling also owned by parent company RCA (Izod 1988 p. 103). Appendix 32 provides a sample of radio programs during the Studio Era that Hollywood used to promote its movies.

Hollywood and commercial radio tie-ins

Hollywood forged promotional partnerships with Corporate America to exploit marketing synergies between movies and other manufactured products in order to create joint brand awareness in the minds of consumers. “*The five year period from 1932-1937 saw massive growth to some 700 hours of radio programming originated from Hollywood. Film stars gave interviews, regularly appeared hosting shows for sponsors and endorsing products, and played in radio dramas sponsored by commercial giants*” (Izod 1988 p. 103).

The *Lux Radio Theatre* had a twenty-year run with Paramount’s Cecil B. De Mille hosting the show during the early seasons. M.G.M.’s *Good News* radio program was sponsored by Maxwell House and “*allowed for an insider look into the life and glamour of Hollywood. During the ‘Backstage at the Movies’ segment of the show listeners could hear inside of stars’ dressing rooms, within M.G.M. executive boardroom meetings, and get a taste of the ‘real’ Hollywood happenings. The program was under the creative control of M.G.M. with every star on the lot except Gable available for appearances*” (Eyman 2005 p. 247). Another M.G.M. radio program “*Leo is On the Air*” ran from 1937-1946 and “early recordings were short 15-minute promotions of upcoming M.G.M. films” (<http://www.otrcat.com/leoontheair.htm>).

³¹ “*The airwaves were filled with the sound of movies being peddled – Rudy Vallee would sing the latest theme songs or Kay Keiser would play them on the Kraft Music Hall. Entire scenes from new releases could be heard on Cavalcade of America and Lux Radio Theatre. Walter Winchell and Dorothy Kilgallen would mention their favourite films and stars in their daily radio shows and newspaper columns*” (Sennett 1998 p. 123).

³² “*M.G.M. experimented with radio programs called tele shorts based on the studios recently released films and Hollywood retreated to a role of talent and program supplier, developing a symbiotic relationship with the radio industry. Hollywood was actively involved in radio programming through the supply of variety, dramatic and gossip shows, in addition to radio adaptations of movies*” (Wasko 1994 p. 10).

In 1943, TIME magazine profiled Hollywood's publicity prowess exploiting radio: "*a sample teaser for Columbia's comedy 'The More The Merrier' was heard on 50 stations of the four major radio networks last week. RKO opened a sleeper, 'Hitler's Children' in Cincinnati and plugged it with one-minute radio dramatisations. The results were so encouraging the campaign was extended to 200 local radio stations. Paramount discovered that its own Cecile B. De Mille, cinema's best known director, is better known for his radio work than for his pictures*" (Anonymous TIME 1943 'Hollywood Airs Wares'; Turner 1953).

Contemporary radio publicity and promotion

In contemporary Hollywood, the Majors have continued to create advance publicity for movies by organising promotional tie-ins for their movies with local radio stations: "*whose audiences are a good fit, arranging for private screenings for a film prior to its general release. The radio stations give away screening tickets via on-air plugs for the film*" (Marich 2005 p. 84-85). They control broadcast publicity using similar tactics to those employed during press junkets.³³

The Majors also work closely with their corporate siblings for national radio tie-ins,³⁴ so utilising radio as a promotional channel for movies continued to be a Major studio strategy throughout the last half of the 20th century, however with the arrival of MTV and the music video, Hollywood also began to utilise cable TV for movie promotion relating to music soundtracks, in addition to radio - the tradition channel (Harmetz 1983). The Internet also emerged as a new online promotional channel that can ideally facilitate brand building for movies through websites and online movie-related music promotion.

9.16 EXPLOITATION OF TV AS A PROMOTIONAL CHANNEL

Columbia Pictures President Harry Cohn saw television as a threat to movie-going in cinemas and refused to allow his studio to sell movies to TV (Puttnam 1998 p. 183). This created a misconception that Hollywood generally adopted the same position. Paramount, Fox and RKO were all involved in experimental television in the 1930s and 1940s, however

³³ "One example is the open-end interview for radio. On a pre-recorded audiotape the voice of a star answered the questions that a local radio personality reads from a script accompanying the tape" sent as part of an electronic press kit to the radio station (Goldberg 1991 p. 55)

³⁴ Disney owns the ABC radio network comprising over 50 stations, Viacom owns Paramount and the Infinity radio networks with 186 stations in 41 markets as well as the CBS radio network (Wasko 2003 p. 65 and 73) and in 2005, NBC acquired Universal.

the 1948 Paramount anti-trust case forcing Divorcement and the Majors to exit theatrical exhibition also prevented them from owning and operating TV networks – another form of film exhibition (Wasko 1994 pp. 11-14).

Walt Disney, led the way in 1954 producing *Disneyland* and the marketing synergies realized through cross promotion of Disney movies and its Los Angeles theme park that were showcased through its weekly television show, helped to fuel the growth that enabled Disney to replace the bankrupt RKO as a Major studio within the Hollywood oligopoly.³⁵

Disney was not the only Major studio to utilize television as a promotional channel for movies. Universal Chairman Nate Blumberg stated in *Variety* in 1953: “*Our company is trying to utilise television for advertising and promotion of pictures. There are great potentialities in store for the industry to collectively undertake a consistent TV program*” (Blumberg 1953). Appendix 33 shows that M.G.M., 20th Century Fox and Warner Brothers all adapted Hollywood’s traditional radio programming strategy to the new medium producing studio branded TV shows that enabled them to showcase their movies. M.G.M. also organized guest appearances for its stars on high rating TV shows like Ed Sullivan (Sennett 1998 p. 128-129).

After Divorcement, as television grew rapidly and joined radio as a mass broadcasting medium, the Majors adapted their approach to the provision of publicity materials. The press book originally designed to provide theatre managers with the necessary advertising and promotional materials to launch new movies evolved into the press kit, which later morphed into the Electronic Press Kit (EPK) to satisfy the needs of radio and television.³⁶

Since the rise of Pay TV and the Internet, to satisfy the growing demand for movie news from the proliferation of entertainment shows that currently populate the 500 channel

³⁵ The *Disneyland* TV show featured the first behind-the-scenes making-of-documentary of a new movie to be broadcast on television, showcasing ‘*20,000 Leagues Under The Sea*’ one week prior to its theatrical release. The movie became the biggest box office blockbuster of the year and Disney replicated that year-end number one box office success with *Lady and the Tramp* - 1955; *Swiss Family Robinson* - 1960; *101 Dalmations* - 1961 and *Mary Poppins* -1964 (Tanitch 2000).

³⁶ “*The studios prepared publicity material tailored to radio and television. When newspapers began to disappear and the patterns for releasing movies changed, the method of disseminating information about a movie changed. The press book became obsolete. The press kit took over where the press book left off. It was a folder, sometimes elaborate, that contained cast credits, a plot synopsis, production stories, stills and other material created primarily for the print media. When radio and television grew in importance, the press kits were distributed to the entertainment representatives at local stations. The press kit became their source of material about movies*” (Goldberg 1991 p. 55-56). ...EPK’s were introduced in the 1980s and contained a teaser trailer, a 5-7 minute feature about the movie, behind the scenes footage, short news stories, movie star profiles, theme music and songs, 35 mm colour slides of scenes from the movies, on-camera artwork, proofs of newspaper ads, production notes, editing notes, on-air promotional suggestions and 10, 20 and 30 second on-air promotions for the movie and the stars (Goldberg 1991 p. 55-56).

universe of cable and satellite TV, the Majors now provide security-restricted Extranet access over the Web to their studio websites and movie websites for entertainment journalists to access their publicity materials.

These examples provide evidence that Hollywood tightly controls the flow of information related to movie launch campaigns in its publicity practices.

9.17 MOVIE AWARDS SIGNAL QUALITY

Birth of the Academy Awards

In 1927, Louis B. Mayer invited 36 industry leaders to a banquet where they discussed the idea of creating an industry-sponsored non-profit organization, with a mission to address and resolve industry-wide problems including labour disputes that were rampant in Hollywood at the time. The result of this meeting was the formation of the Motion Picture Academy of Arts and Sciences (AMPAS). Two years later, it held its first Academy Awards ceremony. The Oscars have since become the premier awards in the movie industry. A number of other industry organizations began issuing end-of-year awards for excellence but the Oscars remain the most prestigious. Such awards were and are still used by studio marketers, as publicity and advertising vehicles to send out signals of theatres to potential audiences about Oscar nominated films and the ultimate winners (Osbourne 1969 p 6).

An 'awards season' now runs from early December when the National Board of Review announces its annual award winners, until the end of February/early March when the Oscars are announced (Appendix 34). During that three-month period, the Majors launch intensive media campaigns to promote their nominated movies. An annual calendar of film festivals also operates and enables the Majors to exploit year-round publicity opportunities for their movies that win awards. With the exception of the Sundance and Berlin, the other six highest profile international film festivals occur between May-September that coincides with the peak movie-going season during the U.S. summer break.

Film festivals are a route used by independent producers to showcase their films in the hope that a Major studio will see their commercial potential and buy them. Like movie awards and nominations, festival recognition can be used to differentiate such acquisitions during the launch campaign, so any award or nomination provides movie marketers with a publicity hook as well as a testimonial for print advertisements.

The introduction to this section argued that firms possessing superior public relations capabilities could be expected to excel in: a) correct identification of their publics b) formulation of successful PR strategies, c) selection of appropriate media channels c) creation of effective communications messages d) effective management of PR programs.

The evidence presented demonstrated that Hollywood's Major studios have excelled in these five areas for over ninety years. It showed that Hollywood strategically manages its public relations with government, the financial community, the media and with fans. Historical examples were provided to demonstrate the Majors' successful use of publicity stunts and sensationalism to create brand awareness and promote new movie launches. It showed that they strategically approached each new movie launch to target particular movie-going segments and to differentiate each new movie through effective positioning. This section also showed that the Majors have successfully channelled their publicity efforts through every available media over time – newspapers, magazines, radio, television and the Internet. The successful launch of thousands of Hollywood movies ranging from little films to large scale publicity launches like *Gone With The Wind* (MGM - 1939) and more recently, globally orchestrated campaigns for the release of box office hits like *Harry Potter* (Warner Brothers - 2005) and *The Matrix Reloaded* (Warner Brothers – 2003) simultaneously in cinemas around the world bears testimony that Hollywood knows how to effectively manage PR campaigns.

9.18 PROMOTIONAL TIE-INS AND MERCHANDISING

Another area of promotion in which the Major Hollywood studios today clearly demonstrate superior capabilities to rival film industries is in merchandising and promotional tie-ins.

“Tie-in promotions are cross-marketing deals with consumer goods companies that get to associate their products with films, hoping that a little Hollywood magic will rub off and promote a movie in their own advertising (Marich 2003 p. 81).”

Independent producers around the world tend to operate as small businesses surviving from project to project on producer's fees. Their core business and skill-set is making films, they raise production finance through distribution pre-sales or by selling negative pick-up rights to film distributors. They lack the financial resources to secure the intellectual property rights to hot, pre-sold properties like best selling books or plays or computer games, so generally their film projects have limited merchandising potential. In other words, movie marketing and merchandising is not their primary focus. In contrast, the Majors deliberately seek out film projects with franchise and merchandising potential. *“Merchandising is the*

manufacture, distribution, licensing, selling or other exploitation of characters, names and events appearing in connection with a motion picture e.g. in the form of t-shirts, books, posters, jewellery, games, dolls and /or toys” (Cones 1992 p. 301).

The Major Hollywood studios have strategically used promotional tie-ins and merchandising for over nine decades. The earliest merchandising efforts can be traced back to Charlie Chaplin candy bars and Mickey Mouse merchandising in 1929 (Clark 2001) and Appendix 35 profiles 20 significant promotional tie-ins, merchandising or product placement campaigns implemented by Hollywood since the late 1910s.³⁷

A *Variety* article written in 1948 confirms that the Majors were actively involved in large-scale promotional tie-ups during the Studio Era.³⁸ In the 1950’s Disney earned \$300 million from *Davy Crockett* merchandise and M.G.M.’s re-make of *Ben-Hur* spawned merchandise ranging from men’s polo shirts and cuff links (Appendix 35) to plastic charioteer armour for boys. Analysis of Appendix 35 indicates that the most significant change in recent decades has been the scope and scale of the organisational effort undertaken by the Majors and the size of the financial rewards realised from blockbuster movie merchandising.³⁹

Star Wars (1977) is widely regarded as a turning point in New Hollywood’s movie merchandising. Major studio interest in this area escalated after the legendary deal that George Lucas negotiated with 20th Century Fox for the financing and distribution of the original *Star Wars* that allowed him to keep the merchandising and sequel rights. Following the blockbuster success of the movie, Lucas enjoyed a multi-billion dollar windfall and Fox’s error in giving away the merchandising rights re-awakened Hollywood to the potential

³⁷ For example, Universal staged one of the first major movie industry promotions in 1915 with a beauty contest to find a new female star and promoting the studio’s corporate image in the process. And Disney issued the first movie-merchandising license in 1932 for Mickey Mouse. The following year, M.G.M. and Coca Cola undertook a promotional tie-in for the movie *Dinner at Eight*. Appendix 35 also shows that Fox’s popular child star Shirley Temple’s look-alike dolls and Warner’s Bugs Bunny were best-selling toys during the 1930s, and by the end of that decade, 147 manufacturers sold 2,183 licensed novelty products as licensed tie-ins with Disney’s *Snow White*. “*Snow White had multiple licensable characters (the dwarves, the wicked witch) who took on long lives of their own, first as toys, and later as theme park exhibits. So, here was Hollywood’s future: it’s profits would come not from squeezing the costs of producing films but from creating films with licensable properties that would generate profits in other media over long periods of time*” (Epstein 2005). Female blouse designs based on Paramount’s *The Buccaneer* were available for purchase as a promotional tie-in and a wide range of *Gone With The Wind* merchandise was available to fans of the movie.

³⁸ “*Back in the days when movies were young, an enterprising tobacco firm paid Douglas Fairbanks \$10,000 for a cigarette endorsement. A decade ago, endorsements enriched some Hollywood pockets an estimated \$5 million annually. Today, star-tie-ups are an industry rather than an individuals operation and on a barter in place of a monetary basis. One studio alone, Paramount cornered an estimated \$9 million worth of paid advertising space tied in with three pictures, Wild Harvest, Unconquered and Variety Girl. The ad agencies used to pursue the studios for tie-ups but now the pix biz is on the offensive, it initiates the promotion*” (Campbell 1948 p. 22)

³⁹ “*In the 1970s, tie-in promotions began to proliferate as restaurants, soft drinks and other consumer goods marketers sought to attach their products to movies. The value of promotional tie-ins has mushroomed over the decades*” (Wasko 1999 p. 103).

revenues from merchandising that also create cross-marketing synergies for new movies (Marich 2005 p. 129).

However, Paramount's massive merchandising campaign for *The Great Gatsby* (1974) was featured as TIME magazine's cover story three years prior to *Star Wars* release. "*The selling of The Great Gatsby makes an instructive case history of modern studio merchandising. No one markets a movie better than Paramount. There has never been a campaign like this before*" (Anonymous 1974 TIME). Such hype is all part of Hollywood's approach to movie promotion. The reality is that Disney continued to merchandise its movie properties throughout the 1960's and 1970s and so did other studios for blockbuster movies. Fox's *Sound of Music* (1965) spawned a range of related merchandise - record albums, books, sheet music, music books and another Fox film *Doctor Doolittle* (1967) enjoyed a significant merchandising effort (Edwards 1999).

New Hollywood's commitment to a blockbuster strategy has seen the Majors' focus on developing properties with significant franchise potential both for sequels and as merchandising vehicles for book tie-ins, soundtracks, computer games, clothing, accessories: e.g. *Star Wars* (Fox), *Star Trek* (Paramount), *The Lion King* (Disney), *Spiderman* (Sony/Columbia), *James Bond* (MGM-UA), *Harry Potter* (Warner) and *Jurassic Park* (Universal). Large scale promotional tie-ins are also engineered for one-off blockbusters e.g. Disney organised tie-ins / partnerships valued at \$160 million in marketing support for *National Treasure*, comprising \$60 million in paid media and \$100 million in exposure value with firms like Visa, Verizon and McDonalds. Visa was promoted on-screen in dialogue in the film spoken by the lead character. *Finding Nemo* had \$180 million in promotional support by contracted partners (Schiller 2004).

Movie merchandising in contemporary Hollywood is now a supporting industry in its own right, involving specialist merchandising agents, creative talent and their agents, intellectual property lawyers, producers and the consumer products divisions of the Major studios.⁴⁰ *Variety* executive editor Stephen Gaydos estimated: "A successful Hollywood film can make about \$120m from the box office. On top of that, it can generate about \$60m from ancillary products, such as videos, DVDs and pay-per-view. Strong merchandising, however, can then add another \$50-200m, depending on how exploitable the film is" (Clark 2001).

⁴⁰ Merchandising is a broad term encompassing licensing the rights to movie characters, stories, costumes, music soundtracks, videogames to manufacturers and retailers that enable them to co-ordinate their product marketing campaigns with the launch campaign for a movie's theatrical release (Wasko 2003 p. 91).

Some genres and many movies have limited merchandising or licensing potential e.g. art films, romance, thrillers and documentaries with only a music soundtrack and a book tie-in likely to eventuate. However, certain genres lend themselves well to the creation of large-scale merchandising and cross-promotional opportunities e.g. animated films (*The Lion King*), comic book superheroes (*Batman*), science fiction (*Star Wars*) and epics (*Lord of the Rings*). Since *Star Wars* most Major studios established specialised merchandising divisions – listed in Appendix 37. Hollywood’s mega-merchandising strategy is designed to yield commercial synergies from the Major studios’ tent-pole (blockbuster) movies with sibling corporations that are also owned by the studios’ parent companies. Table 9.9 below highlights the corporate synergies for *Batman Forever* (1995) within the AOL-Time-Warner Group.

Table 9.9 Time-Warner corporate synergies utilised to market *Batman Forever*

Promotional channel	Time-Warner owned company
<i>Theatrical Release</i>	Warner Brothers Distribution
<i>Video release</i>	Warner Home Video
<i>Pay Television</i>	Warner Brothers Television
<i>Batman licensing</i>	Warner Brothers Licensing Division
<i>Comic book</i>	D.C. Comics
<i>Music soundtrack</i>	Atlantic Records (part of the Warner Music Group)
<i>Novelization / book</i>	Warner Books
<i>TV promotion</i>	CNN, Warner Brothers TV
<i>Internet promotion</i>	AOL
<i>Theme Parks</i>	Warner Brothers Movie World Theme Parks
<i>Batman merchandise</i>	Warner Brothers retail stores

Product placement in Hollywood movies

The Major studios began exploiting significant product-placement opportunities with manufacturing companies within their movies during the 1930’s and such deals added a new promotional dimension to Hollywood’s marketing.⁴¹ During the 1970s and 1980s, commercial tie-ins and product placement became commonplace and Hollywood developed a sophisticated marketing channel for product placement in movies, television programs and their spin-off video and computer games. The Majors today have dedicated in-house product placement executives, whose job is to read scripts in development, in order to identify product placement opportunities and then to negotiate deals either through fee-for-service product placement agencies or directly with potential corporate advertisers. Many high

⁴¹ “It became practice for studio heads of exploitation to co-ordinate scriptwriting with a breakdown of products for which sponsorship might be sought”... Warner Brothers movies featured “a proliferation of General Electric fridges and Buick cars between 1933 and 1935. From 1930 the Modern Merchandising Bureau acted as a fashion middleman for most studios, receiving sketches from them of costumes to be worn in future films and contracting with manufacturers to have them ready for sale in time for each film’s release date” (Izod 1988 pp 102-103). “By the end of the decade, he had half a dozen custom labels producing copies of the stars’ costumes. (Sennett 1998 p. 139).

profile consumer product companies have committed to product placement strategies and some have even established their own in-house entertainment marketing functions to realise those opportunities.⁴²

This section showed that product placement and promotional tie-ins and movie merchandising have been part of the Majors' marketing approach since the early days of those studios. Hollywood blockbusters like *Snow White and the Seven Dwarfs* (Disney – 1937) and *Gone With The Wind* (MGM – 1939) were supported by large-scale merchandising campaigns and this continued until the late 1960s, with the last notable movie merchandising effort being undertaken for *Doctor Doolittle* (Fox 1967), at a time when most of the Major studios were verging on bankruptcy and Hollywood was in the deep industry recession of 1969-1971. After the Majors were acquired by new corporate owners and re-capitalised, major movie merchandising campaigns again began to be undertaken, particularly at Paramount – *The Godfather* (1972); *The Great Gatsby* (1974) and *King Kong* (1976). Then came *Star Wars* (1977) and with the commitment of the Major studios to a blockbuster production strategy and the scope and scale of Hollywood's merchandising effort escalated as the Majors focused on making movie franchises that would generate millions of dollars at the box office and in merchandising royalties.

In the research for this thesis, no historical evidence was uncovered to confirm that any other rival film industry or independent American competitors to the Majors has ever operated on anywhere near the same scale as Hollywood. Very few adopted a similar approach.

9.19 CHAPTER SUMMARY

A set of guiding questions was established in chapter three to direct the research. For promotional capabilities, the questions were: To what extent were the dominant firms effective in terms of their promotional / communications capabilities? What evidence exists in the historical data to support or counter any case?

The historical evidence and analysis presented in this chapter shows that the Major studios in Hollywood have consistently demonstrated that they possessed superior promotional capabilities than rival firms or rival film industries over time. In terms of advertising, the

⁴² “AT&T had 500 clear product placements in 1993, while Ford had nearly 350 placements worldwide that same year. And in late 2002, Universal Pictures formed a Brand Group involved in creating branded entertainment around the studio's films. It is clear that these commercial activities have accelerated dramatically over the last decade. Product placement ultimately must be seen to strengthen distributors' positions and (again) disadvantage independents” (Wasko 2003 pp 158; pp 167-168).

Majors exploited all of the available media channels in each era and as new technology emerged (radio, TV, cable TV and the Internet), they adapted their media strategies and adjusted their media mix to take advantage of the advertising opportunities presented by those new media. The evidence showed that Hollywood also continually outspent the rest of the world with its investments in advertising across all media to launch new movies.

The evidence presented in this chapter showed that the Majors demonstrated an understanding of strategic branding principles and practices early in the history of the Hollywood studios through reference to and comparison of movie poster designs and newspaper ads from the 1920s to the present day. Poster designs for *The Sheik* (1922), *The Jazz Singer* (1927), *Gone With The Wind* (1939) and *Gigi* (1958) presented on page 22 of this chapter compare favourably to modern poster designs for *Jaws* (1975), *Raiders of the Lost Ark* (1981) and *Gladiator* (2000) in terms of demonstrating the Majors possessed superior branding capabilities at different points in history. In terms of Hollywood's PR and promotional capabilities, the historical evidence showed that the Majors identified their key publics and implemented strategic PR programs to change negative perceptions. Over many decades Hollywood also successfully lobbied Washington to facilitate government support for movie exports and for assistance on a range of other issues. The evidence also showed that the Majors also demonstrated superior publicity capabilities consistently throughout the industry's history, devising many successful publicity stunts and often creating media controversy to create awareness and interest in their movies. It became clear that the Majors excel at movie publicity and know how to implement and co-ordinate large-scale campaigns that optimise the chances of box office success.

The evidence also showed that Hollywood demonstrated superior capabilities in exploiting promotional opportunities on radio, television and the Internet, as well as possessing the ability to organise and exploit large scale promotional tie-ins and merchandising opportunities that could add significant weight to movie launch campaigns through cross-promotions and media support from partners.

In terms of Vorhies and Harker's fourth core marketing capability – effective promotion, it can be concluded that the Majors, were all highly effective in managing their promotional mix, in their selection of appropriate media channels and in the creation of appropriate communications messages. This fourth of six Vorhies and Harker indicators again indicates that the Majors were market-driven firms.

CHAPTER TEN: THE MAJORS' PRICING CAPABILITIES

10.0 INTRODUCTION

Research by Vorhies and Harker (2000) identified six marketing capabilities common to marketing orientated firms that consistently outperformed their rivals contributing to superior business performance.

Previous chapters and determined that the Major Hollywood studios did exhibit superior capabilities to their rivals in the areas of marketing research, new product development, distribution and promotion.

Historical evidence revealed in Chapter Seven demonstrated that Hollywood movies had comparatively higher production budgets than films from rival industries and independent competitors. Movie budgets were significantly larger in Hollywood because the Majors invested heavily in high quality production values (the world's leading movie -stars, expensive special effects, costume design, elaborate sets, location shooting, cinematography etc.) that sent potential audiences signals of quality. In Chapter Eight, an analysis of all-time box office hits demonstrated that the Majors have continually provided cinemas around the world with the most popular and commercially successful movies, even during a quarter century period of declining revenues in Hollywood during the TV era from 1950-1974. And Chapter Nine demonstrated that the Majors also significantly outspent rivals in the levels of investment in advertising committed to launch their movies.¹

The fifth of Vorhies and Harker's (2000) six key marketing capabilities common to firms that exhibited superior business performance was the strategic use of competitive pricing. The guiding questions established in Chapter Three for pricing were: To what extent did the dominant firms employ an effective process for competitive pricing? What evidence exists in the historical data to support or counter any case?

¹ "The motion picture industry is an example of a typical 'experience product' market characterised by product-quality information asymmetry between firms and consumers. In distinguishing between sellers of high and low quality products before consumption, consumers in such markets look for credible information that firms can provide using 'signals' such as advertising expenditure" (Basuory, Desai and Talukdar 2006 p. 287).

This chapter argues that the Major studios used their superior capabilities in new product development, distribution and promotion to leverage premium film rentals from movie theatres that in turn used premium ticket pricing strategies with movie-going audiences comprising innovators, early adopters and the early majority.

Pricing Strategies

Pricing is a key consideration in marketing strategy formulation and “*strategic choices about target markets, products and distribution set guidelines for both pricing and promotion strategies*”. Pricing is therefore a function of several factors: production and sellers costs, competitor costs and prices, buyer costs and perceived value of new products and the nature of distribution channels (Monroe 2003 p. 365-393). Various strategies are available to marketers and pricing objectives may be to gain market position, achieve financial performance, to position products, stimulate demand or influence competitors (Cravens 2000 pp. 328-330).

Pricing can be used in marketing in various ways to reinforce brand image or to solicit rapid sales. It can also be used as a positioning strategy that signals quality to customers (premium pricing).² The airline seating concept of first, business and economy classes is a contemporary example of a price/quality segmentation strategy (Aaker 1992 p. 51). Hotels have long used the same strategy: 5 star, 4 star, 3 star properties and so did the movie theatres in the pre-multiplex era when price discrimination was used and patrons paid a higher admission price to sit in the balcony than those patrons who sat in the rear stalls. The patrons sitting closest to the screen paid lowest ticket prices.

Pricing can also be used as a competitive strategy to capture market share (penetration pricing) or as a means of quickly recouping some of the heavy investment in research and development (price-skimming) which is appropriate if early-adopting segments are less sensitive to price in the early stages of the product lifecycle (Monroe 2003 p. 381).

What the customer is prepared to pay is determined by the interplay of motivational and situational factors such as the customer needs and desires, their ability to pay, the rate of the diffusion of the product in the market and the level of competition.

² “Price is used in marketing to ensure profitability of the firm and to send a message to the market about the firm and its products. In the mind of a consumer a high price can denote high quality, and a low entry price can encourage trial of new products. Prestige pricing involves setting the price for a product at a deliberately high level so as to imply quality, exclusivity and desirability.” (Dann and Dann 2004 p. 303-304).

10.1 HOLLYWOOD AND PREMIUM PRICING

In Old Hollywood, the Majors owned theatre chains that provided a guaranteed retail outlet for their movies featuring the world's most popular movie stars who were the drawcard that attracted a regular mass movie-going audience (Koszarski 1990 p. 71).

Over the next quarter century, after the Majors were forced by Government anti-trust action in 1948 to sell their theatre chains, an analysis of the Majors' distribution capabilities in Chapter Eight demonstrated that they effectively managed demand by reducing supply, making far fewer but much bigger budget event movies, thereby creating a product shortage during the 1950s and 1960s for the newly independent movie theatre chains. Even though Hollywood was vulnerable to a competitive response during this period when the mass audience stayed home to watch television (Stuart 1976), there were also no viable movie industry rivals capable of replacing Hollywood as the main vendor of commercial movies. Hence, high demand from theatre programmers remained for Hollywood product even though audience attendance was declining and despite Major studio movies often missing the mark at the box office.

In New Hollywood (1975-2005), the Majors adopted a blockbuster strategy producing big event-movies loaded with special effects and supported by a wide release into thousands of theatres and by intensive marketing including saturation advertising on television to attract mass audiences. In addition, and in order to meet the needs of the growing new post-theatrical markets - home video and Pay TV, the Majors again increased the number of annual releases, supplementing their own productions and filling their distribution pipelines by acquiring independently made movies. However, the real money for each studio lay in the commercial success of a few big-event blockbuster movies. These 'tent-pole' movies attract mass audiences and by marketing them as brands in the theatrical window, it builds up their brand equity and makes each studio's annual package of movies commercially attractive when they sell their movies to video retailers and to TV networks and thus facilitates high prices in those markets (Wasko 2003).

Chapter Eight showed that by controlling the flow of the world's most popular movies, expanding and contracting supply to match changing conditions and by using distribution strategies involving intensive market coverage (wide distribution) and intensive marketing, the Majors have continually been able to leverage premium prices for film rentals for their movies.

Comprehensive historical data relating to movie industry pricing strategy is virtually non-existent. On an annual basis, the MPAA publishes a list of the average cost of a movie theatre ticket for movie-goers in the United States market (see Figure 1 below), however, the real customers of the Major studios are the movie theatres that sign a contractual license to exhibit each new movie for public exhibition and in return pay the distributor an agreed film rentals for that transaction. Specific details of distributor-exhibitor contractual terms and arrangements relating to films rentals on movies are commercially sensitive, confidential and never published. However, occasionally trade periodicals like *Variety* publish a general statistic on film rentals showing them as a percentage of the annual box office. This average film rental figure is critically important to a pricing analysis because it is the only available indicator of the Major studios pricing policies relating to their revenues via leasing of their movies to theatres.

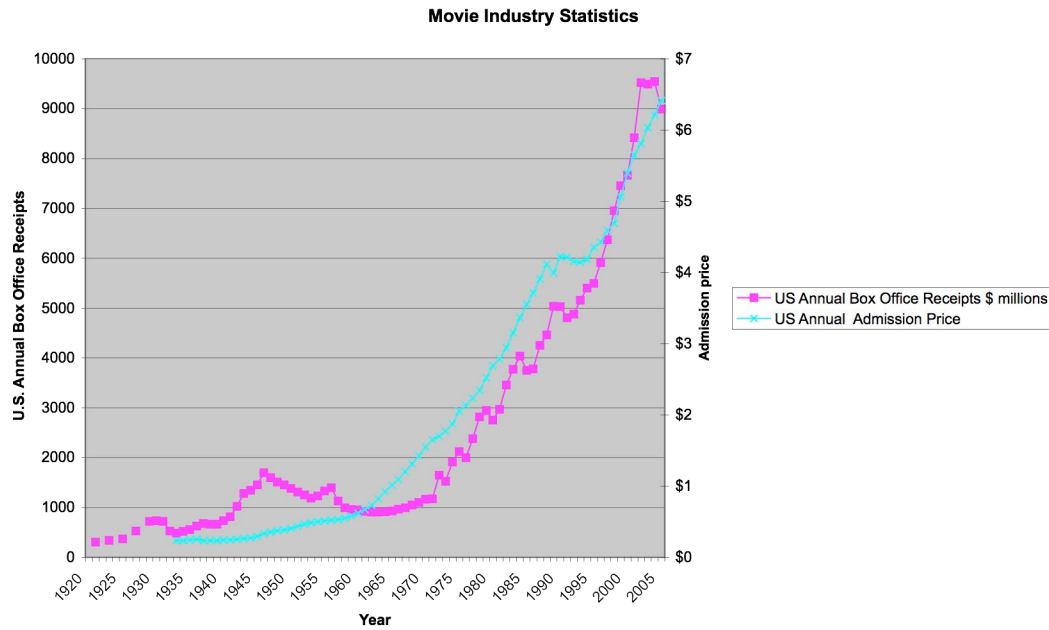
The following section examines to what extent, have the Major studios employed effective pricing strategies from 1930-2005. It provides historical data that demonstrates that Hollywood's Major studios have continually exhibited superior pricing capabilities— over time. First, data relating to movie theatre ticket pricing will be discussed, and then the sparse available film rentals data will be analysed and discussed.

Movie theatre ticket prices

Analysis of data in Figure 1 below shows that despite minor fluctuations, the curve for theatre ticket prices in the United States from 1920-2005 closely mirrors the curve for the annual sales in the form of gross box office receipts over the same period of time. This indicates that demand is inelastic because the annual box office has continued to increase at an escalating rate despite ongoing ticket price rises.³

³ “Ticket sales for new film releases are typically insensitive to changes in box office prices. Demand for major-event movies, backed by strong word-of-mouth advertising and reviewer support, is essentially price inelastic” (Vogel 2004 p. 52).

Figure 10.1 Movie theatre ticket prices compared to annual box office



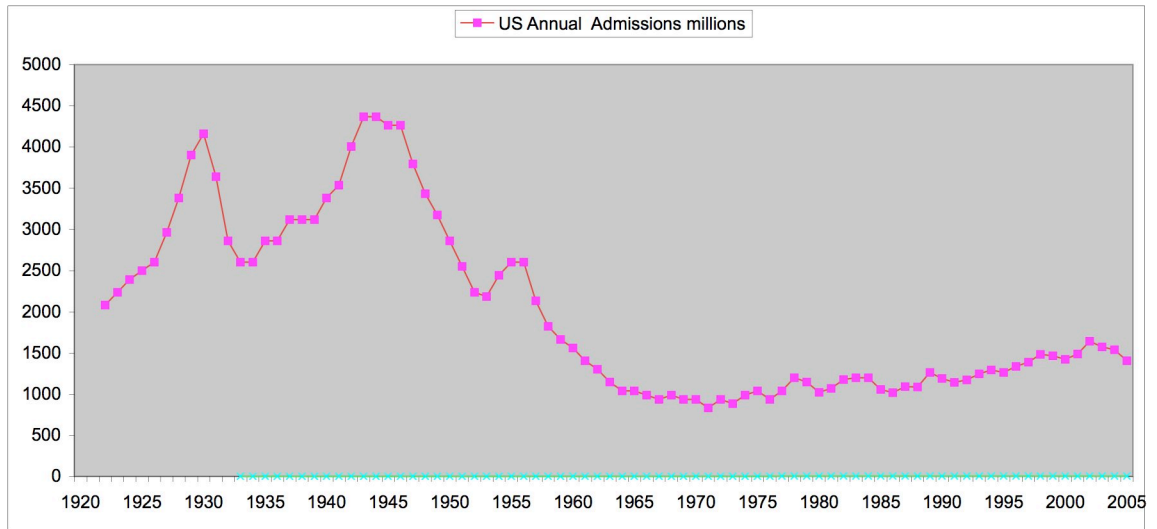
Source: Finler (1988); MPAA 1997 and 2005.

During the Studio Era, when the Majors owned and operated their own cinema chains, they used differential ticket pricing policies on two levels. Within large theatres, a balcony seat cost more than seats on ground level in the stalls, so cinema patrons were able to choose *where* they preferred to sit within that theatre. In that era, the temporal distribution system used by the Majors was based on a skimming strategy and upon price discrimination, so movie-goers could also choose *if* they wished to pay premium ticket prices by paying to see a new release movie in a first run city location or wait longer until the film moved to a lower run in a suburban theatre.⁴

The Majors use of price skimming strategies in 1st and 2nd run theatres continued after Divorcement in the post-Studio Era until multiplex cinemas began to proliferate in the 1980s, offering moviegoers much wider choice by playing many films in one theatre complex but usually at a standard admission price. Whilst it is still possible today to find a few cheaper cinemas later in the lifecycle of a movie, the great majority of attendances occur at multiplex cinemas and many small single, double or twin screen independent cinemas have closed down.

⁴ "Filmgoers had a choice. If they wanted to see a film while it was new and fresh, they had to pay top dollar. If they wanted to see a film cheaply they had to wait" (King 2002 pp 56).

Figure 10.2 Movie theatre attendance in the U.S. market 1920-2005



Source: Finler (1988); MPAA 1997 and 2005.

10.2 BLOCK-BOOKING WAS A PRICE-BUNDLING STRATEGY

Block-booking was discussed in Chapter Eight and was a price-bundling wholesaler strategy employed as a standard distribution practice by the Majors from the early days of Hollywood until it was banned under the 1948 anti-trust case against the Major studios. In the late 1910s, Famous Players-Lasky-Paramount was the biggest studio in Hollywood and could guarantee movie theatres a complete annual program of Paramount pictures featuring Hollywood's biggest stars who, were contractually tied to the studio (Koszarski 1990 p. 71). In doing so, Paramount was able to command premium film rentals because no other Studio could match its quality (stars) and level of annual output. This provoked a competitive response from a large group of irate independent exhibitors who came together to form the First National circuit and created First National Pictures to supply those theatres. The conflict known as the 'theatre wars' between Paramount and First National ended by the mid-1920s but all studios in Hollywood adopted the practice and employed block-booking practices until it was declared illegal in 1948.

Under block-booking, theatres were forced to take the complete package of films on a fixed rental basis, in order to secure the prestige pictures from the Major studios which meant that

they paid inflated prices for B movies and shorts that were worth less and they may not otherwise have booked.⁵

With the introduction of sound, the Majors began producing a complete weekly programming package of film entertainment eliminating the need for theatres to engage live acts and musicians to supplement their silent film programs. High quality “A” pictures were then rented to theatres on a shared-revenue basis providing a fixed percentage of film rentals to the distributor in contrast to the fixed rental fee previously charged for silent films. This bundling strategy enabled the Majors to extract the best prices for the movies within the package (Hanssen 2002).

10.3 BLIND BIDDING

The Majors also employed a related practice to block-booking called ‘blind-bidding’ which was a form of closed auction and required competing independent theatres in the same market to bid for movies that did not yet exist.⁶ As with any auction for products in high demand, premium prices were achieved. Blumenthal (1988) found that blind bidding severely disadvantaged exhibitors because risk aversion motivated by fear of competition *“rendered them unable to reduce their bids enough to fully compensate for the dearth of information”*. Blind bidding is outlawed only in some America states and the Majors were still using the strategy in some states in recent decades in order to extract premium film rentals.⁷

In Old Hollywood, some Majors like M.G.M. devised alternate strategies that would enable them to charge theatres premium film rental prices.⁸

⁵ “Block-booking may be defined as the simultaneous leasing of groups of films at an aggregate price upon the condition that the unaffiliated exhibitor had to take the entire block or none at all, since the price of pictures on an individual basis was usually prohibitive” (Huetting 1944 p. 116).

⁶ “Blind-buying refers to the leasing of films sight unseen, usually in advance of their actual production. It was an integral part of block-booking because distributors do not generally carry a stock of finished films to be offered to exhibitors. In order to sell the blocks, it was necessary to sell films as yet unmade” (Huetting 1944 p. 120).

⁷ “In 1979, the President of National Association of Theatre Owners claimed that the Majors were blind-bidding at least 90% of their movies. Distributors said that it was not more than 60-70%. The terms sought by distributors standardised at a 90:10 split for event movies and altered in favour of the cinema the longer a film ran, when the volume of admissions would be expected to decrease” (Izod 1988 pp 192-193).

⁸ “The pressure for quality pictures was stronger than it had been because of the new selling plan developed by Al Lichtman for the (M.G.M.) distribution department. (Lichtman) had been hired by Schenk as his executive assistant in October 1935, following his resignation as President of United Artists. The first task to which Schenck assigned him was to survey the distribution set-up of Loew’s and try to find a way to pull more rental for pictures than was being got with the Feist ‘sliding scale’. Lichtman put eight months on the study. He visited all the company’s exchanges in the United States and Canada, and, sure enough, he and William Rodgers, who had succeeded Feist as sales manager, came up with a scheme whereby more money could conceivably be got. It was that Loew’s would agree to deliver to its theatre customers between 42 and 52 pictures

In New Hollywood, despite the demise of 1st, 2nd and 3rd run theatres, the emergence of highly profitable post-theatrical markets has enabled the Majors to continue to employ a sequential temporal release strategy with movies opening first in theatres, followed by premium pay-per-view TV, home video, Pay TV and then other television markets (Lehmann and Weinberg 2000; Silver and Alpert 2003). The key customers of the Majors in these release windows are the movie theatres, video retailers and television stations that lease their movies for public exhibition.

In the theatrical window, film rentals are negotiable for each motion picture and are defined as *“the money owed and / or paid by an exhibitor to a distributor under a film’s license agreement i.e. the monies paid by the exhibitor and / or earned and due to be paid to the distributor as rental fees for the right to license a film for public showing”*. Rentals are usually expressed as a percentage of the movie theatre’s gross box office receipts (Cones 1992 p. 186).

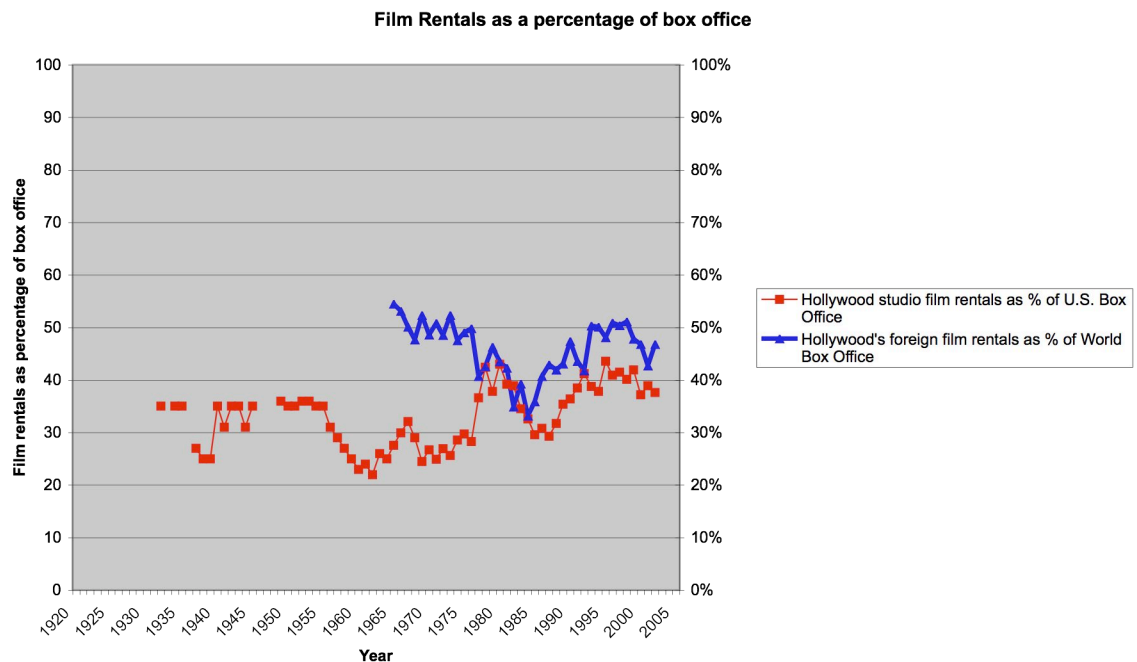
Data on the Majors’ pricing strategies vis-à-vis film rentals is virtually impossible to access. Film rental terms that are contractually agreed between distributors and each movie theatre that govern the release of each movie in that theatre are never revealed by the Movie studios or by exhibitors. However, very occasionally a “global” statistic for the industry has been published. Appendix 39 contains periodic data drawn from a range of sources showing film rentals as a percentage of the annual box office. Whilst there have been fluctuations, the clear trend that emerges from this data is that average film rentals have increased over time. In the U.S. market immediately after the First World War in 1918, film rentals averaged between only 15-20% of gross box office. However by the late Studio Era in the 1940’s, immediately prior to Divorcement, film rentals were approximately 35% of the gross box office and in the 1990s, average annual film rentals in America have ranged between 36-44% over double the 1918 statistic.

The reader is reminded that film rentals are the money paid by movie theatres to the film distributor after agreed theatre operating costs and marketing expenses have been deducted, so the statistics in Appendix 39 showing rising film rentals over time indicate that the Majors have applied a premium pricing strategy when leasing their films to cinemas. It also

a year, with the percentage terms for the rentals of the big ones to be set individually only after they demonstrated their drawing potential in thirty key theatres. Thus, the more a film grossed in its first engagements, the higher the percentage rental asked for it. The following year the gross returns from film rentals were up \$ 6 million over the year before” (Crowther 1957 p. 242).

indicates that comparatively, the Hollywood Majors have been able to extract even higher film rentals in international markets. Figure 3 below demonstrates this clearly by adding a different set of data from the MPAA for average film rentals as a percentage of gross box office from 1965-2005 to the existing data already contained in Appendix 39. This figure clearly shows that foreign exhibitors in markets outside North America (the top blue line) have continually paid higher average film rentals than their counterparts in the U.S. market (the bottom red line).⁹

Figure 10.3 Average film rentals as a percentage of annual box office receipts in America and international markets



Sources for average film rentals: 1932-1964 - Film Daily Yearbooks; 1965-2003 Vogel (2004) pp 58 for 1965-2003

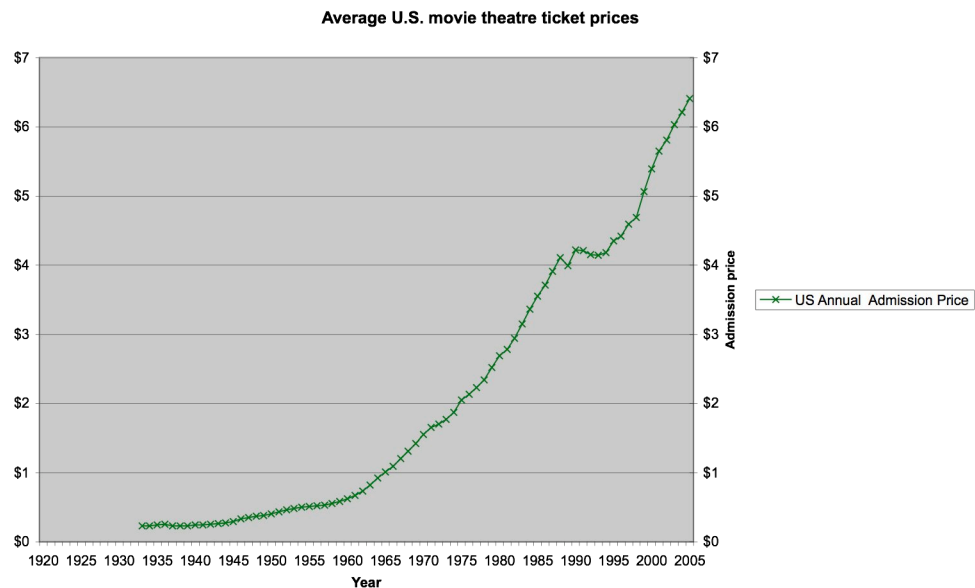
The introduction of talking pictures in 1927 occurred before the data set below in Figure 4 but the impact of product innovation is indicated by comparing Figures 2 above and 4 below. Wide-screen cinema processes were first introduced in Hollywood movies in 1953 when *The Robe* premiered in Cinemascope. Over the next few years, the movie studios began to produce movies to exploit the advantages of the big screen spectacle with the advent of the epic movies like *Ten Commandments*, *Giant* and *Ben-Hur*. The commercial success of those

⁹ "Current distributors rentals – their box office cut – averages 54%-55% of pic's total trawl, according to FECE, slightly less according to other sources. Spanish film rentals remain the highest of Europe's big five at north of 50% compared with the distributor cuts of 45% in Italy and the U.K. and 49% in Germany and France, according to Dodona Research" (Hopewell 2006). "The studios' take is disproportionately skewed to the front end of a run as distributors pick up as much as 60% of a pic's grosses in these early days. That percentage falls as a movie stays in theatres but the trend has been a sharper decline in attendance after the first days or weeks. The army of new megaplexes which show the same film on multiple screens has compounded the problem" (Goldsmith 2000).

blockbuster movies “*encouraged a trend to big movies and a belief that big movies did best business*” (Izod 1988 pp 141).

Figure 2 above shows steeply declining theatre attendances after 1946, with a slight upsurge from 1953-1957 (when wide-screen cinema was introduced) before resumption of a steady decline after that. In contrast, Figure 4 below shows escalating ticket prices after the introduction of wide-screen cinema and blockbuster movies at the same time that theatre attendance was in steep decline. This indicates that as Hollywood reduced its supply of movies but made bigger, more spectacular blockbusters, the remaining movie-going audiences that did not defect to television, were willing to pay a premium ticket price to see these spectacular blockbusters on big screens in movie theatres. This trend continues to this day with New Hollywood’s adherence to a tent-pole strategy of special effects laden blockbuster movies.

Figure 10.4 U. S. movie theatre ticket prices



Sources: Finler 1988; MPA 1997 & 2005.

Countless articles have appeared throughout the history of the movie business in industry trade papers and the general media that report on Hollywood’s continually escalating film budgets, spiralling salaries paid to movie stars and rising marketing costs. In most industries, this type of publicity would be likely to panic shareholders, affect share prices and send firms into P.R. damage control. However in the movie business, it constitutes price-signalling to encourage theatre programmers to book a movie or to communicate to potential audiences that certain blockbusters and Hollywood movies in general, are superior to competitive offerings from other countries in terms of their quality because they have high

production values and contain attractive but costly marketing elements like movie stars, fantastic special effects or they are the latest instalment in a well-known movie franchise where the budget for the latest film greatly exceeds the original movie. Research by Basuroy, Desai and Talukdar (2006) indicates that the Majors use price to signal high quality:

“Consistent with the potential signalling roles of ad expenditure and sequels in the movie market, our empirical findings also receive support from anecdotal market evidence..the largest share of advertising is scheduled before a movie’s release...two other indicators of possible signalling in a product-market are high levels of total ad budget relative to sales revenue and expenditures on television advertising relative to print advertising. Although the total of ad budget typically accounts for only 1% and 4% of sales revenue for search and experience products respectively, it accounts for as much as 27% for movies. As for expenditure on television advertising, it is typically 1.2 times that of print advertising for search products, compared with 2.5 times and 3.2 times for experience products and the movie market respectively.”

10.4 CHAPTER SUMMARY

The conclusion that logically can be inferred from this chapter’s analysis of Hollywood’s behaviour and transparent pricing strategies is that the Major studios have been successful over many decades at extracting premium film rental prices when leasing their movies to theatres and that this premium pricing has been passed on de facto to movie-goers, reflected in the escalating theatre ticket prices over time (see Figure 4 above).

In summary, the historical evidence demonstrates that the Hollywood Majors have exhibited superior marketing capabilities in managing market demand by producing high quality / in-demand motion pictures and by controlling the flow of product in its theatrical release to create an environment in which movie theatres in America and also in foreign markets, have been willing to pay premium film rental terms in order to secure Hollywood’s movies for their cinemas screens. In addition, movie-going audiences have been prepared to pay continually increasing ticket prices to watch Hollywood’s movies in theatres on the big screen, despite increasing competition from direct product substitutes like home video and pay TV.

CHAPTER 11: THE MAJORS' MARKETING MANAGEMENT CAPABILITIES

11.0 INTRODUCTION

Hollywood's strategic marketing began in the 1970s – myth or reality?

Theodore Levitt's classic article '*Marketing Myopia*' first defined the marketing concept by arguing that sustained firm growth depends upon how broadly companies define their business and whether they are driven primarily by manufacturing products or by first understanding customers needs and then creating value through products that satisfy those needs. Levitt was critical of the post-Studio Era Hollywood, arguing that the Major studios went bankrupt in the late 1960s because they defined their core business too narrowly i.e. they saw themselves being primarily in the movie business at a time when television was presenting new opportunities that they missed, because they saw it as a threat. He argued that had they defined their core business more broadly as entertainment, then those opportunities might not have been missed (Levitt 1960).

Whilst historical evidence provides some justification for Levitt's analysis of Hollywood in the post-Studio Era from 1950-1974, a wider-held view has since emerged that it was not until the rise of a new generation of filmmakers that 'New Hollywood' emerged and that it was only then that the Majors began to employ strategic marketing management for the first time.¹ Such perspectives have helped generate and perpetuate a myth that the dominant firms in 'Old Hollywood' were nothing more than product-driven mass manufacturers and were not customer-centric in terms of strategic marketing.² The historical evidence does not support such a view. This chapter will demonstrate that the Majors have had effective strategic marketing management capabilities since the rise of Hollywood in the 1910's.

Vorhies and Harker (2000) identified six marketing capabilities commonly exhibited by firms that consistently outperformed their rivals. In Chapter Three, these capabilities were

¹ "Marketing developed, as far as the film industry was concerned after the success of Paramount in promoting *The Godfather* in 1971. It differs from publicity which the studios continue to employ, for instance by writing stories about a production to place in the columns of the popular press. It also differs from advertising...the marketed film is launched with a tailor made campaign designed to highlight its saleable aspects, and to disguise those that seem unattractive to the majority of people" (Izod 1988 pp 183-184.). "After the *Jaws* experience in the 1970s, publicity departments gradually evolved into multi-disciplined marketing departments, which include specific divisions for publicity, creating advertising, media buying, and promotion including product placement and tie-in activities" (Wasko 2003 p. 189.). "While positioning and targeting specific market niches with different appeals is an ancient art in consumer products marketing, Hollywood has discovered it fully only in the last five years" (Rothenberg 1990 New York Times).

² "Had Hollywood been customer orientated (providing entertainment) rather than product orientated (making movies) would it have gone through the fiscal purgatory that it did? I doubt it. What ultimately saved Hollywood and accounted for its resurgence was the wave of new writers, producers and directors whose previous successes in television had decimated the old movie companies and toppled the big movie moguls" (Levitt 1960 p. 2).

integrated into a strategic marketing management (SMM) 'lens' through which historical data on movie industry dominance can be analysed. This chapter applies the SMM lens using historical 'snapshot analysis', looking at different time periods and uses historical evidence to argue that the Majors did possess superior marketing management capabilities to rival studios and to rival film industries overseas. The guiding questions that were formulated in Chapter Three to focus the research were: Did the dominant firms strategically market their business? Were they externally focused on customer acquisition? Did they effectively co-ordinate and strategically manage their marketing? What evidence exists in the historical data to support or counter any such case?

Marketing management capabilities

Marketing management has typically been defined with an emphasis on the mechanics of managerial planning and control of marketing functions to satisfy customer needs.³ Vorhies and Harker (2000 p. 149) argued that marketing management capabilities "*are focused on customer acquisition management, the management of marketing programs and the ability to co-ordinate among the diverse elements in the firm needed to implement a marketing program*". This chapter will examine the Major studios in different time periods and determine how effective they were in segmenting and targeting markets and in the development of integrated marketing communications programs that continually drew audiences to cinemas.

This chapter also looks at the bigger picture and examines the Major Hollywood studios from a strategic marketing perspective to assess how they have strategically responded to evolving market conditions over time and what role this may have played in them delivering superior firm performance on an ongoing basis.

Strategic marketing management

Prior to the evolution of the marketing concept, a common orientation for manufacturers in mass markets where demand exceeded supply or where customers were not discerning, was to make products and then try to sell them. Within this paradigm, marketing followed new product development at the end of the value-delivery process. As technology improved and competition increased and markets became more sophisticated, an alternative paradigm arose in which marketing permeates the entire value-delivery process and firms focus on consumer

³ "The analysis, planning, implementation and control of programs designed to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organisational objectives" (Kotler et al 2004 p. 919).

value creation from the beginning, using knowledge gained about customers, competitors and markets to determine what kind of products should be created in order to satisfy different needs of various segments, this is strategic marketing (Kotler 2000 p. 85).

Vorhies and Harker (2000) found: *“strategically focussed market-driven business units developed higher levels of capabilities than less market-driven rivals and significantly outperformed them in terms of business strategy and market orientation, delivery of superior customer value, and on a set of six core marketing capabilities - marketing research, pricing, product development, distribution and channel management, promotion and marketing management”* (Vorhies and Harker 2000).

This implies that they possessed superior strategic marketing management capabilities.

“Strategic market management is proactive and future orientated, so the task should be to try to influence or ‘manage’ the environment as well as respond to it” (Aaker and Mills 2005. p. 7). *“Strategic marketing management creates competitive advantage. More than any other organisational activity, strategic marketing defines and maintains the desired relationship between the organisation and its environment. Strategic marketing specifies the customer base, develops an understanding of customer needs and behaviours, accounts for activities and initiatives of competition, and evaluates the economic, social and cultural, international, legal and political, and technological environments. In response to the conditions external to the organisation, strategic marketing moulds the organisation, determines the product and production specifications, pricing, promotional activity, and distribution, indicates financial requirements and dictates needed human skills. Strategic marketing defines the role of the organisation”* (Rosenthal and Brown 2000 - Preface).

To summarise, in marketing orientated firms, customer knowledge drives new product development resulting in the creation of value propositions that will have strong appeal to different customer types. This enables firms to target and position new products to appropriate segments and continue to provide them with superior value through development of a marketing mix tailored to satisfy the needs of each segment. The firm’s promotional programs must communicate the value propositions of new products to the most appropriate market segments.

This approach is best suited to highly competitive or fragmented markets comprising multiple segments and highly discerning customers and occurs in three phases: 1) Based on understanding customers, firms choose the value proposition that they wish to provide and market segments to that their products will cater for, which enables them to effectively target

the right customers. 2) Firms create value through development of an appropriate marketing mix and 3) firms communicate that value to customers through an effective promotional mix (Kotler 2000 pp 85).

Strategic management of the marketing mix

Firms aim to blend a marketing mix for target customer segments by formulating appropriate strategies for each of the “four P’s” so that the right products are delivered through the right channels to the right segments at the right price because the firm has successfully persuaded customers to buy or has influenced other stakeholders to respond in a desired manner.⁴

Movies have a relatively short shelf life when compared to other products. Producer Robert Evans, former head of production at Paramount said: “*A film is like no other product, it only goes around once. It is like a parachute jump. If it doesn’t open, you are dead*” (Litwak 1986 p. 84). This means that the co-ordination of the launch campaign for new movies and effective integration of marketing communications is critical for the commercial survival of film studios.

Effective promotional strategy is critical for commercial success

Consequently, movie marketing needs to target those consumers most likely to be early buyers, and so effective segmentation, targeting, positioning, promotional strategy, development of appropriate creative messages, correct choice of media-channels and tightly integrated marketing communications all become critical success factors.⁵ So too does relationship marketing, as buyers become increasingly more sophisticated over time, they also became more demanding. Consequently firms seek to establish longer-term relationships with customers in preference to one-time exchanges because it is cheaper to keep existing customers satisfied and to grow their lifetime value to the firm than continually seek new customers (Belch and Belch 2001 p. 9). This provides a strategy-based motivation for firms to develop brands that have the potential to facilitate enduring relationships with customers through development of brand equity (Keller 1993 p. 1; Aaker 1998). And with branding, effective segmentation and communications to those segments become critical.⁶

⁴ The ‘marketing mix’ was first conceived by Borden in 1953 who described marketers as ‘mixers of ingredients’ (Borden 1964). The twelve original elements of that mix, were later clustered by McCarthy (1960) into the now widely accepted “four P’s”: product, price, place and promotion (Van Waterschoot and Van den Bulte 1992).

⁵ “*Marketing communications is a critical aspect of a company’s overall marketing mission and a major determinant of its success*” (Shrimp 2003 p. 3).

⁶ “*In a strategic context, segmentation means the identification of customer groups that respond differently than other customer groups to competitive strategies. The development of a successful segmentation strategy requires the conceptualisation,*

The need for integrated marketing communications

Historically, many firms failed to effectively co-ordinate their range of marketing communications activities with sales, advertising, sales promotion and public relations often undertaken by quite separate teams of specialists within a firm, resulting in a lack of marketing co-ordination and customers or stakeholders may have received different or even conflicting and confusing messages about the firm and its products or brands (Shrimp 2003 p. 6). Integrated marketing communications (IMC) refers to co-ordinating those different elements of the promotional mix to work synergistically together to create a consistency of image and message through various forms of communication and media channels (Semenik 2002 p. 9; Kotler, Brown, Adam and Armstrong 2004 p. 608).⁷

Strategic marketing is complex and requires careful management in order to ensure that the various elements of the marketing mix and the promotional mix are strategically orchestrated to produce an optimal market outcome. The end result facilitates superior market performance (Cravens 2000 pp. 5).

This chapter will determine what the Major studios orientation to the market was, how they segmented and targeted movie going audiences and how effectively they managed to integrate marketing communications within their promotional mix.

11.1 MARKETING ORIENTATION: UNDERSTANDING THE AUDIENCE

Marketing orientation implies firms are organised to understand customers and use that knowledge to their commercial advantage. “*Market orientation is the organisation-wide generation of market intelligence pertaining to current and future customer needs and dissemination of the intelligence across departments and organisation-wide responsiveness to it.*” (Kohli and Jaworski 1990). Market-driven firms also have strong customer-linking (buyer-seller relationships) and channel bonding capabilities (Day 1994).

development and evaluation of a competitive offering” (Aaker 1992 p. 49). “Consumer’s perceptions of a company and/or its brands are a synthesis of the bundle of messages they receive or contacts they have, such as media advertisements, price, package design, direct marketing efforts, publicity, sales promotions, websites, point-of-purchase displays and event he type of store where a product or service is sold.” (Belch and Belch 2001 p 11).

⁷ Some scholars advocate that IMC is a recent development that emerged during the 1980s and became prevalent during the 1990s due to a range of factors - reduced reliance on mass media advertising that shifted the emphasis away from network TV and national magazines, to an increasing reliance on more cost effective marketing using more target-specific media approaches (direct, Internet, media relations) and a shift in market power from manufacturers to retailers (Belch and Belch 2001 p. 12-13; Semenik 2002 p. 24; Shrimp 2003 p. 15-16). Other scholars argue that IMC is not new and its roots can be found in five decades of marketing thought dating back to the 1920s and 1930s (Spotts, Lambert and Joyce 1998 p. 210 -215).

Historical evidence presented in Chapter Six showed that the Major studios in Old Hollywood established marketing information systems that provided regular market feedback to key decision makers in head office in the form of in-theatre surveys and weekly reports from theatre managers on audience composition as well as local market intelligence. They then used that marketing knowledge as input into future strategies and for tactical response if issues arose that required urgent attention. The evidence also showed that the Major studios operated senior executive committees to co-ordinate management and marketing activities across business units and to respond to market intelligence.⁸ The Majors also closely monitored fan mail, analysed weekly box office sales reports and film rentals, so they knew exactly which movies were commercially successful. This information was used to determine which stars were most popular and to modify future product portfolios.

Chapter Six also showed that the Majors in Old Hollywood analysed local demographics in areas where they were considering building new theatres and that they adjusted weekly theatre programming to match the audience profile in each area. The Majors also product-tested movies with audiences prior to release and re-edited them based on audience feedback which they continue to do today in New Hollywood.

The Majors' distribution companies all engaged in customer-linking and channel-bonding strategies with exhibitors around the world. Chapter Eight showed the Majors used their sales teams to remain close to their theatre customers and to report back weekly on those relationships. In addition to day-to-day relationship marketing, they have over time, used conferences and conventions as additional channel-bonding events and as a means to showcase future product.

The early movie moguls understood the marketing concept

The marketing orientation of a company is dependent upon the position that top management take and the visible and active role they play as exemplars in emphasising its importance,

⁸ In terms of market intelligence, Fox Film founder and first President William Fox said in his sanctioned biography: "*I knew the condition of every nation we traded with. I knew the value of every currency of every nation we traded with. I thought I knew the politics of every nation we traded with. No question could arise that by the push of a button could not be answered from the extensive files that I had adjoining my office. I had it completely systemised so that I knew every move that was made throughout the organization. The number of theatres we controlled was more than 800. Each morning I knew the exact number of people that attended the performances the day before. I knew the number that entered that building every hour and just as soon as one of those buildings showed the slightest inclination towards the falling-off of receipts, I was able to send for the executive of that theatre and rearrange to policy to prevent it from making a loss*" (Sinclair 1933 pp. 5-6).

continually reminding employees of the need to be sensitive and responsive to market developments (Kohli and Jaworski 1990 pp 10).

The historical evidence shows that the dominant firms in the early movie industry, were *not* run by marketing-novices. Chapter Nine demonstrated that promotional channels and methods of advertising, publicity and merchandising were already well-developed and established in American business by the time the movie industry entered its growth stage.

Marketing strategy was planned conceptually in the R&D stage

Prior to the 1970s, exploitation was the general term used within the movie industry to describe marketing.⁹ Carl Laemmle, founder of the Hollywood's first Major studio – Universal, stated that exploitation began while the script was still in development. The Exploitation Director at the studio used a synopsis of the story and knowledge of the casting to develop production notes for use by the film's booker in the national sales office. The Director also devised a campaign that would equip theatre managers with the promotional tools necessary to attract audiences in their locale (Laemmle in Balio 1976 pp 157-158). Universal's Vice-President Robert Cochrane confirmed the early involvement of marketing personnel during the product development stage, to a class at the Harvard Graduate School in 1927.¹⁰ Universal's Director of Exploitation Al Weil during the Great Depression wrote that potential blockbusters were given special treatment and received highly focused marketing campaigns.¹¹

⁹ "Exploitation was all of the advertising, publicity, merchandising, licensing and promotion of a motion picture, and, in a broader sense, and use of a film, soundtrack album or other product for one's own profit or advantage" (Cones 1992 p. 176).

¹⁰ "Advertising thoughts come into play very quickly after it has been decided to make a certain picture. Is the title one that will have broad appeal? Is it an indifferent one, with no meaning? No one would consider changing the title 'Les Miserables' for example. Yet there are thousands of passers by on the street who do not know what the words mean. There is an advertising problem. The title on a picture is advertising matter just as the carton design on a breakfast food is advertising. Frequently it is possible to buy advertising value. Universal did not pay \$75,000 for the motion picture rights to Edna Ferber's novel 'Show Boat' because it was exactly 75 times a better story than some plot purchased the same day for \$1,000. We were buying ready-made advertising value; buying the knowledge that the public had already registered its liking for the novel in unmistakable terms. Since the problem of advertising is to create interest, we were merely paying a good share of our money for interest already created" (Kennedy 1927 p. 243-244).

¹¹ "Every picture doesn't deserve an extensive billboard campaign; but every third or fourth week one comes along that does. It is the SPECIAL effort that a manager puts behind a picture that rivets the attention of a city. People come to regard his campaigns in the usual way. The minute a (theatre) manager steps out and starts to make a special noise about a picture his public knows that the picture must be good or he would not be yelling about it. A big campaign on a motion picture is like a mark down sale at a department store. It signals a SPECIAL and people go for specials. Today people who will not move out of their homes for an ordinary picture always flock to these 'specials'. The money spent on a special campaign works in two ways. It sells the picture to a big opening. And then with the crowds in the theatre it sells the NEXT picture coming as well. Every theatre should run at least one big showmanship campaign every month – big newspaper space – billboards – good herald (flyer) distribution – mailing list – ballyhoo – an all-around job. That not only sells your picture but it keeps your theatre in front of the public as well" (Weil 1932).

Ad agency professionals helped shape Hollywood's early marketing

Until the arrival of talking pictures in 1927, when Warner Brothers and Fox Film also emerged as Majors to become part of the *Big Five* studios, Hollywood's *Big Three* to that point were Universal, Paramount and M.G.M. (Sperling and Millner 1994 p. 120). Appendix 40 shows that the *Big Three* employed very senior executives who had prior career experience working in advertising agencies (Universal and M.G.M.) or in other marketing positions. These men directed the promotional efforts and acted as key advisers to their Studio Presidents. In addition, two of the three founders of Columbia Pictures had also previously worked in New York advertising agencies prior to joining Universal under Laemmle and Cochrane before leaving to establish Columbia.

The historical evidence indicates that these studio chiefs and early marketing executives adopted a customer-orientated approach. The movie moguls that founded the Major studios were self-made entrepreneurs and most had prior experience in retail selling and/or advertising and promotion.

Universal

Prior to joining Universal, Robert Cochrane had operated a Chicago-based advertising agency with his brothers Philip and Witt. One of his agency clients was Universal's future founder Carl Laemmle, who became his friend and business partner (Drinkwater 1931 p. 55). After a retail career in clothing, Laemmle opened nickelodeon theatres in 1906, a film exchange in 1907, a film studio (IMP) in 1909 and then emerged as leader of the independent movement that rebelled against Edison's MPPC. Throughout that period, Laemmle retained Cochrane's advertising agency.¹²

Cochrane played a key role helping Laemmle establish Universal in 1912 and left his agency to become Universal's first Advertising and Publicity Manager (Dick 1997 p. 108). After he was promoted to Vice-President in 1913, his brother Philip replaced him as Advertising Manager at Universal (Anonymous 2006), while his other brother Witt, stayed with the agency which was given a \$250,000 budget to undertake a corporate advertising campaign to promote Universal's program of movies (Staiger 1990 p. 13). In his Harvard lecture,

¹² Laemmle's biographer wrote: "*Cochrane's early training as a journalist had equipped him with a direct, forceful style that was invaluable when he later turned his gifts to expert advertising. He knew how to get an advertisement read and how to leave an impression on the reader afterwards*" (Drinkwater 1931 p. 60).

Cochrane clearly demonstrated that he had a sophisticated understanding of advertising,¹³ and he eventually replaced Laemmle as President of Universal (Dick 1997 p. 102).

Famous Players / Paramount

Adolph Zukor was a fur retailer before owning nickelodeons in partnership with Marcus Loew (future owner of M.G.M.). He hired Al Lichtman, an experienced film salesman as Sales Manager for his movie new studio Famous Players (Zukor 1953 p. 79). Lichtman proved his value by facilitating a secure distribution channel for Famous Players that became Paramount Pictures. *“In July and August 1913, Al Lichtman, Famous Players Head of Publicity, ‘induced’ the formation of five large states rights companies, each covering different areas of the United States”* (Quinn 2001). Ironically, the formation of Paramount and its 25-year contract to distribute Famous Players movies made Lichtman’s job redundant. He left and organised another alliance of film exchanges to finance movies - ALCO (Al Lichtman company), it evolved into the distribution arm for Metro Pictures until the latter merged to become M.G.M. Lichtman later joined Universal as General Manager, where he used incentives to motivate his sales team and *“inaugurated a competition among the sales staff in 1924, offering ringside seats for a Jack Dempsey fight to those who signed up the greatest number of exhibitors”* (Dick 1997 p. 44). In 1926, he became United Artists Vice President of Distribution and President of U.A. in 1935 (Balio 1976 p. 68; p. 127).

Zukor demonstrated that he understood the need for co-ordinated marketing *“with the establishment of an ‘exploitation department’ at Paramount in the years 1915-1920. Exploitation involves all forms of promotion”* (Gaines 1990 pp 2 of 9). Paramount launched a national advertising campaign in 1915 that placed almost 12 million ads (Staiger 1990 p. 13).

Loews-M.G.M.

M.G.M. was the end result of a series of mergers between Loews Inc. and Metro Pictures in 1920, and with Goldwyn Pictures and Mayer Productions in 1924. Louis B. Mayer became President of what became an ‘instant-Major studio’. He had previously owned movie theatres, a large regional film exchange in New England and a production company. A local

¹³ *“We cannot standardise our advertising campaigns and more than we can standardise our pictures. They must all be different. So must our advertisements. Each picture requires a new advertising treatment, a new approach. We may standardise ‘brand’ advertising, but each film presents a new problem”* (Kennedy 1927 p. 234).

newspaper describing the launch of Mayer's Orpheum theatre in 1907, featuring the hit movie *The Passion Play*, indicates that Mayer had a customer-centric orientation.¹⁴

Through the mergers, M.G.M inherited Howard Dietz from Goldwyn Pictures. In 1915, Dietz had worked as a copywriter in a New York advertising agency and became the new studio's publicity director where he created its famous Leo the Lion trademark (Dietz 1974 p. 43; Crowther 1957 p. 64). During the Studio Era, under Dietz's tenure and that of his successors Pete Smith and Howard Strickling, M.G.M developed what was widely regarded as Hollywood's most effective marketing operation (Sennett 1998 p. 69). Former marketing chief Pete Smith later became Head of Production at M.G.M. working closely with Louis B. Mayer, determining what movies would go into production and supervising that process.

Other Major studio moguls were also customer-focused

Warner Brothers President Harry Warner exhibited a customer focus and a marketing orientation when he stated: "*We are giving the public what it wants, and by producing the very best pictures that we know how, we are helping them learn to want better and better entertainment all the time. Intelligence pays*" (Film Daily Year Book 1931 p. 549). United Artists President Nicholas Schenk also demonstrated that his studio possessed marketing insights about changing market conditions: "*The production outlook for 1931 indicates comedy drama will be in the ascendancy. In the theatre field the trend will be towards smaller and more intimate houses*" (Film Daily Year Book 1931 p. 550).

Marketing was co-ordinated and driven by the Majors in all eras

Since the Hollywood studios evolved in the 1910s, the Majors operated a marketing function that usually bore the title - Exploitation Department or Advertising and Publicity Department but in fact covered the entire range of marketing activities (see Appendix 41). As an example, M.G.M.'s Director of Advertising and Publicity - Howard Dietz wrote in his autobiography: "*As M.G.M. had invested Clark Gable and \$ 2.5 million in Gone With The Wind, and as I represented M.G.M. in promoting it, the marketing with all its complications was in my care*" (Dietz 1974 p. 256). The exploitation department or advertising and publicity department typically comprised three key specialist units – advertising, publicity

¹⁴ "No expense has been spared in making for Haverhill theatregoers a model playhouse...Louis B. Mayer will offer a new and up-to-date line of entertainments of such class as will speak for itself, no expense to be spared in securing for patrons exactly what they want" (Eyman 2005 p. 32).

and exploitation (promotions and tie-ins) which all reported to a Director or Manager who in turn reported to another senior executive.

Job titles vary between studios and also change regularly in Hollywood but the marketing specialisation in terms of departmental structures that exist today in Hollywood also existed up until to the 1960s. The marketing staff of Old Hollywood may not have gained MBA's or marketing degrees but they were professionals in their respective fields. And they were highly successful at what they did. These were the people that established Hollywood power base that continues until this day.

Sennett (1998 p. 66) authored a book on Hollywood publicity and described the publicity function within the Majors during the studio era: *"All the major motion picture studios organised their departments in the most rigorous manner, with strong lines of command and strict definitions of responsibility – and publicity was no different. The publicity department had one person who set the tone of the entire operation and the flow of power was downward from there. Everyone knew what his or her job was – to get pictures of the studios stars in the papers and their names in the news, to make certain the stories and photographs were always flattering and in keeping with the stars' public image and stature and to assure that the studio's current films were mentioned in every paragraph"*.

In that era there were no national TV networks. Some magazines had a national circulation and national radio networks only emerged in 1926. Most major cities had two newspapers and a few local radio stations. It was the studio marketing team's job to engineer publicity in those national media vehicles. However, while the marketing campaign strategy and advertising materials were also developed centrally, the actual local marketing launches outside the major cities for each film were de-centralised to the theatres to implement. In New York, Chicago, Los Angeles and other key cities, the Major studios' marketing teams drove the launch campaigns and worked closely with the large first run theatres to optimise the launch of major films. In small town America, the local theatre managers were on their own, reliant upon the press book provided by the studio (see Chapter Nine).

After divorcement in 1948, the newly independent chains retained a local promotional role for a period of time but gradually the Majors' centralised their field marketing functions into one department in order to realise cost savings from staff cuts. After selling their theatre chains, the Studios laid off many staff – actors, technicians and in marketing on the basis that the advertising, publicity and promotions specialists previously required to support the theatres were no longer necessary and head office based marketing staff at the Majors would

handle the entire launch of each new movie. A *Variety* article appeared in January 1974 confirming the declining role of marketing specialisations within the Major studios after Divorcement.¹⁵

From 1950-1974 movie theatre attendance went into steep decline resulting in declining profitability at the Major Studios and a severe movie industry recession from 1968-1971.¹⁶ During the 1960s, Hollywood was in a state of turmoil as one by one the Major studios were taken over by new corporate owners.¹⁷ In the New Hollywood that emerged from that wave of takeovers, the parent companies demanded continually improving results from the studios and the influence of marketing executives at the Majors increased once again.¹⁸ Frank Mancuso who succeeded Barry Diller as CEO at Paramount in 1984 was previously that studio's President of Worldwide Marketing. Bob Levin who joined Disney as President of Worldwide marketing in 1985 was hired from a Madison Avenue advertising agency. Disney CEO Michael Eisner began his career in TV programming.

Those appointments also resulted in greater involvement from external advertising agencies in Major studio marketing from the 1970s onwards as the Majors began to significantly increase their media expenditure on television advertising. Y&R formed an entertainment division serving Disney in the 1980s before losing the account to the Gordon Weaver Company in 1988. In a flurry of advertising account switches in 1990, Y&R won the 20th Century-Fox account from J. Walter Thompson, McCann Erickson won the Columbia account and Paramount switched from D'Arcy, Masius Bowles to Ogilvy & Mather (Rothenberg 1990 p. D18) while MGM/UA's agency was Saatchi & Saatchi in the 1990's (Lukk 1997 p. 55).

¹⁵ "Years ago, studio publicity echelons numbered up to 70 staffers with many more manning the New York home offices, plus field promotion men working directly in the key cities. Today, only three Majors use limited full time field men and studio and or home office staffs are hardly one tenth what they were. There used to be publicity department specialists on the radio and television media, on magazines, on exploitation, news-writing, stills, advertising and accessories, co-ops, trade press separate from consumer press, columnists contact etc. Then it evolved into publicists having to be accomplished in a combination of many of these jobs. Then in all phases. And the specialists began to fade. What happened? The economy of course. As the number of pictures declined so did the employees and publicity became more and more a luxury. Newspapers in key cities merged and there are less to service. Magazines folded – especially those with formerly mass appeal like *LOOK* and *LIFE*. It became apparent that one could plant a New York campaign by almost phoning it in from Milwaukee" (Moses 1974 p. 42).

¹⁶ "Lately things have taken a turn for the worse because of the recession, declining profits, rising costs and audience boredom. Millions were lost when lavish imitations of money-makers flopped: Hello Dolly! Cost \$20 million to make; it is still in the red" (Anonymous - TIME 1971).

¹⁷ MCA acquired Universal from Decca Records in 1962. 20th Century-Fox emerged from the *Cleopatra*-induced bankruptcy following a boardroom coup led by former President Darryl F. Zanuck and the studio was saved by the enormous success of *The Sound of Music*. Gulf + Western bought Paramount in 1966. TransAmerica bought U.A. in 1967 while Warner Brothers was taken over first by Seven Arts and then by Kinney in 1967-68. And M.G.M. was acquired by property magnate Kirk Kirkorian in 1968. A second wave of takeovers would occur in the 1980s/1990s at 20th Century Fox (by Rupert Murdoch), TIME-Warner merged, Viacom bought Paramount, MGM/UA were merged by Kirk Kirkorian, Columbia was acquired by Coca Cola then by Sony and Universal had a succession of owners Matsushita, then Seagram, then Vivendi and finally NBC.

¹⁸ An interview with Oscar winning Hollywood Producer Mark Johnson (*Rain Man*) stated: "Marketing is king (at the) studios these days. Many studios like Universal are now run by former marketing chiefs and others give the marketing department veto power over movies in the green light process. Even before marketing people started taking over as production heads, the marketing guy had a huge say in what movies got made (Young 2006).

Marketing organization in New Hollywood has reverted back to the strategy of Old Hollywood. *“Most major studios have placed both areas (advertising and publicity) under the command of a single executive, a break with the long standing tradition of having the ad people in their own fiefdom”* (Bart and Guber 2004 p. 231). This is a throwback to the Old Hollywood Studio Era when the Majors’ distribution arms generally had a director of advertising, publicity and exploitation, a director of national sales and a director of international sales who reported to the head of the distribution company. The studios then maintained separate publicity units to manage the stars public image and to publicise movies in-production but there were also liaison officers between the distribution marketing team and the Hollywood studio e.g. Columbia’s *“Liaison, business executive, sales, national advertising and publicity department”* - Harry Kosiner (see Appendix 41).

This section showed that the founders of the Major studios were mostly former retailers with a strong customer orientation and they engaged professional marketers to run their marketing departments. At Universal, M.G.M. and Columbia, the senior marketing staff, were all former advertising agency executives. At other studios, the key marketing personnel were from a sales, journalism or press agent background. The section also showed that from the time that the Major studios emerged in the 1910s and 1920s, they ran marketing operations known as exploitation departments that included specialised units to handle the studio advertising, publicity and promotion. That basic structure remained in place until the post-Studio era. After Divorcement in 1948 when the Majors retrenched many staff including marketing specialists, the remaining staff were required to take on much broader marketing roles and the Majors seemed to lose their marketing orientation and were clearly not attuned to the changing market during the 1960s (see Chapter Eight). Most studios were bankrupt by the end of the decade and were acquired by larger conglomerates. These new corporate owners re-capitalised the studios and insisted on changed marketing practices to achieve new corporate goals.

During the 1970s and 1980s, a number of senior marketing staff moved into the upper echelons of management, some as studio President. From that point, the Major studios once again resumed a marketing orientation and the influence of the senior marketers within the studios increased significantly for the first time since the Studio Era of Old Hollywood.

11.2 MARKET SEGMENTATION, TARGETING AND POSITIONING

The next section examines how the dominant film companies segmented their markets and targeted customers and identifies what customer value proposition they chose to supply to them.¹⁸ It will show that the dominant film companies used three main strategies to segment markets in the first half of the 20th century when TV did not exist and a mass audience developed a regular movie-going habit: a) Stars were heavily branded to exploit fan interest and to develop a loyal following that would serve as a core audience base for new movies because famous stars provided instant brand equity. b) Different film genres like thrillers, romance, comedies, westerns, horror and mysteries were developed to enable audiences to choose movies based on their emotional needs, moods, desires and fantasies i.e. benefit seeking and psychographic behaviour. c) Cinemas were segmented by size, location and earning potential into 1st, 2nd, 3rd, 4th and 5th run theatres in a system that enabled the Majors to use price skimming strategies for first run theatres and later switch to market penetration pricing as movies moved through their lifecycle into lower run theatres.

Higher run theatres charged higher ticket prices than lower run theatres, so the consumer market for movies was segmented based on price sensitivity and also on personal motivations to see a movie as soon as it was released. Figure 11.1 below shows that with the exception of a decline in attendance during the Great Depression, this approach worked consistently until 1950 as movie attendance rose to peak in 1946, and after that experienced a quarter century of decline as television and other environmental factors impacted the movie business. Appendix 42 provides the reader with a more detailed understanding of major milestones and audience peaks and troughs in movie attendance in America over the first century of cinema.

¹⁸ “A marketer can rarely satisfy everyone in a market. Therefore marketers start with market segmentation. They identify and profile distinct groups of buyers who might prefer or require varying products and marketing mixes. Market segments can be identified by examining the demographic, psychographic and behavioural differences among buyers. The firm then decides which segments present the greatest opportunity – those whose needs the firm can meet in a superior fashion. For each chosen target market, the firm develops a market offering. The offering is positioned in the minds of the target buyers as delivering some central benefit” (Kotler 2000 p. 8).

Figure 11.1 New technologies and movie theatre attendance in the U.S. market

U.S. Annual Movie Admissions (millions)

This figure is not available online.
Please consult the hardcopy thesis
available from the QUT Library

Source: Silver and McDonnell (2007) "Are Movie Theatres Doomed?" Business Horizons.

Stars were branded to create a core audience for their future movies

The movie business faces a unique problem. Unlike other industries where companies rely on brand name recognition, studios rely on the commercial success of movies that are not only unique new-to-the-world products but in many cases have no brand name recognition unless they are based on well-known material from another source e.g. a legend, a book, a play or a TV series. To resolve this problem, the movie industry created movie stars and film genres as a substitute form of branding that enable studios to effectively segment and target audiences (Wallace, Siegerman and Holbrook 1993; Bakker 2001; Belton 2004 p. 128).

Chapter Nine in this thesis showed that the star system was introduced by Carl Laemmle in 1909, to satisfy growing audience curiosity and interest in the uncredited and therefore anonymous players whose faces kept recurring in each studio's new movies. Star building became a core component of movie studio strategy and the Majors invested heavily in branding their stable of contracted stars during the Studio Era (Bakker 2001). Movie stars provided studios with a clear publicity hook: "*Stars provided a means of differentiating product and even boosted sales. A star's popularity and drawing power created a ready-*

made market for his or her picture which reduced the risks of production financing – an insurance policy of sorts” (Balio 1985 p. 114-115).

Movie stars like film genres, facilitate self-selecting segmentation by loyal devotees who can fulfil the role of innovators or early adopters of new products in the diffusion process as proposed by Rogers (1988). If one considers the AIDA model, fans devoted to a movie star or to a film genre, are likely to be already interested and desirous to see the next movie featuring that star or of that genre. To the hardcore fan, the movie is already pre-sold and can thus provide a solid primary audience for movie marketers to work with. Consider the intense public anticipation and excitement that preceded the launches of famous movie phenomena like *Gone With the Wind* (1939), *Jaws* (1975), *Star Wars: The Phantom Menace* (1999), any of the *Harry Potter* movies or *James Bond* films.

For hardcore fans awaiting these movies, they mentally ‘buy’ a new movie featuring their favourite stars or of their favourite genre based on the early publicity that they read, hear or see - so for them, the point of purchase occurs prior to the actual product launch because intense studio publicity builds up the desire and anticipation to see the movie and energises a core audience to attend theatres in the opening weeks. This then is the core strategy of Hollywood today, employed to guarantee that movies open big: “*The movie marketer’s challenge is to create ‘wannasee’ among consumers, literally creating enough buzz and word of mouth to drive viewers into a theatre*” (Lieberman and Esgate 2002 p. 50) in order to avoid Robert Evans previously cited parachute analogy and sudden death at the box office.

A movie star is a brand, but a brand like no other because they are also a production value within a new movie, so they are actually a transportable product attribute that moves from project to project becoming an integral part of each new movie and providing a marketable element within the promotional mix for the launch of that movie. The logic of this argument is that movie stardom is not only a brand but also a segmentation device because it represents an in-built audience for a new and unbranded movie.

During the Studio era, audiences knew what to expect from a John Wayne western or a Judy Garland musical or James Cagney gangster movie and the same applies today with stars such as Tom Cruise, Bruce Willis, Sandra Bullock, Julia Roberts, Brad Pitt or George Clooney.

Star-as-brand was not the only way that the Majors segmented markets using this concept. Character-as-brand has often been used as a segmentation device - *Tarzan*, *Flash Gordon*,

Lassie and *Dr Kildare* were series films during the Studio Era and today *James Bond*, *Harry Potter*, *Indiana Jones* and *Spiderman* fulfil the same purpose. This is why the Major studios have consciously developed movie franchises – series of movies that keep audiences coming back for more in the same way that a TV series hooks the audience to tune in at the same time, same channel the following week. Appendix 43 shows a small selection of some of the more famous movie franchises and serials produced by Hollywood over time, to demonstrate that this segmentation strategy is not new and dates back to the late 1910s when the first serials like *Perils of Pauline* and the movies that would evolve into a series first appeared like *Tarzan* starring Johnny Weissmuller which became a long running movie series at M.G.M during the 1930s and 1940s.

Film genres: another device facilitating market segmentation

Empirical research has shown a significant correlation between film genres with box office success (Wallace, Siegerman and Holbrook 1993) because genres serve the same basic purpose as stars - a device to segment markets.¹⁹ The most common *film genres* are action, romance, comedies, musicals, adventure films, crime, dramas, thrillers, suspense, westerns, horror, epics, science fiction, family and animated movies, disaster movies, film noir, “chick flicks”, documentaries and serials.

It is tempting to think superficially of film genres as mere product categories but fans of such genres exhibit high degrees of involvement and loyalty sometimes bordering on fanaticism that goes far beyond atypical product or brand loyalty. Consider *Star Trek* fans dressing up in costume and full make up as their favourite characters and attending fan conventions, and some fans are even devoted enough to produce their own original *Star Trek* movies and make them available to other fans for download via the Web

(www.startreknewvoyages.com/).

¹⁹ “Another method of marketing films was to offer an increasingly clear-cut variety of styles. The studios began to group their productions into standard narrative forms, the most prominent of which were the musical, the western, the gangster film, horror movies, screwball comedies and war films. Individual movies began to acquire a clearly identifiable ‘brand identity’ which greatly facilitated their marketing and advertising both at home and overseas” (Puttnam 1998 p. 137). High profile film scholar Thomas Schatz (1981 p. 6) defined film genres: “Simply stated, a genre film – whether a western or a musical, a screwball comedy or a gangster film – involves familiar, essentially one-dimensional characters acting out a predictable story pattern within a familiar setting”. A less emotive definition is: “Film genres are various forms or identifiable types, categories, classifications or groups of films that are recurring and have similar, familiar or instantly-recognizable patterns, syntax, filmic techniques or conventions - that include one or more of the following: settings (and props), content and subject matter, themes, period, plot, central narrative events, motifs, styles, structures, situations, recurring icons (e.g., six-guns and ten-gallon hats in Westerns), stock characters (or characterizations), and stars. Many films straddle several film genres” (<http://www.filmsite.org/genres.html>).

Psychographics is a marketing approach that involves segmenting buyers based upon lifestyle or personality characteristics and benefit segmentation and divides the market into groups according to the different benefits that consumers seek (Kotler, Brown, Adam and Armstrong 2004 p. 348-349). Genres actually draw audiences based upon situational mood or variety-seeking behaviour. In creating film genres, the Major movie studios have established a method of multi-level market segmentation based partly upon psychographic behaviour (personality characteristics) and also upon benefit segmentation.

Hollywood has also often used brand-extension strategies as a device to optimally exploit its intellectual properties and enable easier market segmentation by producing sequels, serials and ongoing movie franchises. Appendix 43 provides examples of some of the best-known serials and franchises from different eras of the film industry to demonstrate that these are not new strategies and show how enduring some of these movie properties have been.

Pre-Hollywood audiences and market segmentation

During the early silent era, the core customers of Major studios like Pathe, Gaumont and Nordisk were film exchanges that rented movies to nickelodeons that relied upon local patronage. The nickelodeons were the first widely accessible form of mass popular culture available to waves of new immigrants that arrived in America at the turn of the 20th century.

²⁰ The middle class and high society preferred legitimate theatre and the finer arts and hated the moving picture industry (Sklar 1978 p. 18-19, p. 30). ²¹ *"Pictures were considered poor people's entertainment, barely fit for 'decent' folks and families"* (Sennett 1998 p.168). ²²

²⁰ William Fox (President, Fox Film) who had built a nickelodeon chain in New York during the early silent era, told Harvard students: *"the motion picture when it started did not appeal to the native-born. He had other forms of recreation and entertainment. The motion picture appealed mainly to the foreign born"* (Kennedy 1927 p. 302). New York was the main port of entry into the United States for the waves of European immigrants in the late 19th and early 20th centuries and consequently had the largest proportion of foreign-born residents. Articles from the trade press and daily newspapers of the time (*Views and Film Index, Show World, Chicago Daily Tribune, Birmingham Herald and Washington Post*) concurred that nickelodeons were *'great places for foot-sore shoppers'* and that daytime audiences were predominantly populated by women with children - shoppers, office work employees and neighbourhood residents and that early evening sessions were populated by young working women and schoolgirls (Abel 1999 p. 33, pp. 66-67).

²¹ "To high culture devotees, the product of popular culture is 'kitsch': sentimental, manipulative, predictable, vulgar and superficial. To popular culture fans, the product of high culture is overly intellectual, effeminate, snobbish and superficial...(there is) a sharp distinction between the 'nobility' of art and the 'vulgarity' of mere entertainment" (Scheff and Kotler 1996).

²² The wide diffusion of films in nickelodeons carrying the Pathe trademark enabled conservative social reformers and hostile jingoistic political factions to associate the sleaziness of the nickelodeon era with the influence of the low morality of French culture. This facilitated fears among nation builders that America's emerging national consciousness might be overwhelmed by "stronger" alien European culture disseminated through movies. A media crusade added public weight to the concerted effort by the progressive movement, (conservative reformers) to clean up the nickelodeons (Abel 1999 pp 87-101).

The historical evidence shows that Carl Laemmle (Universal), Louis B. Mayer (M.G.M.), Adolph Zukor (Paramount) and William Fox (Fox Film) were all consciously aware of the need to segment the market and target specific audiences long before they created the Hollywood studios.

Laemmle had a prior background in retail management and applied what he learned about marketing and service to win customers in the new movie industry, opening “*The White House*” theatre in Chicago in 1906, which in contrast to the sleazy image of the nickelodeons, he ensured was kept clean in order to specifically attract a female audience. He then established “*The Family Theatre*” providing more comfort and featuring a major film attraction (Drinkwater 1931 p. 59). Clearly, Laemmle was segmenting his audience.

Louis B. Mayer, who would run M.G.M. was also a nickelodeon owner, offering refined entertainment with premium priced seating at his new Orpheum in 1907.²³ As early as 1912, Adolph Zukor who would run Famous Players-Paramount, demonstrated an understanding of the critical need to segment and target the right audience, to effectively position the brand and stage-manage the marketing launch of a major film event, when he organised the premiere of America’s first imported feature film “*Queen Elizabeth*” in a famous legitimate theatre venue – the Lyceum in New York. Targeting high society, he effectively managed his marketing communications and used relationship marketing to entice the desired high society target audience to the screening.²⁴

These are early examples of future heads of Hollywood studios matching product design (theatres) to meet the needs of specific target market segments in the pre-Hollywood era, just as the Major studios were about to emerge.

²³ “Clean, wholesome, healthy amusement, continuous hourly shows, no waits, no delays, laugh hearty, come and laugh, the best bill, the biggest bill, the longest show...such is to be the policy of Haverhill’s home of refined entertainment. Orchestra seats were ten cents, children would be admitted for five cents, and the program would be changed Sunday and Thursday in the best-ventilated and best-equipped moving picture theatre in the city. In addition to movies, Mayer offered legitimate and vaudeville performances.” (Higham 1993 pp 17).

²⁴ “To the best of my knowledge, no legitimate theatre had ever been given over to a film showing. I designed posters with large photographs of Sarah Bernhardt, following the pattern of stage posters rather than movie bills. Then I hired a press agent and took space in newspapers and theatrical publications. Daniel Frohman, the theatre owner, took it upon himself to bring distinguished persons to the showing, a task more difficult because of the summer season – the date set was July 12, 1912 – when most of them were at their summer homes or at the seashore. Frohman’s reputation and enthusiasm were responsible for many notables being present. The audience had not been restless, despite the hour and a half running time” (Zukor 1953 pp 69-72).

Studio Era segmentation

Birth of a Nation (1914) was the first true blockbuster movie phenomenon and demonstrated that high quality American films could command premium ticket prices and earn millions. By 1919, with stars like Mary Pickford, Douglas Fairbanks and Rudolph Valentino at their peak and fan magazines achieving one million regular readers, some theatres were willing to pay premium rentals to secure new films before their competitors. Consequently, the Majors temporally segmented the theatre market by classifying them as 1st, 2nd, 3rd, 4th or 5th run theatres depending upon their size, location and earning potential. Audience demographics for the theatres varied depending upon the city, town or location within a town but by the early 1920s, the core audience for movies was youth.²⁵

During the Studio Era, the only available substitutes in terms of popular mass entertainment were professional sports, radio, vaudeville (which declined after radio and talking pictures emerged), books, magazines and newspapers.

Studio era value proposition, targeting and positioning

The vertically integrated Majors clearly understood that they were in the entertainment business and created unique value for a mass audience by providing a fresh weekly program comprising: newsreels, short films, cartoons, sometimes a serial episode with a cliffhanger ending and a feature film. In some of the largest theatres in the major cities, live acts were also part of the entertainment program until the Great Depression came and double bills featuring B movies were introduced into the program to add more value. In one sense, Hollywood provided audiences with the equivalent of a regular variety of television programming long before television emerged as competition as a product substitute to provide the same fare.

The customers of the Major studios were theatre owners as well as the end consumer – i.e. paying audiences. If their movies weren't booked to play in theatres, then audiences would not see them. Whilst all studios made a range of movies and genres, they each developed their own unique house style in order to differentiate their product to appeal to their theatre customers and enable them to provide suitable programs for their patrons. Appendix 44 shows how each studio developed its own unique house-style and a production strategy focusing on particular film genres that each studio became famous for during the Studio Era.

²⁵ “The backbone of today's business is the attendance of young people from 17-25 years of age wrote Harold Corey in *Everybody's Magazine* in 1919, at 23 other interests develop” (Shone 2004 p. 61)

The Majors developed their theatre chains through acquisitions of existing regional circuits that served very diverse and different market segments (see Appendix 45). Paramount's Publix chain with its strategically located, opulent movie palaces and sophisticated movie product targeted adult middle class audiences in the large American cities (Gomery 2002). So too did Loews-M.G.M., that succeeded Paramount as market leader in the 1930s and targeted the family audience.²⁶ M.G.M. also employed promotional strategies that positioned movies to target women.²⁷ Fox Film under founder William Fox, operated a low-cost strategy and segmented its movies and its theatres accordingly (Koszarski 1990 pp 84-85). R.K.O. produced high quality movies supplemented by B movies on double bills programmed to appeal to audiences attending its east-coast circuit centred on New York (Naughton and Smith 1998 p. 30-31). That was a different segmentation strategy to Universal that targeted its movies to theatres based in the mid-west (Mordden 1988 p. 294, pp. 323-325). Warner Brothers produced movies to specifically appeal to the working classes (Behlmer 1985 pp. 54-55; Naughton and Smith 1998 pp 30-31) and Disney, a small studio used a niche strategy focusing on animated movies as family entertainment.

Paramount's entry into exhibition consolidated market leadership

From 1916-1929, the Major studios in Hollywood were either market-followers (Fox and Universal), niche members of the *Little Three* (Columbia and U.A., soon to be joined by a declining Universal), or they were late entrants as market challengers into the ranks of the *Big Three* and soon-to-become *Big Five* Majors (Loew's-M.G.M., Warner and R.K.O.). They all imitated Paramount, the undisputed market leader, that owned less than 5% of America's theatres but its expansion program had enabled it to control the pick of the nation's first-run theatres. "*Paramount could now set up its own program of pictures, ballyhoo its own stars, advertise and promote its special films, with the assurance that they would play in prominent theatres in every major city, daily newspapers would review them, and popular magazines like the Literary Digest would cover them. Naturally movie-goers*

²⁶ "M.G.M. has usually been characterised as its strict adherence to - and dependence on - the star system. Industrially this is true, but culturally it doesn't get close to what Mayer and Thalberg were about to achieve. Their genius in recognising that there was a niche waiting to be filled: classy films for a growing middle class" (Eyman 2005 p. 93).

²⁷ M.G.M.'s *Little Women* (1949) had a tie-in with special handkerchiefs imprinted with movie scenes, Hallmark cards and Storybook dolls that were miniature replicas of the actresses in the movie and sold in stores which indicates that the studio targeted the female audience that had loved the novel. In chapter 6, it was shown that that following market research, *Gone With The Wind* was re-positioned as a romance to attract the female audience rather than as a civil war drama as it was originally intended based on the popularity of the book, because George Gallup's research indicated that it would have limited the audience predominantly to men (Chaffee 2000). In Chapter Nine on the Majors' promotional capabilities, an analysis of press ads and movie posters demonstrated that studio movies have throughout Hollywood's history been positioned to appeal to different audiences.

would want to see the films they had read about. Independent theatre owners had little choice but to accede to an expanded block-booking system giving up more of their autonomy and more of their receipts if they wanted to hold onto their audiences” (Sklar 1994 p.146).

Paramount differentiated its theatres based on quality

The final blow to First National’s short-lived challenge to Paramount’s dominance was the merger of its most distinguished movie chain - Balaban & Katz with Paramount theatres to create the Publix Theatre chain, a concept that revolutionised theatrical exhibition in America and around the world. Sam Katz ran Paramount-Publix theatres and Barney Balaban became a senior Paramount executive and eventually replaced Zukor as President. Publix adopted the retailing strategies of leading chain stores like Sears and Roebuck and Woolworths (Gomery 1982 in Waller 2002 p. 125).²⁸

Independent theatres and smaller regional chains could not compete on a level playing field with an organisation that had such scale and market power. *“Publix could expend considerable sums on expensive advertising. The independent theatre owner down the street found the liberal use of newspaper space cost-prohibitive.”* (Gomery in Waller 2002 pp 134)

Paramount-Publix inherited the B&K strategy and system

The B&K strategy that Sam Katz transplanted to Paramount-Publix to differentiate it from competitors was that of a five star hotel and it was based on five key elements. The first was that Katz employed an in-house real estate department that studied the socio-demographic changes occurring within America’s capital cities and chose strategic theatre locations accordingly. The B&K chain had dominated the Chicago market with only five movie palaces strategically located in the city centre and in key suburbs at points north, south, east and west that meant that no Chicago resident was more than thirty minutes away from a B&K theatre using the city’s rapid transport system. *“By the peak of the silent era, in the mid-1920’s, movie palaces stood in all major cities, either in the urban centres or in the outlying business areas which public transport served efficiently”* (Izod 1988 pp 42).

²⁸ *“The chief advantage for a chain operation lay in cost reduction through scale economics and monopsony power. Chains could spread fixed costs over more operations and purchase inputs at lower prices. To maximise such savings, chains relied on what was labelled ‘scientific management’. Here large circuits would secure trained managers, experts and other skilled labour to operate at peak efficiency”* (Gomery 1982 in Kindem p. 105). *“Like other retail chains of the day, he (Katz) employed the then new, modern methods of the efficiency operation that were being developed and recommended by university experts from Harvard to Stanford Schools of Business.”* (Gomery in Waller 2002 pp 124)

The second component of Publix strategy was that ‘the show’ was a holistic experience to be enjoyed from the moment that the theatre first came into view until the time audiences left the movie palace after seeing the show. *“The best publicity was that the fans could see their theatres light up from miles away as the rode the trolley to the picture show. Thousands of lights transformed simple marquees and upright signage into beacons seen throughout sectors of the city. Balaban & Katz had a stated policy of treating the movie patron as a king or queen. It offered free child-care, attendant smoking rooms, foyers and lobbies lined with paintings and sculpture, and organ music for those waiting in line. In the basement of each movie palace was a complete playground, including slippery slides, sand boxes and other objects of fun awaiting youngsters. For no extra cost, nurses looked after the children while parents attended the show upstairs”* (Gomery in Waller 2002 pp 127).

In contemporary marketing terms – Paramount-Publix theatres under Sam Katz management focused on creating the most desirable and stimulating service-scape in its theatres.

The third component of Publix strategy involved only the large first run movie palaces in the key cities within the circuit and provided a value-added component to the entertainment prior to the introduction of sound. Movies in such theatres were supplemented with elaborate ‘live’ stage shows featuring well-known performers and patrons paid premium prices at these locations (Gomery in Kindem pp 104-116).

The fourth component was that Publix theatres were all air-conditioned, providing an enticing refuge from the hot summers and cold harsh North American winters, when only the rich could afford such a luxury.

The fifth component was highly-trained and customer service orientated management and staff whose performance was monitored, benchmarked and analysed using scientific management techniques. Harold Franklin, Director-in-charge of Publix Theatres illustrated the nature of the service expectations that Publix had of its ushers *“Good manners, courtesy and consideration for others should be noticeable in your conduct. Ushers or other employees should never exhibit haste or impatience to a patron. Employees should always be ready to render little courtesies such as picking up articles dropped, assisting with wraps etc. It is advisable to establish uniform expressions which ushers or other employees may use in guiding patrons”* (Franklin 1928 reprinted in Waller 2002 p. 122).

In summary, the historical evidence demonstrates that Famous-Players-Paramount, the market leader that dominated the movie business from 1916-1929 employed a competitive

strategy based on quality. Its primary production company Famous Plays and Famous Players had been established by Adolph Zukor to produce movies featuring the most popular movie stars that would appeal to and attract middle class audiences. Paramount Pictures was known for its quality and style and its sophisticated comedies. Its corporate advertising slogans signalled quality in its positioning. “*If it’s a Paramount Picture then you know it is the best show in town*” (Scully 1962; Eames 1985 pp 12). In terms of theatrical exhibition, Paramount’s Publix Theatres, was the largest and most prestigious theatre chain controlling many opulent movie palaces in the key capital cities across America and around the world.

Studio Era: The Majors’ strategic marketing management capabilities

Rothenberg’s (1990) statement in the *New York Times* that Hollywood only learned the art of to targeting specific audiences and how to position its movies in the mid-1980s, is clearly not supported by the historical evidence. The Major studios of Old Hollywood demonstrated sophisticated strategic marketing management capabilities in terms of creating differentiated value propositions, market segmentation, targeting and positioning. These concepts and capabilities are not new developments in the movie industry and were used by the Majors to develop and sustain their competitive advantage in the key American market that produced 60% of the global box office.

The Majors designed their movies and their theatres with audiences clearly in mind. Chapter Seven showed that they innovated in new product development with the development of talking pictures, wide-screen processes and with movie palaces that provided holistic service-scapes and superior levels of service delivery that organisations in the 21st century would be pleased to match.

No other film company in the world during this period came close to rivalling the Majors or to challenging their dominance of world cinema.

Post-Divorcement: The Majors lost their marketing orientation

This next section will show that after the 1948 anti-trust ruling by the U.S. Supreme Court, forced the Major studios to sell their theatre chains and block-booking was banned, that they lost the marketing orientation that they exhibited during the Studio Era and a quarter-century period of decline in Hollywood ensued. This was the Hollywood that Levitt (1960) described in *Marketing Myopia*.

Chapter Eight showed that after Divorcement, the Majors were obliged to sell each new movie individually to theatres rather than in blocks and to market them individually to consumers. Consequently they abandoned their weekly programming strategy that had provided theatres with a complete package or block of features, shorts and newsreels and cartoons and opted to make fewer but bigger budget movies chasing more blockbusters that would make more money. As theatres became independent businesses and the Majors retrenched staff during the 1950s, marketing was centralized and all facets of movie launch campaigns were increasingly driven from studio headquarters.

These developments occurred during an era of enormous change as a range of macro-environmental factors came into play that impacted the movie business. Figure 11.1 above and Figure 11.2 below both provide an overview of historical upswings and downturns of movie attendance in the American market. They show that from around 1950, theatre attendance declined significantly over the next quarter century, as audiences fragmented due to a combination of factors: Mass migration away from the cities where most theatres were located, to newly developing suburbs by families seeking cheaper housing. Commercial television provided home viewers with the same variety of programming that audiences once had to pay for in a movie theatre - free as home entertainment. A generation of baby boomers was raised watching TV as an alternative to going to the movies each week. Audience tastes also changed as new social and political values emerged in the 1960s and America transitioned into a more liberal society. A youth market emerged with consumer spending power and mobility through access to automobiles and by the late 1960s, had replaced adult audiences that stayed home to watch TV as the primary movie-going segment.

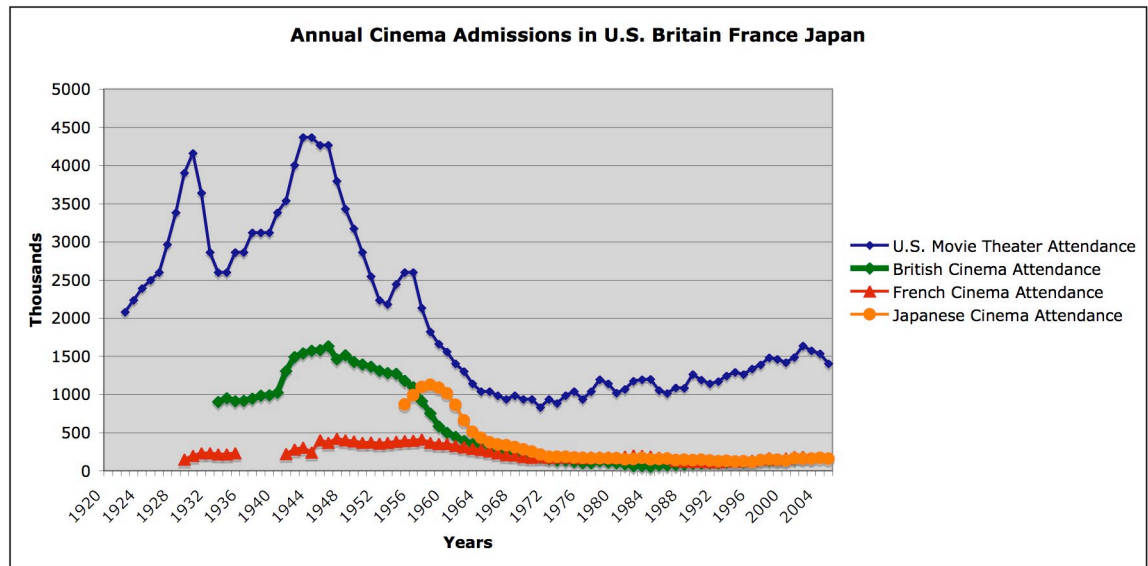
The Majors became disconnected from movie audiences

During this era, the Majors seemed unable to cope with the magnitude of change that they faced on so many fronts. When they lost their theatre chains *they literally became disconnected from their audience*. They lost the critical flow of marketing knowledge about their customers because they no longer received weekly feedback from their theatre divisions about the composition and reactions of audiences as they once had done during the Studio Era. They kept producing more of the same kind of film product but it didn't work and the lost audience stayed home to watch television. The Majors had lost their marketing orientation and the industry went into steep decline until the mid-1970s when the emergence of the movie brats (Spielberg, Lucas), and Hollywood's blockbuster movie strategy combined with the rapid diffusion of new multiplex theatres to facilitate a new boom in box office and admissions.

Declining admissions and changing exhibition landscape 1948-1951

The comparative decline in movie theatre attendance in four of the world's largest markets – America, Britain, France and Japan can be seen in Figure 11.2 below. TV diffused widely in the U.S. during the late 1940s and 1950s but lagged a decade behind in Europe and Japan. Trend lines below reflect this fact.

Figure 11.2 Cinema attendance trends in U. S. , U.K. , France and Japan.



Source data: Robertson (2001) p. 222; MPA (2005) <http://www.mpa.org/05%20Economic%20Review.pdf>
Motion picture producers association of Japan Inc. http://www.eiren.org/statistics_e/index.html ;
Screenonline <http://www.screenonline.org.uk/film/facts/fact1.html>
FilmsdeFrance.com http://filmsdefrance.com/homepage_eng.html

Weekly admissions in the U.S. dropped from 66 million to 49 million per week (-25%) between 1948-1951. The exhibition landscape across America also adapted to mirror the demographic and social changes occurring within society. The total number of theatres in America increased +3% from 18,400 to 19,000 but this masked an -8% drop in the number of hard-top cinemas from 17,600 to 16,200 and a +250% rise in the number of drive-ins from 800 to 2,800 (Finler 1988 pp 280-289).

Post-Divorcement, the Majors as producer-distributors without theatre chains all made strategic decisions to reduce production output, to raise quality through higher production values, to differentiate theatrical product from television using colour film and wide screen processes and to focus marketing resources on both domestic and international distribution. As domestic audiences declined rapidly, international markets became significantly more important (Hollinger and Littleton 2005). During the 1950s, as Hollywood abandoned the

studio system and movies began shooting on location in other countries, film budgets spiralled but setting stories in exotic locales (rather than filming in studios), provided Hollywood movies with another point of differentiation over lower budget films from rival industries. It was part of the Major studios quality positioning strategy to theatre owners and to audiences around the world.

Hollywood differentiated the film “experience” with 3-D and wide screen

In concerted attempts to try to win back the lost audiences and differentiate cinema from TV, the Majors turned to technological innovations like 3-D, and big screen processes like Cinerama, Cinemascope (Fox) and Vistavision (Paramount) to re-position the in-theatre experience. The newly independent chains re-equipped their theatres to cater for the new technology, targeting the newly mobile and emerging youth audience and also families by expanding drive-in circuits across America (Finler 1988).

‘Event movies’ - Hollywood’s equivalent of Baseball’s home runs (Sklar 1994)

As competition from television intensified and weekly attendance declined further, the Majors cut back on production levels and channeled their funds into fewer but bigger, more spectacular and more expensive epic movies to showcase the product on these giant theatre screens. The theory was that if marketing was handled correctly, epic spectacles like *The Greatest Show on Earth*, *The Robe* and *Quo Vadis* had the potential to be transformed into cultural events drawing mass audiences. In 1956, Paramount’s *The Ten Commandments* became the second biggest movie of all time after *Gone With The Wind*, grossing \$34 million in the U.S. market. That same year, U.A.’s *Around the World in 80 Days* finished second grossing \$22 million and making it the third biggest movie of all time. Lavish, large-scale musicals shot in colour and wide screen, and the use of 3D and drive-ins were attempts to satisfy the audience desire for novelty (Sklar 1994; Puttnam 1997 pp 232). The decade’s box office finished on a high note in 1959 with another colossal hit from M.G.M. with “*Ben-Hur*” which grossed \$36.7 million.

The Majors stop producing “B” movies - creating a theatrical product shortage

Without their own theatre chains to feed after Divorcement, the Majors ceased producing B movies. This caused a product shortage for exhibitors used to programming double bills. Many older third and fourth run theatres closed. The remaining exhibition chains turned to foreign imports to complete their programming schedules and for the first time since before

the First World War, theatre screen time in America was available and accessible on a significant scale to an influx of imported foreign films. This introduced a new programming dynamic to the U.S. market as American audiences in the 1950s were given access to different styles of film making from France, Italy, Scandinavia, Japan and others. In contrast to the formulaic and relatively tame Hollywood product governed by the Hays Production Code since the 1920s, these low budget imports from great European and Japanese directors “*that capitalised on sexual content and frankness and made more artisan and personal statements*” struck a chord with a section of well-educated U.S. audiences (Guback in Balio 1985 pp. 477-478).

A body of opinion is evident within the film literature that proposes that non-American film industries and foreign language films flourished during the 1950s and 1960s as the Hollywood studios cut back their production levels and also began to slide towards financial chaos, as their movies no longer seemed to work as well with audiences as they had done during the Studio Era. Whilst production did flourish in post-war Europe and Japan and production levels increased significantly, the reality is that in America, the world’s largest cinema market, foreign language films and movies made independently of the Major studios were never more than minor product satisfying small niche markets that emerged in art house cinemas and film societies and on college campuses (Limbacher 1964; Willenson 1975).

The evidence to support this statement is contained below in Table 11.2 It shows the Major studio’s individual and combined shares in the American market from 1946 (just before the admissions peak in 1948) through the 1950s – a decade in which the movie industry in Hollywood began a steep decline, resulting in all of the studios facing bankruptcy during the 1960s. These statistics were compiled from year-end charts appearing in *Variety* each January from 1946-1959 that showed annual studio revenues from film rentals and listed the top performing movies of the year. The author was unable to locate two years of data (1955 and 1957), however market shares were calculated from this raw data for the remaining twelve years.

Rivals were unable to exploit Hollywood's vulnerability

What table 11.2 below demonstrates is that even during the 1950s when the Majors were highly vulnerable and theatres were suffering a product shortage, Hollywood's domestic and foreign competitors from around the world could not manage to achieve more than a combined 11% market share in 1958, Hollywood's weakest year. In other years typically the combined share of all non-Hollywood films was in the range 2%-4%.

Table 11.2 Annual market share for Major studios 1946-59

Studio	1946	1947	1948	1949	1950	1951	1952	1953	1954	1956	1958	1959
MGM	22.7	19.6	23.5	22.0	26.7	19.1	21.9	16.9	15.4	16.6	13.6	11.6
Twentieth Century Fox	16.8	13.8	18.0	21.2	20.4	22.3	20.7	19.4	17.5	17.9	19.8	12.7
Paramount	21.4	18.5	13.8	14.1	19.7	16.1	16.7	16.1	17.0	13.2	8.7	13.7
Warner Bros	13.2	14.9	11.9	11.1	14.6	17.4	14.6	15.2	15.3	14.7	14.2	18.2
RKO	14.4	15.0	13.3	9.5	4.7	8.1	5.2	8.0	4.1	3.75	-	-
Universal	4.8	7.9	6.0	6.9	5.5	10.3	10.8	10.4	12.8	9.9	2.3	8.6
Columbia	3.2	4.0	5.2	8.0	3.1	4.9	3.6	8.5	8.3	9.2	10.2	9.3
UA	3.5	2.3	3.9	3.6	0.7	1.6	4.8	4.6	5.9	10.2	15.7	13.8
Disney / Buena Vista	0	0	0	0	0	0	0	0	1.6	1.2	4.7	9.15
Total Major Studios	100%	96%	96%	96%	95%	100%	98%	99%	98%	97%	89%	97%
Total others	0%	4%	4%	4%	5%	0%	2%	1%	2%	3%	11%	3%
Four firm concentration ratio	75%	68%	69%	68%	81%	75%	74%	68%	65%	62%	63%	58%

Source data: Annual film rentals charts for studios in Variety Jan. 4, 1947 p. 3; Jan. 7, 1948 p. 62; Jan 5, 1949 p. 47; Jan 4, 1950 p. 62; Jan 3, 1951 p. 58; Jan 2, 1952 p. 70; Jan 7, 1953 p. 61; Jan 6, 1954 p. 66; Jan 5, 1955 p. 59; Jan 2, 1957 p. 4; Jan 7, 1959 p. 9; Jan 6, 1960 p. 5. Corporate data for 1955 and 1957 unavailable.

Table 11.3 below demonstrates that even at the historical point of Hollywood's greatest vulnerability during the depths of the movie industry recession from 1969-1972, when the Major studios were in financial chaos, subjected to corporate takeovers and their movies were dying at the box office, in the very worst year - 1972, the Hollywood oligopoly still managed 78% share of the world's largest market.

Table 11.3 Major studio market share during industry recession 1969-72

Year	Total market share Major Studios	Total market share all other companies	Total share for Top 10 Movies
1969	87%	13%	39%
1970	87%	13%	40%
1971	78%	22%	55%
1972	88%	12%	47%

Source data: Annual Film Rental Charts in Variety Jan 7, 1970 p. 15; Jan 6, 1971 p. 11; Jan 5, 1972 p. 9; Jan 8, 1973 p. 7.

This indicates that the Majors' serious competition for theatre audiences was not from foreign film industries or from American independent cinema that hardly measured on the box office Richter scale. Table 11.4 below shows that during the 1950s, American production only accounted for 12% of the world's annual film output, yet foreign films were unable to replace Hollywood movies and provide commercially attractive substitutes for theatres to woo audiences in the U.S. market or in other nations.

Table 11.4 World market share by leading film producer nations from 1950-1959

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source data: Robertson (2001) pp 16-17

Over 25 years from 1950-1974, only twenty-three foreign language films earned enough at the American box office to gain a place in *Variety's* year-end Top Grosser lists and none of them became a blockbuster hit (see Appendix 46).²⁹ In addition, only a handful of independent films have ever made it into the Top 100 list of All-Time Rental Champions published by *Variety* each year (see Appendix 47). The implications from analysis of the above three tables are that during the period of Hollywood's severe decline from 1949-1974, there was no rival anywhere in the world that produced films that were commercially attractive enough to displace those of the Major studios on world cinema screens. Despite cutbacks in production levels after Divorcement that created a product shortage in the American market and significant screen-time becoming available to non-studio films, no rival was able to take advantage of that situation.

TV directly undermined the Major studios

Considering that neither Hollywood movies, or the best available foreign films were able to stem the steep decline in movie theatre attendance, a logical assumption is that television was the real competitor and only major event-movies like *The Ten Commandments* (1956), *Ben-Hur* (1959) and *Sound of Music* (1965) were occasionally able to attract mass audiences. Figure 11.3 below directly compares the penetration of television into American households with the decline of movie attendance. TV was undoubtedly the real competition.

²⁹ The lowest earner, *A Man and a Woman* took only \$350,000 in film rentals during its run, despite having a hit theme song of the same name. The two highest earning foreign language films that were independently distributed were *I am Curious Yellow* - an X-rated Swedish film that became notorious because it featured on-screen sexual intercourse and *Z*, which earned Oscar an nomination for best film in 1969.

So why did the Major studios not anticipate this threat? The answer is that they did. Wasko's (1994) study of Hollywood and technology showed that during the early days of television's development, the Majors strategically evaluated opportunities to control the commercial development of the new TV medium as a new form of screen entertainment. Warner Brothers, Fox and Paramount all planned to develop their own TV networks.³⁰ With strong opposition from theatre chains to Major studio involvement in TV and the fact that television was just another form of film exhibition, the 1948 Supreme Court anti-trust ruling forcing them to exit exhibition, effectively terminated Hollywood's corporate ambitions to control the new industry and (Puttnam 1997 p. 230; Wasko 1994 p. 14). Although some studios took a small equity position in TV stations they were careful to play no role in the management fearing further anti-trust action (Sklar 1994).

Figure 11.3 American movie theatre attendance vs TV penetration 1950-1978

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Please consult the hardcopy thesis
available from the QUT Library

Source: Silver and McDonnell (2007) "Are Movie Theatres Doomed?" Business Horizons.

Strategic turning point: the Big Five redefined their core business

The Majors inability to secure control of the new TV industry combined with the after-shocks from vertical disintegration and loss of their theatre chains led them to re-define their core business. The *Big Five* Majors now adopted the same business model as the *Little Three* studios that had not owned theatres (Columbia, Universal and UA) and became solely

³⁰ "Concrete evidence of such interest is represented by Paramount's 1938 purchase of half ownership of DuMont (including the DuMont laboratories where much television experimentation was carried out). In addition to the stations owned by DuMont, Paramount itself received licenses for two television stations in Los Angeles and Chicago, although the studio had applied for 13 licenses from 1940-1948. Other studios, including M.G.M., Warner, Disney and Fox actively vied for early TV stations" (Wasko 1994 p. 12).

studio-distributors. Levitt's (1960) observation that their financial problems emerged because they too narrowly defined their business was correct for this era. In Old Hollywood, 97% of the Big Five's assets were tied up in their theatre real estate, distribution accounted for 1% and the Hollywood studios for the remaining 6%. Theatres cash-flowed the studios and provided collateral for finance to produce movies, so providing programmed entertainment to keep the regular audiences returning each week was critically important (Puttnam 1997).

However, after Divorcement, the core business of the Majors was no longer to provide a package of weekly entertainment: a feature film, a B movie, a serial, a cartoon, a short, documentary or a newsreel. Television took over that domain and provided the same mix of programming free to TV homes (sponsored by advertisers): Kraft Television Theatre, Texaco Star Theatre, Schlitz Playhouse of Stars, Lux Video Theatre, Disneyland, Amos 'n Andy, Ozzie and Harriet, Hopalong Cassidy, Lone Ranger, Looney Tunes, The Flintstones, Jetsons and the nightly news.

The Majors core business in the post-Divorcement era as they saw it was now movies not entertainment and their focus became film financing and distribution. Unable to control television and exploit the new technology, they now saw it as a threat. A number of studio heads led by Columbia's Harry Cohn crusaded against television, placing an embargo on selling their movies to the TV networks (Puttnam 1998 p. 183). Yet it was Columbia under Cohn that led Hollywood into TV production in 1948 when subsidiary company Screen Gems began producing TV programming (Donahue 1987 p. 29; Dick 1992 p. 12-13).

The key problem in the early fifties for the Majors was that that they could not initially see the potential synergy or the very real nature of the economic opportunity that television held for them in the longer term as a post-theatrical market. Instead, they perceived the attraction of moving pictures in the home as a serious threat to their audience base in theatres at a time when they were suffering financial duress and they saw their cash business being undermined by a technological substitute (Lees and Berkowitz pp. 70-71).

A scenario emerged that was reminiscent of the earliest days of the silent film era, when the major film equipment manufacturers were forced to produce films in order to sell their film equipment to customers. *"The TV networks CBS (which set up a TV manufacturing division) and NBC (owned by RCA) were primarily in the business to manufacture television sets. When the Majors would not supply movies the new TV networks were forced to produce product for their TV receivers"* (Donahue 1987 p. 29). CBS and NBC both had significant

prior business experience running national radio networks and applied similar strategies to television by finding commercial sponsors and advertisers willing to pay for production of TV programming (Lees and Berkowitz pp 70-71).

As a consequence, TV production provided fertile territory for independent producers trying to establish themselves in Hollywood in the post-studio era. As small businesses they had low overheads and were able to provide the TV networks with low budget programming. And as TV stations were setting up across America, syndicated sales became a new source of revenue and royalties to producers. Syndication involved the sale of TV program re-runs to independent stations that operate outside the national networks and their affiliated stations.

Disney strategically targeted children

In 1954, as R.K.O., ravished by Howard Hughes mismanagement was within a few years of collapsing and would cease to be a member of the Big Five, the Walt Disney Company was evolving into one of the Major studios as it horizontally diversified into the leisure sector opening the Disneyland theme park at Anaheim. In doing so became the first Hollywood studio to directly sell programming to Network television. Its weekly show *Disneyland* became the year's smash hit on ABC and finished its first season in sixth spot in the ratings with a 39.1% audience share. Disney's diversification included a merchandising business that had a goal to commercially exploit the interest of children in its famous animated characters, family movies and TV shows by selling them associated memorabilia and merchandise. Here is an example of another Hollywood Major studio-in-the-ascendancy demonstrating significant strategic marketing expertise and superior capabilities in market segmentation, targeting and positioning.

Extended product life as a new ancillary market emerges

Prior to TV, the studio's book value for old films were written down to one dollar as there had been no commercial after-life, because post-theatrical release didn't exist before television (Puttnam 1998 p. 187).

The Majors soon realized that they were sitting on a gold mine with their old film libraries and that their movies could resolve the TV networks main problem of lack of programming. TV sales would represent an entirely new revenue stream that was pure profit because the production cost of each movie had been recouped in previous years during its theatrical

lifecycle.³¹

It is tempting to see television simplistically as a substitute product for the cinema but what occurred during the 1950s and 1960s was a fragmentation of the mass market for what should rightly be called *screen entertainment* rather than just cinema.

Movie theatres had entertained audiences during the studio era with programs comprising A and B category feature films, weekly serials, shorts, cartoons, newsreels and in some cases live variety acts. With the exception of A features, these other categories migrated to television and became the basic programming fodder for the new medium. Movies had traditionally been the only available form of screen entertainment available to consumers but television provided a new form of film exhibition that gave consumers choices in their form of consumption of screen entertainment. The mass audience that had once attended movie theatres on a regular basis fragmented into two different kinds of media market – cinema and television, each with its own market segments.

During the 1950s, television replaced movie-going as the most popular form of mass entertainment. However, whilst TV had started the decade as a competitive threat to the existence of the movie industry, by the end of the fifties it offered significant financial opportunity by providing important new revenue streams to the Major studios as cinema admissions declined worldwide due to the diffusion of television.

The Majors were stuck in a time warp

The dynamics of the North American market – still the largest film market in the world were also in transition. Social, cultural, economic and demographic forces were converging to facilitate a fundamental change in movie audience composition and tastes both in the U.S. and throughout the western world and the Major studios were not moving with the times. Management at the Majors seemed ossified and impervious to the changes in the market dynamic at home and abroad. They continued to make the same kind of movies that had appealed to more conservative audiences a decade before. “*Nervous producers, unable to predict what pundits were looking for, set out to replicate some of the trends that had been widespread in the decade before*” (Karney 2001 p 594). Universal Chairman Nate Blumberg

³¹ Within 18 months of R.K.O.’s film library sale to television in 1957, all of the studios had negotiated similar back catalog sales. However, movies were leased to the television networks in the same manner they were to theatrical exhibitors, so the Majors also became TV distributors and retained the copyright, leasing / renting their movies to the TV networks (Puttnam 1997 p. 240). *The Wizard of Oz* was leased to CBS and attracted 40 million viewers in one night in 1957, only slightly less than the combined average weekly admissions at the US box office of 41 million.

stated in *Variety* in 1953: “*At Universal we are making a special point of making pictures for all age groups. We are endeavouring to attract the family trade, as this really is the backbone of our business*” (Blumberg 1953).

However, in a complete social role-reversal from the 1940s and 1950s, adults seemed to prefer to stay home watching television during the 1960s while teenagers had increasing spending power, greater access to cars and wanted to socialise outside the home. A distinct youth culture was emerging with new values radically different from previous generations and shaped by a wave of turbulent social, cultural and political upheaval sweeping across America and the world in the swinging sixties.

Life Magazine study profiled the new movie-going audience in America in 1959

Variety (1959) reported results from a telephone survey of moviegoers sponsored by Life magazine and conducted by a leading market research firm in five major American cities that found the primary audience was under thirty years of age and frequency of attendance increased with education level and in smaller households. No significant differences in attendance patterns were found between different income levels. Findings from this survey support the earlier discussion in this chapter that argued that film genres and movie stars were a means by which the Majors strategically segmented the market and they were the two key reasons why the youth market were motivated to attend a movie.³²

While the western world was undergoing radical social and cultural change, Hollywood continued to make relatively conservative movies while young people were questioning conservative values. Following the phenomenal box office success of *The Sound of Music* (1965), the Majors gambled that big budget musicals would become the trend in the late 1960s. They lost. In that turbulent marketing environment, those big budget flops almost never had a chance.³³

³² The survey found that the principle reasons for going to see a movie were: film genre (39%); movie stars and casting (19%); reputation of the film that it was a ‘good picture’ (19%); convenient theatre location (12%); the movie was based on an enjoyable book (6%) and technical aspects/special effects (4%) (Anonymous - *Variety* 1959).

³³ Big budget musicals like *Star*, *Thoroughly Modern Millie*, *Camelot*, *Doctor Doolittle*, *Finian's Rainbow*, *Hello Dolly* and *The Owl and the Pussycat* all disappointed at the box office when the big winners like *Easy Rider*, *Bonnie and Clyde*, *The Graduate*, *The Wild Bunch* and *Butch Cassidy* had a harder edge and youth appeal. It should be noted that of these successful movies listed above, only *The Graduate* was distributed independently, by AVCO Embassy. The others were all distributed and marketed by the Major studios but they marked a transition in film making because the Hays Production Code was abandoned in 1967 when a new MPAA ratings system came into effect to replace it. The new wave of producers, were no longer shackled by the Code's half a century old conservative values. There is also a common misperception that these films were somehow ‘independent’. After Divorcement when the Majors abandoned the studio system and adopted the U.A. business model as producer-distributors, their core business became ownership of intellectual property and the financing, distribution and marketing of motion pictures, so from the 1950s onwards, all of the Majors movies have been independently produced.

Sex, violence and exploitation movies appealed to youth audiences

With the abandonment of the Production Code in 1967, in order to attract a younger, more cynical audience, a new trend emerged in Major studio movies - realism.³⁴ Hollywood turned exploitation, showing graphic violence, full frontal nudity and explicit sex scenes. Formerly taboo on-screen images under the Code had previously been accessible only in foreign films shown in art house cinemas, on College campuses or by film societies but now featured in mainstream movies.

Survey in 1977 shows Hollywood's primary audience is under 30 years of age

An MPAA commissioned survey of movie attendance in 1977 found that the youth segment had grown in importance (see Table 11.5 below).³⁵

Table 11.5 MPAA Motion Picture U.S. Audience Surveys – 1957 vs 1977

This table is not available online.
Please consult the hardcopy thesis
available from the QUT Library

Source: *International Motion Picture Almanac* Reel 22, Brookhaven Press, Lacrosse.WI

This section showed that after the 1948 anti-trust ruling and the enforced sale of their theatre chains the Majors were obliged to sell each new movie individually to theatres rather than in blocks and to also market them individually to consumers. In this new business environment they redefined their business model and as producer-distributors they abandoned their weekly programming strategy that had provided theatres with a complete package or entertainment to focus on financing and distributing event movies that could become blockbusters. Their success with major event movies like *The Ten Commandments* and

³⁴ “This had previously been the almost exclusive domain of the low budget independent sector and art house filmmakers” Hollywood movies now assumed a harder edge showing explicit sex scenes and graphic violence (Finler 1988).

³⁵ It was conducted by a leading U.S. market research firm that drew its sample from movie-goers 12 years and over (sample size 2,504, comprising 448 teenagers 12-17 years and 2,056 adults over 18 years). Findings from the 1967 survey showed that in America, “frequent moviegoers constituted only 27% of the public aged 12 and over but accounted for 87% of admissions.” 12-24 year olds provided 57% of movie attendances with 25-39 year olds providing 30%. And 12-17 year olds comprised 26% of annual theatre admissions. Movie-going increased with higher educational levels among adults. There was a tendency towards more frequent attendance by males and as family income increased, so too did movie-going frequency. Movie-going was also more prevalent in metropolitan areas than in rural areas. (International Motion Picture Almanac Reel 22, Brookhaven Press, LacrosseWI).

Sound of Music demonstrates that the Majors retained their ability to effectively segment, target and position their movies within their centralized marketing departments in the 1950s and 1960s.

However, with the sale of the their theatre businesses, the *Big Five* became disengaged from their audience. They continued to make similar movies adhering to the conservative values of the Studio Era at a time when television provided that same kind of entertainment free and societal values were in transition as America and the western world evolved into more liberal societies. Table 11.6 below shows that the moguls who had built the movie business and innately understood their early audiences were either dead or waning influences in the post-studio era from 1950-1974. Those that remained were by then out of touch with the new post-war liberal society that was evolving.

In the new business environment, the Majors defined their business too narrowly as movies rather than entertainment and consequently failed to see that programming opportunities in television could facilitate significant new revenue streams. With a shrinking market base due to the impact of television, whilst they were able to clearly differentiate cinema using widescreen and color processes for blockbuster movies shot in exotic locations, they were unable to find the right formula in new product development to woo the lost TV audiences back to movie theatres en masse or to cater adequately for the emerging youth market.

Table 11.6 Tenure and influence of the movie moguls at the Major Studios

Studio	Mogul	Period of tenure
Universal	Carl Laemmle Sr.	1912-1929
Fox Film	William Fox	1914-1930
20 th Century-Fox	Darryl F. Zanuck	1935-42; 1943-56; 1962-71.
Paramount	Adolph Zukor	1916-1925 as President. Chairman until 1959 then retired. Held ceremonial Chairman Emeritus title until 1976.
MGM	Louis B. Mayer	1924-1951
United Artists	Joseph Schenck	1918-1935
Columbia	Harry Cohn	1924-1958
Warner	Jack Warner	1923-1967
Disney	Walt Disney	1923-1966

During Hollywood's quarter century of vulnerability, significant cuts to production levels and the Majors' maintaining narrow release strategies which created new market space for independent product, no rivals anywhere in the world were able to provide movie product that would attract mass audiences to theatres as an alternative line of supply. Potential rivals lacked the resources to match the Hollywood's production values, the formulas to make hit movies and the distribution and promotional capabilities to market their films effectively on a global basis.

New Hollywood: Segmentation, targeting and positioning capabilities

This next section will demonstrate that the Major studios of the New Hollywood era (1975-2006) provide a superior value proposition to audiences through blockbuster movies containing high production values that differentiate Studio movies from competitors and that they effectively segment markets and target and position their movies achieving great commercial success. Table 11.7 below shows the changing demographics of American movie-going audiences in the New Hollywood era from 1975-2005. The key development has been that whilst the youth market remains the most frequent moviegoers,³⁶ the total number attending movies is declining. Ironically, the aging baby boomers that were the first TV generation have grown in overall importance in terms of overall attendance. This reflects changing production and promotion strategies discussed in Chapter Seven and Chapter Nine.

Table 11.7 Changing demographics of U.S. cinema audiences.

	12-24 years	25-39	40-59	>60 years
1975	60%	26%	11%	3%
1990	43%	33%	17%	7%
2005	39%	28%	25%	10%

Sources: *International Motion Picture Almanac* Reel 22, Brookhaven Press, Lacrosse WI
International Motion Picture Almanac (1978) p. 32A;
MPA Motion Picture Attendance Survey 2005 p. 4.

Since the 1970s emergence of the new wave of producer-directors (Coppola, Spielberg, Lucas), the Major studios core production strategy has focused on making blockbuster movies (Wyatt 1994). Escalating costs of movie star salaries and special effects have sent movie budgets spiralling over the last few decades, so to optimise the chances of box office success and revenues from post-theatrical markets (DVD, Cable TV, VOD), marketing costs have also escalated as the Majors do their best to ensure that a new release cuts through the clutter of a crowded market, brand their films and get noticed by movie-goers. This requires heavy expenditure on marketing.

The blockbuster strategy has clearly differentiated Hollywood product in the eyes of theatre chain bookers. They know that Major studio movies will have high production values, are likely to be entertaining, will feature well-known movie stars and will be backed by an extensive marketing launch campaign.

Theatre operators are targeted through the trade press and at exhibitor conventions like ShowWest and Show East. This type of promotion and selling is handled by the distribution

³⁶ "Hollywood's best supporting demographic is the 14-24 year olds. Moviegoing is a major facet of dating and young adult life" (Weisberg 1983).

divisions and is discussed in detail in Chapter Eight. These events showcase the best forthcoming product and motivate theatre chains to book those films early because they know that their competitors are attending the same convention. *“The fact that the three month span (the US summer) can generate 50% or even 60% of a studio’s annual theatrical revenue, have prompted many studios to get the jump on slotting pics. Dating has definitely been going earlier and earlier”* said Sony’s worldwide distribution chief Jeff Blake. By the end of summer 2001, the following summer of 2002 was already 60% booked (Harris and Hayes 2000).

In order to drive audiences into theatres to see the latest release, each Major studio movie is subjected to extensive market research to help to identify the correct target audience and to ensure that the campaign positions the film effectively to that audience. Fred Goldberg, a former senior studio marketing executive at U.A. and Columbia stated that the targeting and positioning process begins before a movie is made.³⁷

A typical example of Hollywood’s approach to segmenting and targeting an appropriate audience for a new movie was James Bond film *GoldenEye* (1995) financed and distributed by MGM-UA: *“We had to make sure that we made our male franchise aware that GoldenEye was coming out at Thanksgiving. We measure our effectiveness in terms of awareness and interest. We put together a very aggressive, smart and tactical campaign to open this film. The first part was targeted to reach our core audience, which we call boomer males. People 25 through 49 who came of age during the sixties and carried a lot of attitudes and buying clout with them in the nineties. This is in juxtaposition to other demographic groups like the 50+, Generation X (people in their 20s), teens and kids”* (Luuk 1997 p. 56).

Studios strategically invest significant resources into effectively positioning movies through advertising materials like trailers: *“It positioned the film. It created an effective first impression of the title and the subject matter. Perhaps the audience was not yet committed to seeing the movie but they were at least motivated to want to know more about The Color Purple (1985). Using that important word again, it positioned the movie as planned by the marketing people at Warner Brothers. It was a very effective first selling presentation”* (Goldberg 1991 p. 35).

³⁷ *“It is important to have a marketing plan before you begin active production. It will help you identify the target audience – the people most likely to want to see this particular movie”* (Goldberg 1991 p. 5)

Sleepless in Seattle (1993) was released by Columbia-Tristar and was positioned as a romantic alternative to the summer's numerous action pictures that were targeting young male audiences: *"In a season steeped in action-adventure films and marketing hype, Columbia-Tristar subtly crafted an ad campaign for Sleepless in Seattle that niched the film as the summer's romantic alternative. That counter-marketing move contributed to a \$118 million and still growing box office"* (Tyrer 1993).

Paramount released the movie version of Tom Clancy's best-selling thriller *The Hunt For Red October* (1990) but re-positioned the film for the launch campaign after surveys showed: *"that the target audience of men over 25 was uninterested in the political aspects of the tale but was intrigued in the story's suspense. No hammers or sickles appeared in the ads for the movie"* (Rothenberg 1990).

Sony positioned the re-make of *Godzilla* (1998) as the biggest monster movie spectacle ever with the teaser trailer tagline 'Size Does Matter!' And Sony Classics, the art house division of Sony-Columbia-Tristar, released the Chinese epic *Crouching Tiger, Hidden Dragon* (2000) with subtitles in America and it grossed \$ 128 million in that market – making it the first ever foreign-language blockbuster. Sony marketing strategy positioned the film as a high quality action film. Tom Bernard, Sony Classics co-president said: *"We had a martial arts film, and a high quality film, and we also had an action film for women that the young male audience would certainly appreciate. We cut three different trailers to appeal to different markets – action for the young male demographic, for instance. We put it into Cannes and the critics came out on a cloud"* (Roberts 2001).

In order to optimise box office potential, the Majors re-position new movies as they move through the product lifecycle and different stages of the marketing campaign unfold: *"In the case of GoldenEye, (MGM-UA) began the second phase of the campaign, by using creative materials that showcased humour and romance and were placed on television shows targeted to reach women and younger viewers. The final phase of our campaign called for the broadening out of the character to make him accessible to all moviegoers. It became the event film for Thanksgiving"* (Luuk 1997 p. 57-58). Major studio movies are positioned differently in each country to appeal to local audiences and account for cultural differences as Warner Brothers did in Japan with *Sweet November* (2001).³⁷

³⁷ *"We redesigned the whole marketing campaign for Sweet November to attract Japan's important female audience. This involved a poster with stars Keanu Reeves and Charlize Theron embracing on a park bench amid growing autumn colors. The*

After the industry recession of the late 1960s and subsequent wave of corporate takeovers, the new owners of the Major studios insisted on a new business approach. Since then the Majors have re-gained a strategic marketing orientation. Chapter Six showed that they now use marketing research extensively to drive the new product development and marketing launch processes. Through their trade organization - the MPAA, the Majors commission syndicated annual audience surveys to continuously add to their marketing knowledge and they use market research throughout the product development process and modify the product if required.³⁸ The Majors also track brand awareness and desire to see new movies throughout the launch campaign and into the season (Snyder 2006 b). They conduct extensive research in overseas markets. In a *Hollywood Reporter* interview, U.I.P. marketing chief Hy Smith showed he was acutely aware of future demographic trends and implications for U.I.P.'s studio parents Universal and Paramount: *"There's a very interesting dichotomy beginning to take place in the U.S. and Europe. In the next five years, the U.S. will have the largest teen population ever – bigger than in the early '80s because that generation will have teenagers soon. But Europe is getting older. What has to be considered from the production point of view is the need to produce enough films for the over-30s in Europe"* (Anonymous 1998).

Majors established "classics" divisions and specialty studios for niche segments

From the 1980s, Hollywood began to make more movies that targeted niche audiences.³⁹ This trend was facilitated by the success of the Mini-Majors in the early days of the video boom in the 1980s prior to the Hollywood studios setting up their own video distribution divisions. A number of venture capital backed, new-to-the-world video distribution companies that could not secure the video rights to Hollywood movies and needed volume product to supply to the burgeoning video rental libraries (the new nickelodeons), were willing to pay large pre-sales to independents to finance their productions in return for video distribution rights. A number of independent studios grew rapidly because they were able to

image positioned the film as another in a series of fall romances following 'City of Angels', 'Notting Hill' and 'Autumn in New York'. With 40% of the 20-34 year old women in Japan going to the movies 6-12 times a year (and bringing company) any film appealing to them has high potential as long as the marketing hits the target" (Schwartzacher 2001 p. 7)

³⁸ *"In the original version of last year's hit My Best Friends Wedding, Rupert Everett had a minor role as Julia Robert's gay best friend. But test audiences wanted more. So the ending was scrapped, the set rebuilt, and Everett's character came back for one final appearance"* (Bay 1998).

³⁹ *"Studios do plenty of their own research, which has long confirmed the diversification of the audience. As a result, the hills are alive with the sound on niches"* (Hayes 2003). *"Four of the six major studios – MGM-UA, Columbia, 20th Century-Fox and Universal have responded to the new audience trends by forming 'classics' divisions. These divisions have been set up to distribute foreign language films and movies by serious independent American filmmakers. Columbia made a \$3 million profit on 'Das Boot' (1981) and for the next 50 years we've got a picture that will be playing on cable TV"* (Harmetz 1983).

expand their annual production output based on video and television pre-sales. The best known of these Mini-Majors were De Laurentis (DEG), Orion Pictures, Miramax, New Line, Cannon, New World, Hemdale, Goldcrest and Carolco but “*despite their own occasional hits, the smaller distributors could not keep up. They died off in the late 1980s and early 1990s as home video stabilised*” (Wasser 2001 p. 12).

Conscious of the success that the Mini-Majors had achieved in finding and serving profitable niche markets, the Majors cherry picked the best opportunities among those financially ailing independents.⁴⁰ In the 1980s, Columbia set up a second studio – Tristar Pictures to satisfy growing demand from the new multiplex chains and the booming home video market. Disney also segmented its studio production maintaining Walt Disney as its family label and establishing Touchstone Pictures and Hollywood Pictures to produce movies for adult audiences. These new studios had their own management infrastructure and marketing operations and focused on specific market segments. Appendix 49 shows the 2006 line-up and studio ownership and highlights another successful form of market segmentation employed by the Majors and their corporate parents.

Such examples are indicators that in New Hollywood, the Majors are marketing orientated businesses that create high value products to satisfy customer needs (theatre operators and movie audiences). With 80% of movie revenues now realised from post-theatrical markets, the Majors and their parents corporations appreciate the critical need to get the theatrical product, branding and launch campaign right to enable optimal exploitation of profits further down the value chain.

11.3 THE MAJORS’ MARKETING MIX MANAGEMENT CAPABILITIES

OLD HOLLYWOOD (1915-1949): MARKETING MIX CAPABILITIES

Hollywood’s key value proposition to its mass audience during the Studio era was the promise of a program of high quality entertainment featuring well known movie stars that that could be enjoyed by people of all ages. In this pre-television era, most theatres across America changed their program weekly in order to motivate audiences to return regularly.

⁴⁰ MGM/UA acquired Orion, Time-Warner bought New Line and Disney did the same with the Miramax and Merchant Ivory. 20th Century Fox established Fox Searchlight. Other studios set up Sony Classics, Paramount Classics and Warner Brothers new subsidiary New Line in turn set up Fine Line Features to handle art films and smaller high quality films targeted specifically at niche audiences. During the 1990s, Universal acquired high profile independent distributor October Films, and established Focus Features. Universal also acquired the emerging European Mini-Major Polygram. Disney subsidiary Miramax took segmentation and branding strategy one step further when it created a new brand Dimension Films to specifically target the horror movie niche audience. The new label had instant successes with hits “*Scream*” and “*I Know What You Did Last Summer*” both of which became movie franchises when Dimension produced a series of sequels.

They provided the kind of variety of programming that a television station would do in later years – a movie, sometimes a double bill, a cartoon, a short comedy, a documentary, a newsreel and trailers of forthcoming attractions.

The Majors new product development capabilities

Old Hollywood developed a story-telling formula in moving pictures that made them the most popular films in the world. Appendix 50 shows that whilst America made more movies than other countries, throughout the Studio Era, at different times Japan, Germany and India also produced large output yet their films never achieved significant commercial success outside their own domestic markets.

Cultural differences and language barriers might explain phenomenon but logically, the reverse argument should also apply to American movies – why did they succeed as English-language films in so many non-English speaking markets when foreign films did not work elsewhere? The answer is the style of movie-making with high production values including famous movies stars to attract audiences.

The Majors had the world's biggest movie stars under-contract as employees and also attracted star talent from around the world e.g. Charlie Chaplin, Emil Jannings, Marlene Dietrich, Greta Garbo, Errol Flynn, Hedy Lamarr and Boris Karloff.

The Majors created film genres and developed series films that attracted returning audiences e.g. Tarzan, Lassie, Andy Hardy, Little Rascals, Hopalong Cassidy and Blondie. And the Major's new product development process produced a continuing stream of films that dominated the global box office. Table 11.7 below shows that most Hollywood movies were developed from original stories which confirms the quality of Hollywood's new product development process vis-à-vis its rivals.

Table 11.7 Source material for Hollywood features 1935-1955

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: Variety January 9, 1957 p. 8

Hollywood also transitioned from silent movies to talking pictures between 1927-1930; Fox introduced bigger screens (Fox Grandeur) and technicolor movies first appeared in the

1930s. These developments were designed to enhance the cinema experience and increase the customer value proposition.

To place the thirty years of the Studio Era into an environmental context, it was sandwiched between two World Wars and also included the Great Depression that lasted almost a decade until the onset of war. There was only a ten-year period from 1919 until the Wall Street crash in 1929 when America and the rest of the world lived in relative peace. Semati and Sotirin (1999) propose that Hollywood's films were popular overseas because they gave audiences a glimpse of a free and comparatively prosperous democratic society to people in Europe facing the possibility of fascism or communism. Thus it probably wasn't hard for the Majors to understand the kind of movies that audiences needed and wanted to see in that world environment – escapist entertainment preferably with a happy ending. And that is what Hollywood delivered. The commercial success of Hollywood's movies around the world over this thirty year period demonstrates that the Major studios possessed new product capabilities that were unmatched by rivals.

The Majors distribution capabilities

Chapter Eight showed that from 1918, Hollywood replaced Pathe and the other European studios as the dominant force in world film distribution. The Majors took advantage of the product shortage created in Europe by the onset of the First World War and they moved into quickly overseas markets providing the world with alternative products – Hollywood movies as production in Europe ceased due to the war. They established vast distribution networks internationally and domestically in the United States on a scale that has remained unmatched to this day. By the time the war ended, Hollywood had consolidated its channel dominance, the American economy was booming and Hollywood had become a major exporter of globally popular movies. In post-war Europe, production finance was scarce as funds were channelled into rebuilding shattered economies and the once dominant European film industry simply could not catch up with Hollywood's escalating film budgets (Bakker 2003).

The Majors pricing capabilities

Chapters Eight and Ten showed that Paramount's system of 'protection' segmented the theatre market into a series of runs that guaranteed 1st run theatres an exclusive engagement for an agreed time period after which the movie would be released to second run theatres. This practice was adopted by all of the Majors and enabled them to employ a price skimming strategy, so the early run theatres paid premium film rentals for the privilege of securing the

best product and they in turn charged higher ticket prices for audiences wanting to see these first release movies before anyone else. Block-booking enabled the Majors to bundle lower quality movies with big films and to obtain a guaranteed release and film rental for them when theatres if given the choice, might not have booked them at all. All studios used this same strategy and Chapter Ten showed that block-booking worked in tandem with blind-bidding to guarantee that the Majors optimised their film rental revenues.

The Majors promotional capabilities during the Studio Era

Chapter Nine showed that movie promotion during the Studio Era used a ‘push’ strategy from the studio out through the distribution companies and into theatres to where managers sold the product to local audiences. The Majors publicity units were split between the studios in Hollywood that devised publicity during production and covered the West Coast, while the distribution head offices were typically located in New York and devised the marketing strategies to launch new movies. The Majors developed campaign materials including the all-important press books (discussed below), booked advertising in national magazines or on national radio networks, organised any national merchandising tie-ins and handled launch publicity with national magazines and for major metropolitan newspapers and radio stations. Chapter Nine showed that studio publicists were focused on the stars and the movies always pushing an angle or planting a story. Studio publicists exploited that national radio networks continually organising for stars to appear as guests on radio programs or in their own Studio-backed shows e.g. *When the Lion Roars* (MGM) or on *Lux Radio Theatre* (supported by Paramount and featuring its best known director Cecil B. De Mille as host). Such programs also featured radio enactments of the screenplays of forthcoming movies that created awareness, interest and desire to see these films.

The actual implementation of marketing campaigns to launch new movies into all but the biggest metropolitan city markets was de-centralised and handled by theatre managers trained by the Majors studios’ chains in ‘exploitation’ techniques to handle the weekly pipeline of new pictures and promote them in their city, town or local area. The key to controlling the campaign and ensuring a consistency of message and positioning was the ‘press book’ devised by the Majors’ exploitation departments. It provided theatre managers with the approved campaign strategy and all of the publicity and advertising materials that they needed to implement the local marketing campaign. The role of press books is discussed in detail in the following section on integrated marketing communications.

The Major studios devised strategic marketing campaigns and carefully managed the promotional mix for each film and made optimal use of firm resources by employing their theatre chain's network of managers as in-the-field marketing managers. Managers were required to detail activities undertaken in their weekly reports that were sent to head office and scrutinised by management.

During the Studio Era, the Majors displayed a set of superior marketing management capabilities in terms of managing the marketing mix.

TV ERA (1950-1974): THE MAJORS' MARKETING MIX CAPABILITIES

Post-Studio Era new product capabilities of the Major studios

Declining attendance trends clearly indicate that Hollywood's product over this period failed to connect with audiences. The Majors as producer-distributors no longer owning theatres, reduced their output to focus their resources on creating blockbuster movies that would attract a mass audience back into cinemas. They innovated with widescreen processes like CinemaScope and with 3-D to differentiate the theatrical experience from television. They continued to make the same kind of movies in the past but on a bigger and more lavish scale, yet adults stayed home to watch television and teenagers wanted a different kind of movie. By the late 1960s, youth were the dominant cinema audience and Hollywood was not making many movies that satisfied them during a period of tumultuous societal and cultural change around the world. Box office and admissions declined.

The Majors distribution capabilities during the post-Studio Era.

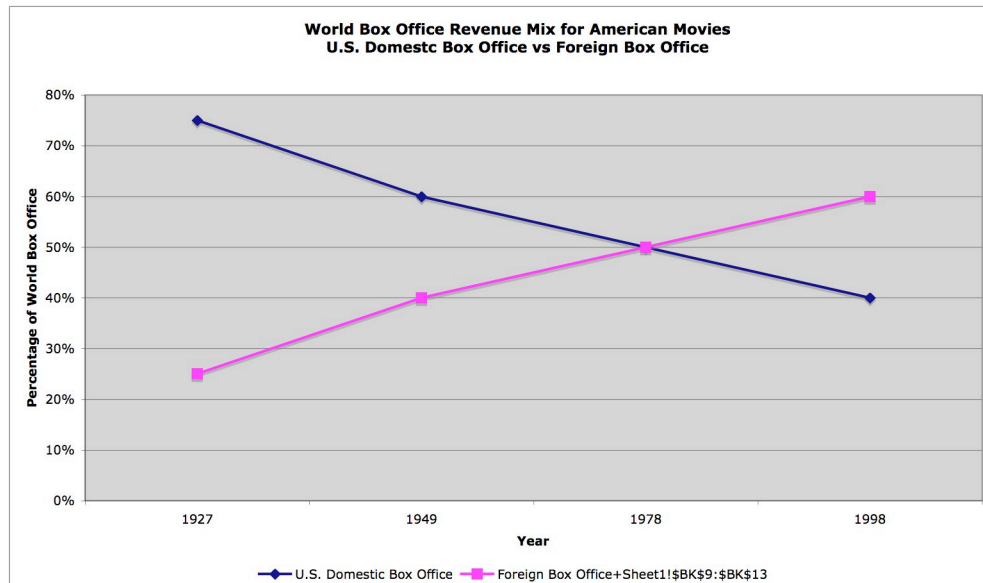
The Majors maintained their comprehensive distribution coverage both in the domestic market and internationally, however they began to scale down staff numbers in branch offices. Chapter Eight shows that in foreign markets some Majors began to joint-venture in distribution in particular territories (Arneel 1970). Despite these changes, the fact remains that the Majors maintained comprehensive distribution coverage on a scale still unmatched by any competitor in the industry.

The Majors pricing capabilities

Chapter Ten showed that even during this period of decline, the Majors were still able to extract premium rentals from exhibitors around the world because Hollywood movies with

big budgets, big stars and exotic locations were still in demand and even though block-booking and blind-bidding had been banned by the Supreme Court's anti-trust ruling in America, the practice was still employed by the Majors overseas. The other reality was that there was no replacement product of similar standard (in terms of production values) and of similar volume available from any of Hollywood's potential rivals anywhere in the world.⁴¹ Figure 11.4 below shows that the U.S. market remained the largest source of box office revenue for Hollywood until the 1980s, when the 'foreign' box office from all other markets in the world began providing more box office revenues than the American market.

Figure 11.4 U.S. Domestic Box Office vs Rest of the World Box Office



Sources: Kent in Kennedy 1927 p. 226;
Bahn, Chester B. and Andrus, Winfield (1949) "Motion Picture Industry Statistics" Film Daily Yearbook 1949 pp 71;
Mayer 1978 p. 74;
MPAA 2005.

The Majors promotional capabilities

From 1950-1974, the Majors switched emphasis from a below the line 'push' strategy to an above the line 'pull' strategy. They now needed to market each movie individually and in order to convince theatre owners to book their films they needed to support them with bigger advertising campaigns. As movie budgets got bigger this necessity became greater and advertising budgets grew much larger as press ads increased in size and the Majors also began to advertise on television. The Majors still employed publicity and promotional campaigns but as they no longer owned their own theatre chains with a network of theatre

⁴¹ Britain's Rank was perhaps the largest foreign competitor to Hollywood and during this period enjoyed significant success with its films in British Commonwealth countries however they did not travel well and achieve the same box office results in foreign markets or in America – still the world's largest cinema market.

managers to handle the local exploitation to launch the movie the studios retrenched many of their publicity staff that had previously serviced the theatres. Television was also increasing in importance and newspaper circulations began to decline, so the Majors centralised marketing implementation.

They employed a blockbuster marketing approach for BIG pictures and achieved considerable box office success for some movies like *The Ten Commandments*, *Ben-Hur* and *The Sound of Music*. However for many movies it was a case of hit and miss and as the new corporate owners took over in or around the deep industry recession of 1969-1972, there was a distinct push towards national advertising campaigns and much bigger spends on advertising media that became common place in the 1970s starting at Paramount with *The Godfather*, *The Great Gatsby* and *King Kong*.

During the TV era, the Major studios began experimenting with wide releases and aggressive marketing for low-budget horror, drugs and sexploitation movies. A wide release accompanied by a saturation TV advertising campaign was used as a product dumping strategy for B movies where the distributor wanted to maximise first week movie attendance and take the money and run knowing that poor word of mouth was likely to eventuate.⁴² One of the criticisms of Major studio marketing highlighted in Chapter Nine was that they retrenched many staff in the 1950s losing many marketing specialists and that the remaining staff were expected to undertake their duties without the specialised training, skills or experience.

In this post-Studio Era, the Majors demonstrated that for the right movie they retained their promotional capabilities but they had mixed success compared with the Old Hollywood Studio Era. This was partly because the product line-up of movies in many cases were not strong enough to attract adult audiences away from their television sets and they were not the right kind of product to appeal to the youth market. It was also a time of transition in advertising as the Majors had to adjust their choice of media channels to account for the declining importance of newspapers and the increasing importance of television as it diffused widely into American homes.

⁴² Low budget science fiction film *Them* (1954) was released into 2,000 theatres “driven by a day and night advertising blitz that the studio press book described as ‘the largest TV and radio campaign ever to support by a motion picture’”. Similar wide release strategies supported by saturation advertising campaigns were also used by Warner Brothers for *The Beast from 20,000 Fathoms* (1953); for the original *Godzilla* (1956) with its \$ 1 million marketing campaign and also for *Hercules Unchained* (1959) (Hayes and Bing 2004 p. 145-147).

In terms of the Majors marketing management capabilities in relation to the marketing mix – in a time of market turbulence, the Majors continued to exhibit strong capabilities in distribution and pricing, much weaker capabilities in new product development and somewhat diminished but still strong promotional capabilities, when compared to their same skill set during the days of ‘Old Hollywood’. However box office results still demonstrate that compared to Hollywood’s domestic competitors and overseas rivals there was still no competitor to match the Major studios in terms of their marketing management and marketing mix capabilities.

NEW HOLLYWOOD (1975-2005): MARKETING MIX CAPABILITIES

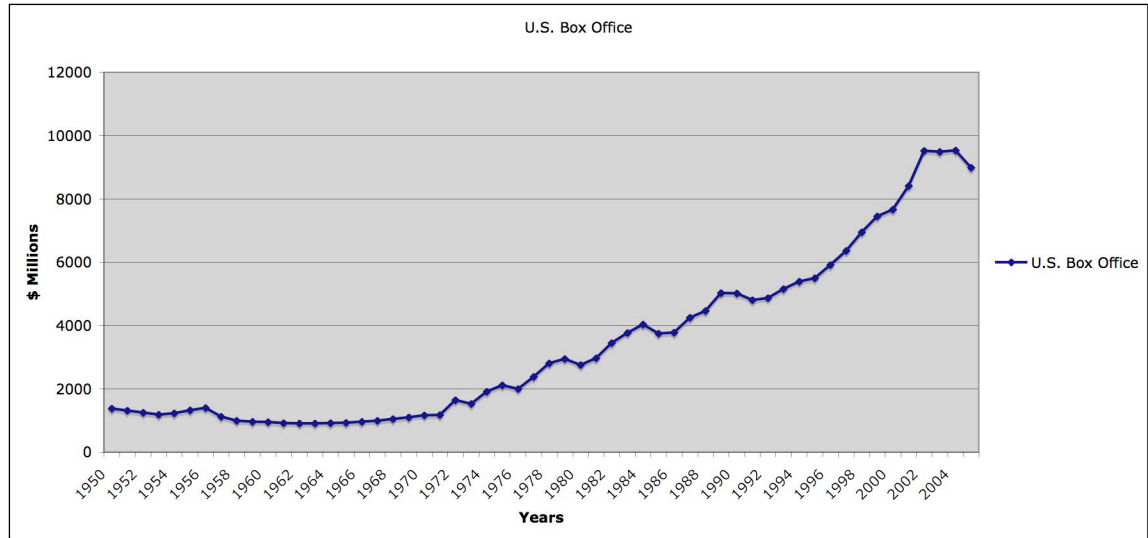
The New Hollywood Era began in the mid 1970s with the emergence of a wave of new filmmakers like Spielberg, Lucas, Scorsese, Coppola, De Palma, Bogdanovich who made a string of movie hits that were so successful that it initiated Hollywood’s commitment to a ‘high concept’ blockbuster movie strategy and to saturation advertising campaigns to launch them. This era also saw the replacement of single screen theatres with multiplexes and the introduction of home video which although it initially hurt theatrical box office, it also introduced video audiences to the new generation of movie stars and film directors. And by 1990s, the ancillary markets – home video and pay TV provided much larger post-theatrical revenues to the studios than the cinema release (Zion 2003). The economics of the business had changed and with it Major studio marketing strategy.

The Majors new product development capabilities

The success of the Major studios new product development in the New Hollywood era (1975-2005) is best illustrated by the box office trend line in Figure 11.5 below that shows a significant increase in the American box office, a trend that was reflected world-wide.

Chapter Seven showed that the Major studios invest significantly larger amounts in script development than rival industries and Chapter Six showed that film concepts, movie titles and casting are all pre-tested for Major studio movies and ongoing research is conducted for each film through production, post-production and into the marketing launch campaign. This indicates that Hollywood is focused on creating value for customers by making movies that have strong audience appeal from the new product development phase.

Figure 11.5 U. S. Box Office 1950-2006



Sources: Robertson (2001) and MPAA (1998; 2005).

New Hollywood: Major studios' distribution capabilities

The Majors maintain comprehensive domestic and international coverage. In foreign markets the Majors rationalised their distribution networks by forming joint ventures e.g. U.I.P. (originally Universal, Paramount and MGM-UA) and Fox-Columbia, and Warner handled Disney's international distribution for a five-year period in the late 1980s and early 1990s. However U.I.P. has since been disbanded and the Majors have once again established their own international distribution infrastructure in the late 1990s and 2000s.

The protection system dissipated when multiplexes proliferated and with so many more screens available to show movies, the demand for Hollywood product increased and release patterns changed fundamentally from a narrow linear release to the now standard wide release for tent-pole movies. In Old Hollywood, an average print run was 300 for a Major studio movie, today the biggest movies are released simultaneously onto 8,000+ screens in North America and in recent years the biggest blockbusters are being given a global day and date release e.g. *The Matrix Reloaded* and *Harry Potter* both from Warner Brothers. Only Hollywood is equipped to handle movie releases on a scale of such magnitude. Chapter Eight showed that their distribution networks remain unchallenged by any competitors indicating that the Majors possess superior channel management capabilities in the New Hollywood Era.

The Major studios pricing capabilities

Chapter Ten showed that the Majors continue to command premium film rentals for their movies as they have done in past eras. Without ‘protection’ they can no longer use price skimming as a strategy to extract high film rentals from 1st and 2nd run theatres.

Since the 1950s, terms for every movie’s film rentals film have been negotiated individually with theatres, and such is the demand for a Hollywood blockbuster with their stars and special effects that multiplex chains are willing to pay top dollar for the biggest movies. This occurs because multiplex theatre chains need full auditoriums because their real profits lay in candy bar sales. The Majors have once again demonstrated that they possess superior pricing capabilities enabling them to command premium film rentals from theatres because only Hollywood provides blockbuster movies and backs them up with enormous marketing support and distributes them through a global network with ninety years of distribution expertise. Rival industries and independent competitors don’t command the same rentals from theatres.

The Majors promotional strategies

The core promotional strategy in New Hollywood has been a ‘pull’ strategy. All tent-pole movies and many mid-range studio movies are backed by significant P&A (marketing) budgets involving saturation TV advertising campaigns, supported by intense publicity, promotional and merchandising campaigns, co-ordinated nationally and in some cases internationally to synergise the launch of important new movies e.g. *Superman* (1978).⁴³

Today, such synergistic campaigns are even more elaborate and are necessary because the fundamental business model of the industry has changed since the Studio Era of Old Hollywood when the Majors were vertically integrated producer-distributor-exhibitors and the prime assets were in theatre real estate. There were no post-theatrical markets so a movie lived and died on its theatrical release and box office cash-flowed the studios. Today, as vertically integrated producer-distributors, the core business of the Majors is the development and management of intellectual property. The commercial potential of movies is assessed prior to a green-lighting production and marketing has significant input in

⁴³ “*Superman* (1978), in particular, marked the first wholly successful instance of blockbuster synergy, with every arm of the Warner Brother conglomerate successfully feeding the next: Warner Brothers television showed short films about the making of the film; Warner Brothers records released John Williams’s music soundtrack of the film; Warner books released eight titles and DC comics, acquired by Warners ten years previously, bought out 28 comic books; while another Warner subsidiary Atari, bought out a *Superman* pinball machine” (Shone 2004 p. 99).

identifying movies that can be branded and positioned to become blockbuster movie franchises like *Harry Potter* and *Star Wars*. The theatrical release is really the branding platform because 80% of movie revenues now come from post theatrical markets and that does not account for licensed merchandising or from other revenue streams realised from the Major studios corporate sibling business units like music companies, book publishers, computer games, theme parks etc.

New Hollywood markets its blockbusters on a global scale and more and more within a compressing time frame in order to quickly recoup the Majors' massive investments in production and marketing. In the New Hollywood Era, there is no competitor anywhere in the world that can currently match the Major studios promotional capabilities or their ability to develop and manage an appropriate marketing mix.

This section showed that for almost ninety years Hollywood has demonstrated superior strategic marketing management capabilities than any rivals anywhere in the world. Even during the post Studio Era that ended with the financial collapse of the Majors before they were taken over and re-capitalised by new parent companies, no domestic or international competitors were able to compete on even terms with Hollywood in terms of their overall marketing capabilities.

11.4 INTEGRATED MARKETING COMMUNICATIONS CAPABILITIES

The goal of a marketing communications program for any new product launch is to communicate the firm's value proposition to the target audience through the promotional mix and to integrate the various media used so that buyers receive a clear and consistent message about the positioning of the product and its benefits. Former President of Paramount's worldwide marketing Gordon Weaver stated: "*The challenge of movie advertising is to speak with one voice*" (Rothenberg 1990). This section will show using a selection of historical examples that Hollywood's Major studios have successfully co-ordinated their promotional efforts and integrated their marketing communications.

Some industries enjoy the luxury of much longer product lifecycles, more leisurely product launches and some took decades to realise the need for tightly integrated marketing communications. This was not the case in Hollywood where the Major studios have by necessity long understood the need for IMC. Since Hollywood's early days, when the Majors adopted the Studio system model and mass-produced movies to feed their theatres and distribution pipelines around the world, studio marketers had to face a never-ending

stream of new product launches, every week of every month of every year. And due to the short shelf-life of movies, they have only one chance to get the marketing launch right. The audience is the final judge and the result of their marketing efforts culminates in success or failure on the day the film is released.

In an article that he wrote on movie publicity, advertising and exploitation, Universal's founder and first President Carl Laemmle, highlighted need to integrate all of the campaign communication elements in order to present a consistently clear message to target audiences: *"The prospective patron is therefore sold through an association of ideas which link up all the advertising mediums"* (Laemmle 1927).

Blockbuster movies have always required a blockbuster marketing effort. On each large-scale campaign there are a diverse range of publicity, promotion, merchandising and advertising activities that need to be co-ordinated in order to ensure that a clear and consistent message permeates the different media and that the positioning of the new movie is strategically controlled as intended by its marketing strategy.

Fred Goldberg a former senior studio marketing executive with U.A. and Columbia described a tightly integrated studio approach to movie marketing launch campaigns involving the co-ordination in the lead up to the release of an array of marketing elements – promotional films, external agencies, publicity, press kits, broadcast promotions, screenings, press junkets, college promotions, field representatives, film premieres, star tours, local and national promotional partners, sales promotion, merchandising , TV clips and the media campaign - TV, print, outdoor etc. (Goldberg 1991 p 83-155).

In Old Hollywood: *"Programming allowed the studios to carefully time the release of their tie-in merchandising to maximise exposure. The two most critical areas for tie-ins – were fashion and music. Songs that were to be featured in upcoming major releases needed to be recorded and released to radio stations several weeks before opening night. M.G.M. radio head Les Peterson would meet once each week with the studio's musical director, Johnny Green, to go over the latest songs and pick the ones they thought could become hits. Meanwhile the studio's costume designers would meet with the buyers from the most prestigious and influential clothing manufacturers to introduce dress patterns, accessories and color schemes months ahead of the release date"* (Sennett 1998 pp 28).

In New Hollywood, “*Once you have a release date for a big picture, the momentum is like a tsunami. It’s got so much momentum – the toys are being sold, the videos are being sold, the marketing machine, everything starts to work*” (Shone 2004 p. 206).

How have the Majors integrated their marketing communications?

In Old Hollywood, until the 1950s in the era when implementation of marketing campaigns was de-centralised and the local campaign was the domain of theatre managers, press books were the device used by the Majors to ensure that IMC occurred in the launches of new movies into the world’s movie theatres.

Press Books helped facilitate integrated marketing communications

As discussed in Chapter Nine, the golden age of circus marketing from the 1880s until the Great Depression, not only influenced the development movie industry marketing but also helped shape advertising, promotion and publicity practices throughout American business (Weil 1932; Gaines 1990; Zotti 1983). A key publicity tool used by circuses was the press book, which provided newspapers in each town with ready-to-run feature stories and photos about the circus and its acts. It was adapted by Hollywood as an advertising service to exhibitors providing ready made-ads for local newspapers, exploitation ideas for local promotional and merchandising tie-ins and a selection of press releases and stories to place in the local newspapers (Anonymous 1915).

Press books were also critical marketing management control device used by the Majors to ensure that marketing communications were integrated during the campaign.⁴⁴ Universal President Carl Laemmle emphasised the strategic role that press books played in Studio marketing campaigns: “*On the completion of a picture and following its viewing, the three departments of advertising, publicity and exploitation combined first on the preparation of a press book or campaign book. This constitutes a complete and encyclopedic guide to the*

⁴⁴ “The studios wanted to control the advertising and keep a close watch on every aspect of a picture’s promotional campaign. For the studios, the heart of the publicity department’s work was the press book. Press books were created for exhibitor’s eyes only and the goal was craven manipulation. Every studio, from giant M.G.M. to tiny Republic, used press books. Every feature film, both A’s and B’s had one.” (Sennett 1998 p. 69; pp. 132-133). “The typical press book ran somewhere between twenty and thirty pages. Each would begin with a display of the different advertisements and posters available to the exhibitor to place in the theatre window or lobby and in the local papers. This section would be followed by a page or two of promotional ideas specifically tailored for the movie in question. Near the end, the book would include a cast list, a synopsis of the plot, several ‘prewritten’ reviews (to give to papers and radio stations who couldn’t afford their own critics), and promotional portraits of the stars” (Sennett 1998 p. 71). “Press books were distributed free of charge to theatres well in advance of a film’s release. Printed on heavy-coated stock, they usually contained camera-ready ads or mats, publicity stories, and all promotional and merchandising campaign strategies. They served as catalogs for ordering movie poster material, which was often depicted on the back cover. These items were targeted to reach pedestrians who walked past theatre lobbies, local storefronts, or billboards” (Bassoff 2000 p. 19).

local theatre owner in selling the picture to the public. In effect, it places in the employ of the smallest theatre owner in the country, the services of the best possible advertising, publicity and exploitation brains that we can secure. There are publicity stories of all possible usable sizes and on every angle of appeal to which the picture lends itself, which the manager may take to his local newspaper. After filling in the name of the theatre. There are suggested advertisements from one-inch single column up to one-page sizes on the more important pictures that are ready for use with the insertion of the theatre's name. The exploitation department supplies a variety of ideas aimed at providing something that the village theatre can utilise, as well as ideas for the biggest city theatre" (Laemmle in Balio 1976 pp 161-163).

Press books comprised four sections – advertising, publicity, exploitation and accessories – each section, created by marketing specialists in the Studio marketing team and contained the approved campaign and media materials to be used by theatres to market the movie.

Market segmentation, positioning strategy and a desire to ensure that promotional elements were integrated drove the development of each Studio press book.⁴⁵ They contained a range of suggested local promotion and merchandising opportunities and provided theatre managers with an understanding of the Studios other related promotional activities and by doing so, facilitated an integrated marketing communications approach at local level of campaign implementation. *"Promotion for 'Red River' (U.A. 1948) included advertisements for Winchester rifles and small arms (as featured in the picture). The studio encouraged exhibitors to co-ordinate the release of Red River in their town with a rifle tournament sponsored by the local gun club, ROTC or police. In addition, musicals would get a boost from the score. Five songs from the Warner Brothers musical remake of 'One Sunday Afternoon' (1948) were recorded by popular singing stars of the day. The sheet music and records were available for sale in the lobby"* (Sennett 1998 p. 135).

⁴⁵ "Different types of films demanded different kinds of press books. Action and adventure films were usually top heavy with graphics. For *Captain Blood* (1935) Warner Bros. included two pages of pirate tie-ins as well as a suggestion for a local promotional angle that would involve your local fencing team. For *'Gun Fury'* (1953), Columbia set up its distributors with posters, lobby cards, and framed stills, which were distributed to local western apparel dealers to augment their stock. For the so-called prestige pictures, press books were more elaborate. *'Now, Voyager'* is perhaps the classic example. Warner Brothers held a contest to see how many fans could guess the name of movie titles based upon other famous quotations. There was a book tie-in (from the best selling novel). There were life-size cut-outs of Bette Davis, Paul Henreid and Claude Rains available for the lobby. Warner Brothers publicity department designed nearly three dozen different posters in several sizes. Exhibitors were offered a choice of taglines for banners ranging from mild to provocative. Warner Brothers invented copy-ready makeup tips from stars Bette Davis and Geraldine Fitzgerald, to insert into women's magazines and the home-maker sections of daily newspapers. With the press books, would come with the names and addresses of businesses across the nation who would be willing to provide novelty perfumes, dresses, cigarette cases, wigs, cigars, guns, games, toys – you name it – to help with a specific picture's promotion" (Sennett 1998 p. 71, p. 136).

Divorcement impacted every aspect of Hollywood's approach to making and marketing movies, resulting in the end of de-centralised campaign implementation and the demise of the press book: *"By 1950, exhibitors were no longer chained to the studios and the need for press books dissolved. Television was rapidly replacing radio as the advertiser's dream medium. Daily newspapers were slowly dying on the vine. The trend towards independent production and the rise of the independent star totally obliterated the need for factory like studio publicity departments."* (Sennett 1998 p. 79).

Post Divorcement: Studio marketing is centrally driven and outsourced

In the last half-century, as the influence of television as an advertising medium increased and TV advertising became the single largest component of Hollywood marketing budgets, launch strategies and implementation became centrally driven by studio marketers, co-ordinating the efforts of in-house personnel and external providers because many marketing functions are outsourced to specialist agencies e.g. trailer production, advertising agencies, unit publicity, merchandising licensees, promotional partners etc.

Studio marketers today also need to communicate with and co-ordinate the efforts of the Majors' corporate siblings in the music industry, publishing, cable TV, the Internet and the other associated entertainment businesses operated by the parent corporations that have vested interests in synergist marketing with the Majors on new movie launches.

Famous campaigns that demonstrate the Majors' IMC capabilities

A selection of seven major marketing campaigns used by the Major studios to launch blockbuster movies over the last eighty years are summarised in Appendix 51. It demonstrates that mega-marketing campaigns are not new to Hollywood. The Majors marketing machine has always operated on a grand scale and over many decades has implemented tightly co-ordinated campaigns involving massive publicity blitzes, large-scale promotions and merchandising and intensive advertising.

In contemporary Hollywood, Studio marketers become involved at the script development stage and are asked to forecast box office and merchandising potential of movie projects and the likely marketing launch costs at screenplay stage (Epstein 2005 p. 140). After the green-light is given to produce the movie, a marketing task-force is appointed within each studio with the mission to segment and target the right audience and to develop and implement a strategically co-ordinated marketing strategy involving publicity, advertising, merchandising

and promotional campaigns that will launch the movie and provide marketing synergies to other companies within the media group (Epstein 2005 p. 179-187).

11.5 CHAPTER SUMMARY

A popular perception that Hollywood didn't really begin marketing until the 1970s has been shown to be inaccurate based upon the historical evidence and an analysis of Hollywood marketing practices over the industry's first century. Throughout the Old Hollywood Studio era (1915-1949) and in New Hollywood (1975-2005) the Majors' displayed a marketing orientation and a keen awareness of strategic marketing principles.

In both Old and New Hollywood, the Majors used film genres, movie stars and temporal distribution to segment markets; strategic branding (using movie stars and advertising imagery) to target and position movies to audiences and the evidence shows that they integrated their marketing communications to project a clear consistent creative theme across all media channels as they did with *The Jazz Singer* (Warner - 1927); *Gone With The Wind* (MGM - 1939); *The Ten Commandments* (Paramount - 1956); *Gigi* (MGM - 1958) *The Sound of Music* (Fox -1965); *Jaws* (Universal 1975); *Indiana Jones* (Paramount - 1984) and *Spiderman* (Sony-Columbia - 2004).

The historical evidence demonstrated that during the Studio Era, the Major studios of Old Hollywood strategically planned marketing campaigns from head office but de-centralised responsibility for implementation in each town to theatres to attract local audiences to see a changing weekly program of screen entertainment (feature film, shorts, cartoons and newsreel). The Majors ensured integrated marketing communications by publishing press books for each movie that equipped local theatre managers with all promotional elements they would need to launch new films in their market. Press books were devised by advertising, publicity and promotions experts in the studio, and provided theatres with a range of pre-approved ads, posters, ready-to-publish feature stories and promotional ideas that could be employed in the local market.

After the Majors were forced to sell their theatres the business paradigm changed. Each movie now had to be individually financed and marketed and the Majors centralised the implementation of marketing campaigns as the now-independent theatre chains ceased to play an active role in launch campaigns and television replaced newspapers as the preferred advertising medium increasing advertising budgets significantly.

This chapter showed that with the loss of their theatre chains and with shifting societal and demographic trends, the Majors became disconnected from their audience and lost their marketing orientation in the post-Studio Era from the 1950s – 1970s. They were no longer able to make movies that could attract a mass audience on a regular basis, resulting in a steep two-decade decline in attendance and box office and a severe movie industry recession in 1969-72 that led to a wave of corporate takeovers at the Major studios.

In New Hollywood (1975-2006), this chapter showed that the Majors re-established a marketing orientation and have once again effectively implemented strategic marketing management practices that resulted in an upsurge in theatre attendance after the home video boom from the mid-1980s.

In terms of Vorhies and Harker's six core marketing capabilities, this chapter provided historical evidence that showed Hollywood's Majors possessed superior marketing management and superior strategic marketing capabilities to rival firms or film industries over the entire 20th Century. Box office statistics show that no competitor has seriously challenged Hollywood at any time even during Hollywood's weakest period from 1950-1973 when the Majors slid towards financial disaster, no rivals were able to replace Hollywood as a viable alternative vendor of commercial movie entertainment to the world's theatres.

CHAPTER 12: **BARRIERS TO ENTRY AND HOLLYWOOD'S MAINTENANCE OF DOMINANCE**

12.0 INTRODUCTION

Previous chapters used theoretical lenses developed in Chapter Three to determine the role that corporate mergers and superior firm performance (based on strategic marketing capabilities) may have played in the acquisition and maintenance of Hollywood's market dominance. Chapter Three also highlighted the role that entry barriers can play in maintaining dominance. This chapter will discuss Hollywood's defensive strategies i.e. how the Majors have constructed and used barriers-to-entry to eliminate or reduce the threat of any serious challengers emerging to challenge the Hollywood oligopoly's market leadership. The guiding question relevant to barriers-to-entry was: To what extent has *entry deterrence* played a significant role in maintenance of dominance by leading firms in the movie business?

In the literature review in Chapter Two, the reader is reminded that for the purposes of this thesis, barriers to entry are deemed to be deterrence strategies that *only affect new entrants* (Stigler 1968) and have been specifically devised to create a competitive advantage that serves as such a barrier (Salop 1979; Schmalensee 1987). Additionally, these barriers will be analysed to determine if they were *enduring barriers* that contributed to Hollywood's persisting dominance from 1930-2004. Table 12.1 below has been constructed to provide the reader with an overview of the author's analysis of the barriers-to-entry that Hollywood erected and/or devised and maintained during the three time periods that have occurred since the silent film era. It should be noted that only those entry barriers shown in bold, italicised type proved to be *enduring barriers* that served to perpetuate Hollywood's dominance over time and it is argued below that those enduring barriers were all grounded in the strategic marketing management capabilities of the Major studios.

Table 12.1 Barriers to entry erected by Hollywood 1930-2004

1930-1949 Old Hollywood	1950-1974 Hollywood-in-decline (TV Era)	1975-2004 New Hollywood
Vertical integration – Majors strategic control of exhibition in world's largest market (U.S.)	Vertical disintegration – enforced sale of Majors theatre chains under U.S. anti-trust laws	Vertical re-integration – Majors strategic control of post-theatrical markets (video, TV)
Slate-financing using movie theatre chain real estate as collateral for bank loans to finance annual movie production.	The Majors were forced into single picture financing which proved to be an unsustainable business model in an increasingly uncertain market	Slate-financing reintroduced because it spreads the risk for investors – the Majors can now recoup from theatrical + post-theatrical markets (DVD, TV, Cable, Internet).
<i>Big budget movies with high production values + big stars differentiates Hollywood</i>	<i>Big budget movies with high production values + big stars differentiates Hollywood</i>	<i>Mega budget movies with high production values + big stars differentiates Hollywood</i>
Movie stars were contracted employees – <i>Hollywood paid big salaries to retain top stars</i>	Movie stars were free agents – <i>Hollywood paid big salaries to secure top stars in movies</i>	Movie stars were free agents – <i>Hollywood pays mega salaries to secure top stars for movies</i>
<i>Worldwide distribution</i>	<i>Worldwide distribution</i>	<i>Worldwide distribution</i>
<i>Unrivalled marketing capabilities and expenditure</i>	<i>Unrivalled marketing capabilities and expenditure</i>	<i>Unrivalled marketing capabilities and expenditure</i>
The Majors strategic ownership of theatres road-blocked independent films access to the most profitable cinemas.	After the enforced sale of theatres, the Majors reduced their annual output creating a product shortage facilitating opportunities for independent films to play to wider audiences	Hollywood's wide-release distribution for blockbusters road-blocks multiplex screen availability shutting out independent films.
Block booking required theatres to play all studio films from a studio and road-blocked independent studio access to the most profitable theatres	Hollywood abandoned block booking after 1948 when it was declared illegal under anti-trust laws - more screen time became available to Hollywood's rivals.	Leading multiplex chains rely upon Hollywood studio product to fill theatres in order to optimise box office & candy bar revenues - so less screen time is available to independent films.
<i>Hollywood built unmatched brand equity with audiences, cinemas and with film financiers</i>	<i>Hollywood retained unmatched brand equity with audiences, cinemas and with film financiers</i>	<i>Hollywood retains unmatched brand equity with audiences, cinemas and with film financiers</i>
<i>Hollywood created a 'parallel world' of reality entertainment</i> – based on the cult of celebrity and designed to facilitate high involvement – gossip columns, radio shows, fan clubs, fan magazines, film awards.	<i>Hollywood maintained the 'parallel world' of reality entertainment.</i> Japan, Britain, France, Germany had their own studios and stars but none matched the globally reported daily Hollywood soap opera.	<i>Hollywood perpetuates its parallel world of reality entertainment</i> - celebrity gossip, scandals, awards, box office reports, TV shows, merchandising, movie websites and on-line fan communities.
		Recurring cash flow from film libraries in post-theatrical markets.
		TV package sale formulas are linked to theatrical box office and P&A (marketing budget)
		Global merchandising partnerships e.g. Disney-McDonalds 10 year deal
		Product placement agents want Hollywood movies

Note: Bold, italicised barriers have endured over time

12.1 THE MOVIE BUSINESS

Movies are a creative product and as the majority of films fail in theatrical release, it is impossible predict with any degree of certainty, the box office performance of any movie (DeVany 2004 pp. 71-98). Movie production therefore carries high financial risks because a movie needs to gross box office revenues 3-4 times larger than its negative cost (production budget) in order to break even (Daniels, Leedy and Sills 1998; Wasko 2003 pp 98).

Historical evidence presented in Chapter Eight showed that the Major Hollywood studios have developed significant distribution capabilities, operating global distribution networks since the 1920s, so they have had the size and scale of operation to be able to release and market their own movies in both theatrical and post-theatrical markets around the world. This has enabled them to amortise losses for a movie occurring in one territory against profits gained in other territories in each window of release. The Majors have also been able 'slate-finance' their annual production portfolio (raise funds for an annual portfolio of movies), which means that they can also amortise losses across the entire slate.

In contrast, independent producers have to finance each individual movie and the key to them securing production finance is usually a pre-sale with a known film distributor and without guaranteed distribution, anything other than a guerrilla movie will not get made (Weise 1991).¹

This would seem to indicate that scale economies from vertical integration are a barrier-to-entry that sustain Major studio dominance and prevent the emergence of serious competition. However, the Walt Disney Company began as a small, animated studio that grew organically in size by producing hit movies that achieved significant box office success without Disney employing a strategy of vertical integration. Table 12.2 below illustrates this point. It sequentially lists the all-time highest grossing box office hits and shows that Disney's first big animated feature film *Snow White and the Seven Dwarves* became the highest grossing movie of all-time in 1937. The movie was distributed by R.K.O., Disney owned no theatres and this was long before Disney owned theme parks and produced television shows. This is an example of a studio that initially using a niche strategy (animated and family films) but evolved into a Major studio unaided by vertical integration.

¹ An occasional guerrilla film like *El Mariachi* (1992) made for US \$7,000 or *Blair Witch* (1997) made for \$35,000, does find a theatrical release and become a box office hit but the vast majority remain unreleased and unseen by a paying audience or just don't get made.

Table 12.2 The all-time record for highest grossing films

Year	Movie holding the all-time highest record for gross film rentals	Studio	Distributor	Gross film rentals in U.S. dollars
1915	<i>Birth of a Nation</i>	Epoch	Epoch	\$3 million
1921	<i>Four Horseman of the Apocalypse</i>	Metro	Metro	\$4.5 million
1923	<i>The Big Parade</i>	MGM	MGM	\$5.5 million
1937	<i>Snow White and the Seven Dwarves</i>	Disney	RKO	\$6 million
1939	<i>Gone With The Wind</i>	Selznick	MGM	\$22 million rose to \$77 million after re-issues in later decades
1965	<i>Sound of Music</i>	Fox	Fox	\$79 million
1972	<i>The Godfather</i>	Paramount	Paramount	\$86 million
1973	<i>The Exorcist</i>	Warner	Warner	\$89 million
1975	<i>Jaws</i>	Amblin' Universal	Universal	\$129 million
1977	<i>Star Wars</i>	LucasFilm	Fox	\$193 million
1982	<i>E.T.</i>	Amblin' Universal	Universal	\$228 million
1993	<i>Jurassic Park</i>	Amblin' Universal	Universal	
1997	<i>Titanic</i>	Lightstorm Fox Paramount	Fox Paramount	\$600 million

Sources: Variety, IMDB and Hollywood Blockbusters

NB. Schickel (1968 p. 193) states that 'Snow White' grossed US \$8.5 million in its first run

NB. Film rentals equate to roughly one third of gross box office.

Vertical integration does not explain Hollywood's enduring dominance

From 1930-2004 the Majors used three different business models, two worked (Old Hollywood and New Hollywood) and one did not work during the TV era (Hollywood-in-decline), so whilst the Majors were wholly or partially vertically integrated in all three eras, a vertical integration strategy did not save them from severe financial decline between 1950-1974. Historical evidence presented and discussed in Chapters Seven and Eight showed that Hollywood maintained its dominance during that era because there were no serious challengers capable of usurping the Majors' global market leadership at a time when they were strategically vulnerable.

In Old Hollywood, the Majors had devised a business model that sustained them for three decades based upon ownership of the most profitable theatres in the world's wealthiest cinema market – America. Huettig (1944) argued that this strategic control of U.S. exhibition was the underlying cause of Hollywood's dominance because the Majors were not only able to recoup their production budgets within the home market but those theatre chains also cash-flowed the Majors' vertically integrated manufacturing-distribution-retail business operations and theatre real estate provided security for bank loans to finance their movie production. In Old Hollywood, the star system was at its zenith and stars attracted regular

audiences to theatres. The Majors were unrivalled during this era. Domestic competitors were the 'poverty row' studios Republic and Monogram that produced B pictures and independents like Goldwyn and Disney that were distributed by R.K.O. or by U.A. Chapter 8 cited historical evidence that showed a few large vertically integrated foreign studios e.g. Britain's Rank Organisation, Germany's Ufa and Japan's Shochiku, Nikkatsu and Toho, whilst very successful in their own home markets made little impact globally and never seriously challenged Hollywood as global competitors.

The enforced sale of the Majors' American theatre chains after the 1948 anti-trust ruling resulted in the *vertical disintegration of the Majors* which undermined Hollywood's business model. Without theatre chains and with block booking outlawed under the same ruling, the Majors movies were no longer guaranteed a theatrical release, so every movie had to be individually financed and marketed. Business risks increased dramatically as the Majors in their diminished role as producer-distributors, escalated production budgets to raise quality and reduced their output. High profile movie stars became a security blanket for would-be investors and for exhibitors who would buy movies sight-unseen.

TV began to diffuse in America in the 1950s and elsewhere in the 1960s, so throughout this era, theatrical releases still provided the vast majority of movie revenues. Post-theatrical sales were minimal. It was a business model that proved to be unsustainable with fewer movies, bigger budgets and much higher risk of failure. The Majors all went broke by the late 1960s, being taken over by larger business conglomerates. R.K.O. ceased production entirely in the mid-1950s and was replaced by Disney within the Hollywood oligopoly of eight studios.

Since 1975, innovation and diffusion of new technologies created high-growth, post-theatrical markets for New Hollywood and by the 1990s, revenues from home video, Pay TV and other ancillary markets greatly exceeded movie theatre revenues (see Table 12.3 below).

Table 12.3 The revenue mix for Major movies

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: Wasko (2003) p. 175

Additionally Hollywood blockbusters also earn significant additional revenues from merchandising sales (music, movie character licensing etc). As in the Old Hollywood era, the Majors have today developed a sustainable business model that once again enables them

to finance slates of movies because the risk of big budget movies is spread across a range of films.²

By 2004, the eight Major studios were owned by, or in the case of Disney and Warner Brothers – owned, larger media conglomerates that dominate network, cable and satellite TV, the music industry; the theme park industry and publishing (see Appendix 52). This means that these corporations have in effect *vertically re-integrated* because Hollywood once again controls the entire value chain for filmed entertainment as it once did in Old Hollywood. Although not permitted to own theatres, the Majors or their parent corporations own all of the major film distribution companies that release films theatrically and on video, or licence them to TV. They also own the six major U.S. TV networks, the majority of cable TV networks and Movielink – an Internet movie-download service owned by five of the Major studios. By controlling film distribution to all media, the Majors use the theatrical release to showcase their movies but realise most profits further down the value chain.³

The Major studios sell post-theatrical broadcast rights and licensed merchandising rights to their corporate siblings within the conglomerate which means that the money basically circulates and stays within these corporations. *“It is the ability of the studios to retain revenues in-house which is the key to their viability. Otherwise, they would pay out on the winners and have to soak up the losses of the losers. In this respect the business is like gambling, where the bookie takes the bulk of the takings”* (Dale 1997).

This creates a significant barrier for new entrants at two levels, firstly only corporations of global scale like General Electric through its subsidiary NBC, can afford to acquire a Major studio like Universal, or Sony with its acquisitions of Columbia and MGM-UA. Second, in film production-distribution, this global scale of operation creates a systemic barrier to independents that by are by comparison only very small businesses.

Higher profile independent film studios in many cases have a strategic partnership with a Major studio e.g. Britain’s Working Title is partially owned by Universal and Hollywood’s Revolution Studios has a five year output deal with Sony. More typically, smaller

² For example M.G.M.’s Star Partners and Disney’s publicly floated Silver Screen Partners I, II, II (Silver Screen Partners II 1996; Vogel 2004 pp. 87-88).

³ Academy award nominated producer James Schamus said: *“There is no such thing as cinema – it is simply an advertisement for what you in fact financed – a television and video program. From time to time, a “Jurassic Park” (1993) can turn a profit at the box office, but for the vast majority of films an exhibition run in cinemas is simply an advertising campaign that lends an aura of cinematic legitimacy to the ‘back end’ ancillary exploitation of the film in various forms of television and other media – video rental and sales, pay and basic cable, broadcast television and satellite transmission. This ‘back end’ long ago became the front end in terms of financing and ultimate revenues”* (Schamus 1998).

independents have to individually finance each picture they make, often having to give away distribution rights in order to secure production finance. Consequently they remain small businesses because they have to pre-sell the intellectual property of their movies in order to survive and can't build a film library that would provide recurring cash flow. This is analagous to the situation that the independent American studios battling Edison's Trust (MPPC) found themselves in before Paramount came into existence and revolutionised the distribution model.

To summarise, vertical integration did provide the Majors with a size and scale that served as a barrier to entry but this strategy cannot account for Hollywood's enduring dominance. The Big Five studios (Loews-M.G.M., Paramount, Fox, Warner and R.K.O.) in Old Hollywood were fully vertically integrated in production-distribution and exhibition but the Little Three (Universal, Columbia and U.A.) and Disney were not.

After 1950, although the Majors were all vertically integrated producer-distributors, it did not prevent them from severe financial decline and by 1970, all had been taken over by larger conglomerates.⁴ In New Hollywood, the Majors remained vertically integrated producer-distributors but their parent corporations have established a de-facto vertical-reintegration into exhibition by owning the major companies and/or major suppliers in the post-theatrical markets - home video, Network TV and cable TV networks where 77% of movie profits now lie (Table 12.3 above and Appendix 52).

12.2 BARRIER: MEGA BUDGET MOVIES AND 'A' LIST STARS

Chapter Seven defined production values as production-design elements that equate to product attributes, thus movie stars, directors, writers, special effects, cinematography, costumes, art design, sound design, music and locations all contribute to, or detract from a movie's production values and reflect it's quality. Bigger budgets provide producers with more resources that enables "*what are known in the trade as production values i.e. an expensive look*" (Schickel 1968 p. 262).

Whilst the Major studios individually pursued different strategies to compete with each other within the American market during each era (Appendix 44), since the Hollywood oligopoly

⁴ R.K.O. became defunct and was replaced within the oligopoly by the emerging Disney in the mid-1950s, the latter was a studio that had grown organically by niching with great success in the animated-family film market segment *without the benefits of any vertical integration* and in fact did not even establish its own film distribution company Buena Vista until 1953, by which time it had already produced eight 'Top 5' hit movies that had been distributed by R.K.O. and had grossed over \$250 million (Hollis and Sibley 1988 pp. 62).

emerged as the dominant force in the movie business, the Majors have continually increased production budgets as a means of differentiating Hollywood's movie quality from the lower budget-lower quality offerings of international and domestic rivals (See Table 7.10 in Chapter Seven).

Historical evidence presented in Chapters Seven and Eight showed that the Majors in Old Hollywood produced a large output of movies in order to provide 52 weeks of programming for lower run movie theatres, as well as producing 'super specials' (blockbusters) for 1st and 2nd run theatres that enjoyed much longer product lifecycles (De Mille in Kennedy 1927). In this era, movie stars were the drawcard that attracted returning audiences and the Major studios retained stars on-staff as contracted employees. While Studio Era market leaders M.G.M. and Paramount had many stars under contract, other studios ran comparatively smaller star rosters.⁵ However it was the popularity of the biggest stars that clearly differentiated Hollywood's movies from other product and massive salaries paid to the top stars contracted to the Majors served as a high barrier-to-entry to rival studios in America and abroad.

In the TV era, when movie stars became free agents, fees paid by the Major studios to secure 'A list' stars to appear in blockbuster movies escalated and continue to do so today, so they serve as a deliberately-engineered barrier-to-entry to Hollywood's rivals.

In New Hollywood, recent empirical research has demonstrated that movie stars no longer guarantee box office (De Vany 2004, Gilbert 2005) however the Majors are still willing to pay exorbitant fees to secure A-list stars in order to differentiate studio movies.⁶ Media reports of movie star mega-salaries provide publicity value and further emphasise Hollywood's differentiation to the public.

Rivals non-aligned with Hollywood's Major studios lack the financial resources to match such fees so they serve as a barrier-to-entry to independents.

⁵ 20th Century-Fox (Mordden 1988 pp 272); Warner Brothers (Behlmer 1985 pp 54-55), Universal (Izod 1988); and RKO often had to borrow stars from other Major studios (Jewell and Harbin 1982 p. 7), Columbia, U.A. and Disney retained no stars.

⁶ 'A list' movie stars like Tom Cruise and Mel Gibson who earn \$20 million or more per picture and also have "back-end" deals entitling them to a percentage of the gross revenue after global theatre expenses have been deducted (Natale 2000). In some cases, the top stars are paid a percentage of the gross box office as well as a large acting fee. As much as one third of the box office gross is drawn up-front for movie star salaries in back-end deals (Puttnam 1997 pp 282).

Other production values inflate movie budgets and act as barriers

Production budgets ('negative' costs) have spiralled since the 1970s, not only due to rising salaries but also due to the extensive use of costly special effects (computer generated imagery or CGI) that have become commonplace in Hollywood movies and also differentiate them from lower budget rivals (Karney 2000; Germain 2001).

Hollywood movies have always been known for their elaborate, costly and epic sets and unrivalled special effects e.g. the chariot race in *Ben-Hur* (M.G.M. 1925 and in the 1959 remake); *King Kong* (R.K.O. - 1933); the parting of the Red Sea in *The Ten Commandments* (Paramount - 1956); *Cleopatra* (Fox 1963) and the disaster movies of the 1970s – *Airport* and *Earthquake* (Universal 1970 and 1974) and *Towering Inferno* (Fox and Warner 1974). However the advent of CGI in *The Andromeda Strain* (Universal 1971) and particularly *Star Wars* (Fox 1977) introduced a new industrial specialisation - the creation of computer-generated special effects on a scale of post-production that only Hollywood-backed movies can afford to undertake.⁷ With computers increasing in power and the rate of affordable effects software increasing, this could change in the near future.

The spiralling cost of production and the marketing of Hollywood movies significantly raised the economic break-even point (Wyatt 1994 pp 78), that presents a further barrier to entry to rivals because only Hollywood's Majors can amortise losses from a \$100 million + budget movies that fails at the box office across an entire slate of movies and later recoup production and marketing costs from the more lucrative post-theatrical markets which they also control.

In all three eras, the gamble and failure, on a single, mega budget movie has brought a Major studio to its financial knees.⁸ Appendix 53 lists the movie industry's biggest budget box office disasters and demonstrates why smaller rivals cannot sustain such heavy losses.

Increasingly, the Major studios have co-ventured on movie productions, in order to spread the risk on the very high budget film projects, often splitting distribution territories as part of

⁷ For example - *Titanic* (Fox and Paramount 1997) budget \$200 million; *The Day After Tomorrow* (Fox 2004) budget \$125 million; *Superman Returns* (Warner 2006) budget \$204 million; *Chronicles of Narnia* (Disney 2006) budget \$180 million; *Spiderman 3* (Sony 2006) budget \$250 million.

⁸ *Show Boat* almost ruined Universal in 1936 (Dick 1997 p. 100); *Cleopatra* bankrupted 20th Century-Fox in 1963 (Solomon 2002 p. 140) and *Heavens Gate* undermined the financial viability of United Artists in 1980 (Bach 1985). Such high-risk gambles virtually destroyed much smaller studios - Sir Lew Grade's I.T.C. which was badly shaken after the failure of its \$36 million gamble on *Raise the Titanic* (1980). The box office flop of the \$140 million *Final Fantasy* (2001) deterred further attempts at a large-scale entry into the movie business producer Square Co. - the entertainment software company backing the film version of its popular computer game restricted its efforts to an animated TV series and video games (Brodesser and Graser 2001) and see also <http://www.imdb.com/company/co0035851/>.

the deal e.g. Fox released *Titanic* in America while Paramount had distribution for the rest of the world. Research by Goettler and Leslie (2004) found that about one-third of Major studio productions between 1987-2000 were co-financed.

The entry barriers to independents caused by New Hollywood's strategic focus on mega-budget tent-pole pictures that have caused dramatic increases in production budgets and marketing expenditures during the 1990s has elevated the business risk to such a high level that it is beyond the grasp of most foreign competitors (Kindem 2000). Appendix 53 shows the dramatic escalation in average negative cost (production budgets) for Major studio movies since the mid-1980s. By comparison the average cost of a French film in the early 2000s was under \$10,000,000.⁹

Appendix 54 shows the average marketing launch costs for the Major studios compared to the Mini-Majors (Dreamworks, Miramax, New Line and Pixar - all of which are now owned by the Major studios).

Frumes (1999) argued that increasing cost of production and marketing benefits the Majors even though they complain about these costs because it “*shuts independents out of the distribution system*”. His rationale was that independent producers have difficulty attracting the most popular movie stars because the profitability of their films is restricted by the fact that they can't access the best cinema screens without the kind of scale and scope of distribution that only the Majors possess. Therefore, leading stars were likely to be less attracted to independent movies that had no such studio distribution arrangements.

As smaller businesses, independents are further disadvantaged by being undercapitalised. “*Single-picture financing*” is not attractive to investors because they can't spread risk (across a slate of film releases) and independents can't afford to hire the biggest stars for their films because the “most important talent” wants the best possible marketing of their movies in order to maintain their own star profile.

In summary, Hollywood has used a competitive strategy based on quality with increasingly larger film budgets to differentiate Major studio movies from lower budget offerings from rival producers and foreign film industries. The Majors have leveraged their ability to access significant production finance in order to raise the production values of their movies on an ongoing basis, resulting in spiraling film budgets and associated marketing costs. This thesis

⁹ “Several French films this year had marketing budgets north of 10 million francs (US\$1.4 m), well above the norm for a fairly big French film release” (James 2001).

argues that this represents a systemic barrier-to-entry that independent American rivals and foreign competitors cannot compete with and has contributed to Hollywood's ability to maintain its dominance in the global film industry.

12.3 BARRIER-TO-ENTRY: HOLLYWOOD'S GLOBAL DISTRIBUTION AND MARKETING

Chapters Eight and Nine in this thesis identified historical evidence that demonstrated the Major studios developed far superior global distribution and promotional capabilities than their rivals and these have remained unmatched since the late 1910s.

The Major studios in Old Hollywood produced a mass annual output of movies to provide regular programming for their theatre chains, and as part of their distribution strategy used block-booking to ensure that their movies were exhibited widely in world cinemas. This practice road-blocked access for independent film companies to the most profitable and best-located movie theatres by limiting the amount of available screen time. Although block-booking was outlawed in the United States 1948 anti-trust ruling against the Major studios, they continued the practice in foreign territories.

After 1950, Hollywood significantly reduced its annual output to focus on making fewer but higher quality movies, which created a product shortage that was filled by independent films. However Chapter Eleven provided market share statistics that showed despite the severe financial deterioration of the Major studios in the 1950s and 1960s due to their inability to produce a stable supply of hit movies to world cinemas, even at Hollywood's lowest point in 1958, the Majors still accounted for 89% market share while the rest of the world's films had a combined share of only 11% (Chapter Eleven, Table 11.1).

Only Hollywood makes tent-pole movies (Shone 2004), because the Majors operate on the basis that it is a better investment for them to focus their resources and make only a few tent-pole movies each year and supplement them with acquisitions from smaller independent studios known as negative pick-ups that fill-out their distribution rosters (Dale 1997).

Hollywood blockbusters are produced at such high cost that the Majors are under intense ongoing pressure to rapidly recoup film rentals in order to repay massive production loans

and reduce interest payments hence release windows between theatrical, video and cable release are continually compressing (Silver and McDonnell 2007).¹⁰

Consequently, in order to achieve that goal the Majors adopted increasingly aggressive marketing and saturation release strategies: *“The real story of the summer is how the opening-is-everything mentality which has dominated Hollywood studio thinking for some years became such a merciless reality. Most blockbusters were released into over 3000 sites and within those sites, often to three or four screens. If you fail to stir up interest - you are instantly dead. Subsequent weekends will offer no chances of redemption”* (Goodridge 2001).

Until 1978, the Majors typically allocated only 10% of a movie’s production budget towards marketing but when Columbia launched *Midnight Express* it was the first time that marketing costs actually exceeded the film’s budget (Puttnam 1997 pp 309). Other Hollywood studios soon adopted the use of much larger media budgets to support wider release strategies for blockbusters with saturation TV advertising. This also further raised barriers-to-entry, making it very difficult for any independent company or potential entrant wanting to become a serious player in the movie industry to compete on a very uneven playing field.

Chapter Eight (Table 8.9) showed that the average number of prints for a Major studio movie going into release was 300 from the early 1930s until the early 1970s (*Film Daily Year Books* 1933, 1949, 1950, 1958). After that time the Majors implemented increasingly wider releases for their blockbuster movies and by the mid-2000s, the biggest movies were launched simultaneously into 4,000+ theatres with multiple prints in many of those multiplexes e.g. *Shrek 2* launched into 4,163 theatres (Allison 2006; Widest Opening 2007).¹¹

Wide release in theatrical markets also establishes rapid brand equity that enables an earlier release to video market and the ability to earn faster revenues in order to repay debt on production, acquisition and distribution. In television, sale prices of the Majors movies to the

¹⁰ “With heavy pressure to recoup expenses from rising negative costs and promotional campaigns, combined with the heightened risk of producing movies, the pressure to maximise cash from sales channels as quickly as possible is great indeed” (Egol 1998).

¹¹ “A related trend has been increasingly wider releases for movies, that are then supported by increasingly larger P&A budgets to launch the film try and guarantee that it “opens” (Diorio 2001). “The marketplace is so crowded nowadays that a good movie with weak marketing will undoubtedly fail. But a bad movie with great marketing? Hell, that’s called *Batman and Robin*, and it grossed \$107 million” (Anonymous 1998).

networks are calculated using agreed formulas based on box office ranking.¹² Hollywood's dominance of global distribution channels achieved through the establishment and maintenance of international distribution infrastructure and through adoption of release strategies that enabled the Majors to optimally exploit market opportunities has road-blocked independent rivals since the late 1910s and served as a critical barrier to entry.

Film Libraries provide the Majors with recurring cash flow

In Old Hollywood, the value of Major studio movies at the end of their theatrical run was a book value of only one dollar because post-theatrical markets did not exist as ancillary revenue sources until the TV networks became buyers in the late 1950s. TV revenues remained only a minor ancillary market until the growth of Pay TV markets in the 1970s-1980s reached critical mass and the cable networks became large-scale buyers of movies for programming.

In New Hollywood, the Majors vast film libraries provide them with a recurring source of income through ongoing sales to post-theatrical media. Table 12.3 above showed that the combined revenues from these markets for the average movie are larger than the theatrical release and these media channels are continually hungry for both new and old movie product. The Majors film libraries are replenished each year with new releases that generate revenues that reduce the Majors' reliance on film rentals from the more volatile theatrical market and help to stabilize their cash flow. This is an advantage unavailable to smaller independents that do not own film libraries.

12.4 FILM FINANCING: A SIGNIFICANT BARRIER FOR INDEPENDENTS

Independent film makers from around the world are reliant on distribution pre-sales from theatrical, video and television markets around the world to enable them to piece together the production finance they require to make their films (Weise 1991). If they have an attractive commercial project that attracts the interest of a Major studio, then they are forced to sell the intellectual property rights in order to obtain a distribution guarantee that enables them to secure the production finance to make their movie. Consequently, as small businesses surviving from film-to-film taking producer's fees within the film budget, they are unable to develop their own film libraries as company assets, which in turn limits their potential for

¹² "License fees for domestic (U.S.) TV usually are based directly on the theatrical box office of the film. In these deals, a film must have appeared in a minimum number of theatres, for a minimum number of weeks, with a minimum amount of advertising expenditures" (Wasko 2003 pp 89-90).

company growth. Independent film financing is therefore more difficult to obtain because those smaller companies don't have the asset base (property, investments and film libraries) that the Majors can offer as security to a financier.

Unlike the small independent film companies that access finance on an ad hoc picture-by-picture basis, the Majors strategically access their annual capital requirements through a variety of sources including long term relationships with banks, equity raising on the U.S. stock market (e.g. Disney's Silver Screen Partners I, II, III) and from their own parent companies (Lees and Berkowitz 1981; Wasko 2003 pp 34).

Slate-financing (funding an entire portfolio of movies) by a Major studio is commercially attractive to investors and financiers because it spreads the risk. Hollywood dominates international film financing because investors know that a studio-backed movie will receive a marketing launch large enough to establish the brand sufficiently to guarantee post-theatrical sales in DVD and TV to cover the investment even if it fails at the box office. Conversely, independents reliant upon on single-picture financing, experience high barriers-to-entry in trying to obtain production funding from lending institutions because their projects carry much higher risk for much lower potential returns and will not receive the same level of marketing support as a Major studio movie.

Thus, Hollywood's access to large-scale film finance is reinforced by strategic relationships that the Majors have developed over many years with leading banks and financiers.¹³ This presents another formidable barrier to entry for smaller independent film companies that don't enjoy such relationships because as many producers are creative and often don't possess the relationship marketing skills or in-house financial sophistication to develop long-term corporate relationships with high flyers in the financial community.

In recent decades, the Major studios and their channel partners (Wall Street firms, banks, financiers, accounting firms, agents) have been able to devise a range of off-balance sheet financing schemes based on IPOs to fund entire slates e.g. Silver Screen Partners for Disney movies and the Delphi Fund for Columbia product (Bart 2006); or through bond issues to institutional investors (Peers 1997), or by using foreign tax shelters (Epstein 2005) or hedge funds to finance entire slates of Major studio productions that have proven to be attractive to

¹³ Wall Street firm Kuhn, Loeb underwrote Famous Players-Paramount's \$ 10 million stock issue in 1919 and A.P. Giannini who purchased the Bank of America in 1928 had previously provided \$100,000 to Harry and Jack Cohn and their partner Jack Brandt to form C.B.C. in 1922 which became Columbia Pictures in 1924. Bank of America became heavily involved in movie business financing (Puttnam 1998 p. 95-97).

investors in the USA, Europe and the Middle East (Goldsmith 2007). For example Citibank raised \$1 billion in film finance for both Fox and for Universal in 1997 (Peers 1997).

Financial brokers play an active role in such deals and are attracted to the Major studios because the risk of investment for their clients is comparatively lower and the upside significantly higher than it would be for much lower budget, independently produced films.

¹⁴ Even Hollywood's leading talent agencies act as middle-men securing production finance for Major studio movies, ¹⁵ and foreign financiers also arrange large slate-financing deals with the Majors (Dawtrety 2007).

The Majors have also been able to construct intricate financing deals for individual blockbusters that helped them off-load much of the risk to investors who can take advantage of foreign tax shelters. ¹⁶

Comparatively, smaller independent films like *Sideways* (\$16 million) simply can't employ the same strategy *"because the international financing game favors big-budget movies with international appeal – the lawyer's bill for arranging the transaction would eat up most of the leaseback skim – and a film like Sideways lacked the advance name recognition (of stars) that's required to ring-up large pre-sales in foreign markets"* (Epstein 2005).

¹⁴ "Each week brings announcements of new funding entities under various labels, Warners has its *Legendary Group* while Paramount has *Melrose Investors*, and most recently, *Gun Hill* at both Sony and Universal. Some of the money stems from hedge funds, some of it arrives via the *Deutsche Bank* or *Merrill Lynch*" (Bart 2006).

¹⁵ "Agencies are creating production funds in order to remove some of the financial burden from the studios and generate jobs for their clients. The end of the master franchise agreement last year left CAA, ICM and WMA free to seek foreign financing deals and make equity investments in production companies" (Bing 2003).

¹⁶ For example, Paramount used a foreign tax shelter to finance \$94 million *Lara Croft: Tomb Raider* (2001) that enabled it to minimize its own financial risk on the film. "In fact, the entire movie cost Paramount less than \$7 million. They used the German tax shelter gambit, (where) there's no risk or cost for the studio. Germany allows investors in German-owned film ventures to take an immediate tax deduction on their film investments. The Hollywood studio starts by arranging on paper to sell the film's copyright to a German company. They then immediately lease the movie back – with an option to repurchase it later. At this point the German company appears to own the movie. The Germans then sign a 'production service agreement' and a 'distribution service agreement' with the studio that limits their responsibility to token – and temporary – ownership. For the privilege of fake ownership, the Germans pay the studio about 10% more than they'll eventually get back in lease and option payments. For the studio, the 10% is instant profit. Paramount sold the copyright for \$94 million. Paramount then repurchased the film for \$83.3 million in lease and option payments. The studio's \$10.2 million windfall paid the salaries of star Angelina Jolie (\$7.5 million) and the rest of the principal cast. Paramount made more pre-production cash in Britain under the Section 48 tax relief – the studio netted, up front, another \$12 million – enough to pay for the director and the script. To pay for the rest of the movie, Paramount sold distribution rights in six countries where the *Tomb Raider* video games were a big hit with teenage boys. The pre-sales brought in another \$65 million" Through this triple play, Paramount earned a total of \$87.2 million. The remaining budget – less than \$7 million – would be covered by licensing the film's U.S. pay TV rights to Showtime (a network owned by Paramount's corporate parent Viacom)" (Epstein 2005).

Robert Redford made an interesting observation: “*Hollywood is a business and the only thing in my mind that ever really threatens really threatens Hollywood, is if money is threatened*” (Redford 2005).

The evidence cited above demonstrates that in terms of barriers-to-entry, the world of film financing is not a level playing field and small independents cannot compete because big money from around the world is attracted to Major studio movies. This scenario has been strategically engineered and nurtured by the Major studios over many decades.

12.5 SYSTEMIC BARRIERS FOR INDEPENDENTS AND ENTRANTS

Hollywood’s lock on global distribution to all media and its superior marketing capabilities creates a systemic barrier in two ways that disadvantage smaller films from independent producers that are released with much lower P & A (marketing) budgets. Not only do they have difficulty getting distribution access to cinema screens that are mostly blocked by product from the Majors studios (Dickson 2001) but smaller films also receive very limited marketing exposure and often need a few weeks in release for positive word-of-mouth to spread so that they can find their niche audience. However, competition is so intense today, that this is cinema screen-time that is no longer available because the Majors tentatively pre-book their entire production slate up to one year in advance with the leading theatre chains thus blocking screen-time to rivals.¹⁷

Consequently, independents working outside the Hollywood system are considerably disadvantaged by limited access to production finance because they can’t secure global distribution and marketing which in turn affects the value of potential TV sales. This scenario undermines the independent sector’s potential profitability: “*57% of independent movies in budget range (\$3m-\$25m) lose money*” (Boorstin 2001). It also undermines the ability of other national cinemas to achieve a critical mass in production and the economies of scale in distribution that would enable effective competition to Hollywood to emerge.

In summary independents working outside Hollywood can’t compete with Hollywood’s distribution and marketing capabilities in the world film market. The Majors global distribution and promotional capabilities present a massive barrier-to-entry not only to

¹⁷ *Variety* reported that by the end of the American summer in 2001, theatre screens for the following summer in 2002 were already 60% booked in advance by the Majors (Diorio 2001). The proportion of all national screens available to a new first-run independent title varied from as low as 0.6 % for Japan and 1.17% in Italy up to 13.4% in Belgium and 13.8% in Australia. The EU average is around 7.5%” (Screen Digest 1997, 2001).

individual independents trying to find space for their movies in an intensely competitive film market but also to any global corporations considering entry into the motion picture business.

12.6 GLOBAL MERCHANDISING PARTNERSHIPS RAISE BARRIERS

The Major studios in New Hollywood have employed three marketing strategies that reinforce barriers-to-entry for independent films. Firstly, certain types of blockbusters have significant potential for promotional tie-ins and the Majors establish global and local merchandising partnerships with large corporate partners that can join in cross-promoting the movie for mutual benefit, as well they can realise significant revenues from licensed merchandising sales.¹⁸

Such large-scale opportunities only exist for Hollywood blockbusters that present global marketing synergies for potential partners, so small independent films in their battle to create a market space and establish their brand, not only face the promotional might of the Major studios, but also the collective marketing power of all of those corporations that tie-in with the launch of Hollywood movies and in doing so cross-promote their own products. This presents a significant barrier-to-entry that began in Old Hollywood on a comparatively smaller scale. Merchandising was transformed into a business model that could provide significant alternative revenue streams to the box office by Walt Disney in the 1930s and 1940s and was later adopted by the Majors for blockbuster marketing on a large scale since the merchandising success of *Star Wars* in the late 1970s.¹⁹

Product placement revenues strengthen Hollywood's position

Chapter Nine showed that product placement in movies was also not a new phenomenon and began during the Studio Era in Old Hollywood. However, from the 1970s commercial tie-ins and product placement began to become more commonplace in the marketing of blockbuster movies. Hollywood has since developed a sophisticated and substantial market for product placement in movies, television programs and their spin-off video games. The Majors today

¹⁸ MGM-UA's James Bond film *GoldenEye* (1995) contracted 200 different commercial tie-ins whose marketing synergies helped launch the movie (Lukk 1997 p. 59; pp 65-66). Disney negotiated seven promotional partnerships with global corporations such as S.B.C., Procter and Gamble and McDonalds worth over \$200 million in promotional support for the launch of *The Incredibles* (Schiller 2004). Disney and McDonalds had a ten-year agreement to cross-promote and jointly merchandise Disney films through McDonalds restaurants.

¹⁹ *Variety* executive editor Stephen Gaydos stated: "A successful Hollywood film can make about \$120m from the box office. On top of that, it can generate about \$60m from ancillary products, such as videos, DVDs and pay-per-view. Strong merchandising, however, can then add another \$50-200m, depending on how exploitable the film is" (Clark 2001).

have teams of dedicated product placement executives working on-staff who read scripts while they are still in-development and identify potential product placement opportunities for the studio. Many consumer product companies have committed to product placement strategies and some have their own in-house executives to realise those opportunities.²⁰

Product placement in Hollywood has developed into a multi-billion dollar industry in its own right (<http://www.productplacement.biz/>) that yields significant revenues for the Major studios and creates additional barriers-to-entry for independent producers around the world that struggle from film-to-film to piece together production finance that they need.

12.7 “HOLLYWOOD-THE-BRAND”: AN INSURMOUNTABLE BARRIER?

“Hollywood” as the entertainment capital of the world has in essence become a brand in its own right that has, for a century, created and maintained unrivalled brand equity with audiences, the media, cinema programmers and with film financiers. Previous chapters in this thesis have provided historical evidence that showed that Major studio movies and Hollywood stars receive the most global media attention, the greatest share of cinema bookings, the greatest share of the international box office as well as ongoing interest from the general population.

Whilst leading Bollywood movies and stars may command equal or even greater attention and adulation within India and with the Indian diaspora, its movies and stars have little noticeable impact in terms of attracting international publicity and export revenues. The leading stars from rival film industries such as Amitabh Bachchan (Bollywood), Gong Li (China), Ken Watanabe (Japan) and Sophie Marceau (France) generally remain unknown with a mass audience unless they appear in Hollywood films. Even the most ardent fans of independent cinema anywhere in the world might have difficulty naming ten leading Bollywood stars whilst they could easily name fifty or more Hollywood actors. And all other national film and television industries face the same problem. Many non-Hollywood stars command loyal and dedicated followings within their own home film and TV markets but French, Italian, Japanese, Chinese, Korean and Australian films and stars receive comparatively little international attention and thus exposure in mainstream media, unless they are involved with a studio movie and Hollywood’s marketing machine.

²⁰ “AT&T had 500 clear product placements in 1993, while Ford had nearly 350 placements worldwide that same year. And in late 2002, Universal Pictures formed a Brand Group involved in creating branded entertainment around the studio’s films” (Wasko 2003 pp 158).

This has created an enormous and systemic barrier-to-entry for rival film makers because Hollywood has such strong brand equity that its films are not only the preferred choice of movie-goers worldwide as box office trends clearly demonstrate, but they are also the preferred choice of movie theatre bookers around the world because they draw the biggest audiences and cinemas rely on candy bar sales for real profits and thus need to optimise attendance.

Hollywood is also the preferred choice of film financiers because of the unparalleled brand equity enjoyed by Major studios that have dominated global cinema for almost a century and have proven to be the only film studios in the world that have delivered a continual supply of successful blockbuster movies for almost a century: *“The growing foreign investment in the American entertainment industry, far from being a challenge to this country’s longstanding dominance of the business, reflects a worldwide belief that only Hollywood can meet the rapidly expanding global demand for films”* (Stevenson 1990).

12.8 HOLLYWOOD’S PARALLEL WORLD: ELEVATE BARRIERS FURTHER

Hozic (2000) observed: *“Hollywood is currently one of the largest and most profitable sectors of the U.S. economy. In just a few decades, it has transformed itself from a dying company town into a merchandising emporium of movies, games and licensed characters”*.

This view addresses only the enhanced and diversified economic power that the Major studios developed since the decline and demise of Old Hollywood. It does not however address an even more formidable barrier-to-entry constructed by Hollywood and faced by independent filmmakers that undermines the latter’s potential for export success.

This thesis proposes that a *parallel world of entertainment* has been engineered over-time by Hollywood’s marketing machine that is integrated with, and co-exists alongside the movies themselves. Its strategic purpose is to perpetuate interest in and stimulate demand for the Hollywood system of filmmaking by facilitating high levels of ongoing consumer involvement with studio movies and stars, and in the process, develop and maintain a pool of likely innovators and early adopters for future Hollywood movies (as per Rogers diffusion model).

This *parallel world of entertainment* has been built on four foundations that work synergistically to create a significant barrier-to-entry for independent rivals. The four foundations are 1) Promotion of movie stars both in their on-screen film roles and in their off-screen their sometimes scandalous private lives - thus creating an ongoing real-life soap

opera played out on a daily basis on a global media stage. 2) Publicity that showcases new movies and promotes them as brands. 3) Related merchandising - licensed characters, costumes and toys that tie-in with movies to facilitate high levels of fan involvement and engagement through play or play acting and 4) Movie awards that attract intense publicity for Hollywood's films and its actors and other creative personnel.

This parallel world began with Carl Laemmle's recognition in 1909, that the 'star system' used by legitimate theatre could be transposed and applied to the movie industry. The Majors nurtured the star system and became expert at exploiting it and as the public's fascination with the stars and their private lives grew - the cult of celebrity emerged. Chapter Nine discussed the strategies and tactics used by the Majors to exploit movie star fandom, which included using stars for personal appearances enabling them to interact with the fans in public places during the launch of new movies. It involved stars appearing in PR and promotional roles through all available media outlets to profile a studio or its movies. Fan clubs were encouraged and their growth facilitated by support from the Major studios.

Today, the media (fed by Hollywood publicists) creates a massive and ongoing global soap opera 'branding' stars in stereotypical bad boy (Robert Downey) / good girl (Jennifer Aniston) roles that stimulate interest among fans who regularly follow the lives of their favourite stars and the making of Hollywood movies through the entertainment media e.g. TV shows like Entertainment Tonight, cable channels like E! and a proliferation of movie-related websites have replaced the old fan magazines and fan clubs, as well as through womens' magazines and the tabloid press. Contemporary fans can follow the production of forthcoming films, track the lives of their favourite stars and become actively involved in this world through interactive media on the Internet that provides the opportunity for the creation of massive online communities of dedicated fans of a particular movie or movie star.

Hollywood has also engineered a now-institutionalised calendar of annual media events and seasons to facilitate ongoing fan interest and involvement in its film and TV industries (see Appendix 34). This is analogous to the football season and game-of-the-week. December-March is the annual movie awards season in which major film critics associations (New York, Los Angeles, Boston, National Society of Film Critics), the Golden Globes, the BAFTA's and the Oscars are all awarded to recognise excellence in film making. Cannes follows every May and although it is Europe's leading film event, over the last two decades it has attracted the highest profile Hollywood stars and senior executives from the Major studios, which in turn attracts publicity and reinforces Hollywood-the-brand in Europe's own

back yard. May-September is the American summer season for the release of blockbuster movies during the school holidays, and then TV's Emmy awards are presented in August-September. Whilst October-November is traditionally a 'soft period' with no major film events, some major Hollywood blockbusters (e.g. *Harry Potter and the Goblet of Fire* – 2005) have been launched in mid-November and run through the Christmas season, the second major period of the year for Hollywood box office. Virtually the whole year is covered by Hollywood's institutionalised calendar of media events.

Historical evidence presented in Chapter Nine and also briefly discussed above, highlighted the emergence of a multi-billion dollar licensed merchandising industry in Hollywood. The Major studios now enter hundreds of promotional partnerships with corporations to synergistically promote the launches of major new movies and associated merchandising. Symbiotic relationships have developed between these parties in whose interest it is, to perpetuate the status quo of Hollywood's dominance. This 'parallel world' of Hollywood related entertainment has taken on its own pop culture dimension and involves the manufacturing, distribution and retailing elements of the screen entertainment industries (film, video, TV) and the channel members that support them - banks, financiers, insurance companies, talent agents, corporate partners for merchandising and promotional tie-ins and even the American film schools that produce next generation talent.

Non-Hollywood films must now find space in an increasingly crowded marketplace and media by competing not only with the marketing might of Hollywood but also that of its commercial partners in Corporate America, Corporate Europe and Corporate Asia.

In effect, independent film is a parallel universe with other national cinemas - Bollywood, China/Hong Kong, French and Italian cinema and foreign TV actually existing as parallel worlds within that universe. Movie awards and film festival awards send signals of quality to the industry and out through the media to audiences, and using the 'parallel universe' analogy again, festivals act as wormholes through which the highest quality small films are discovered by the Majors for a wider commercial release and new creative talent is also identified and lured to work in Hollywood.

Hollywood has engineered high levels of consumer involvement and attachment

The marketing literature on involvement theory identifies personal relevance and situational factors as antecedents of involvement (Zaichovsky 1995; Andrews, Durvasula and Akther 1990) and argues that involving communications attract more attention or cognitive effort

(Greenwald and Leavitt 1984; Celsi and Olson 1988) which helps to explain fan devotion and behaviour towards favourite movie stars.²¹ There is evidence of personal relevance and situational factors coming into play in relation to movie star fandom and Sherif and Cantril's (1947) early work on ego-involvements supports this view.²²

Consequently, Hollywood's strategic exploitation of the media since the mid-1910s has enabled the Majors to continually stimulate demand for its movies through the development of movie stars as icons within popular culture and creation of a large worldwide body of 'involved' fans highly receptive to Hollywood's marketing communications and likely to become the innovators, early adopters and in some cases early majority by attending movies featuring their favourite stars. The deliberate 'human branding' of celebrities through P.R. programs strengthens the bonds with fans and facilitates deepening relationships, particularly if those P.R. activities provide opportunities for interactivity e.g. personal appearances, star tours, media interviews, publicity stories, responses to fan mail etc (Thomson 2005 p. 116).

Moviegoing is an important social activity within youth culture. Involvement theory supports the view that consumers can feel that particular product categories can be "*especially relevant to their lives*". (Flynn and Goldsmith 1993 p. 357). Children in the 1950s dressing up as Davy Crockett or today as Batman or as Disney characters, or adults dressed in *Star Wars* and *Star Trek* uniforms while queuing up to buy movie tickets or attending fan conventions provide evidence of very strong feelings of personal relevance and felt-involvement (Zaichowsky 1986 pp 9; Celsi and Olson 1988 pp 210-211) and of people making strong personal connections to such movies through advertising (Krugman 1964) which is highly motivated behaviour directed towards "hedonic/experiential benefits" (Engel, Blackwell and Miniard pp 252-253).

The social consequences of not being part of a major movie event present a situational and decision factors that could be severely detrimental in some social circles. This makes movie attendance highly personally relevant, especially to youth.

²¹ "For the most part, researchers have agreed that an involving, persuasive communication is one that is personally relevant and important to an individual (Zaichowsky 1985; 1986). There is also emerging consensus that involving communications attract more attention or cognitive effort (Celsi and Olson 1988; Greenwald and Leavitt 1984). Thus, higher levels of consumer involvement result in persuasion when a message is potent – that is, able to resist recipient scrutiny and counter arguing" (Greenwald and Leavitt 1984; Petty and Cacioppo 1983; Pratkanis and Greenwald 1993 pp 221-222). Andrews, Durvasula and Akhter's (1990) framework for conceptualising involvement proposed personal and situational and decision factors are the antecedents of involvement and that other factors can constrain the involvement state i.e. opportunity to process (media or distractions) and ability to process (knowledge or familiarity). Andrews et al defined involvement as an individual, internal state of arousal with three properties - intensity (arousal to engage in specific information processing or goal related activity); direction (towards a stimulus) and persistence (duration of the involvement intensity). The consequences of involvement in their framework are search behaviour, information processing and persuasion. They believe that this internal state can be separated from its numerous antecedents and consequences and that its properties are grounded in motivation. Motivation derives from forces/drives that move one from an initial state to a desired state and help direct arousal or activation levels towards stimuli.

²² "*We see ourselves in movies. The enormous appeal of motion pictures is due in no small part to the vicarious satisfactions they provide. By projecting ourselves into the characters and situations, we can momentarily escape and audiences are attracted to people with whom they can most easily identify*" (Sherif and Cantril 1947).

12.9 OTHER BARRIERS WERE NOT ENDURING OVER TIME

Huettig (1944) argued that Hollywood studio ownership of the most profitable movie theatres in America was a significant barrier-to-entry that sustained the Majors dominance of the movie business. The historical evidence supports this theory until 1948 when the Majors were ordered by the U.S. Supreme Court to sell their theatre chains, yet they have remained dominant for nearly sixty years since then, so it can be concluded that strategic ownership of theatres has not proven to be an enduring barrier-to-entry that can account for Hollywood dominance.

It has also been argued that block-booking, previously been discussed in Chapter Eight, was a business practice employed by the Majors that guaranteed release of their own movies, regardless of quality (Huettig 1944; Balio 1985; Gomery 1986; Izod 1988). This practice road-blocked access theatres for independent film companies who were unable to gain a release for their product. The inability to secure adequate bookings for Warner Brothers movies was a significant factor in that studio's decision to acquire their own theatre chains (Warner-Sperling and Millner 1994). Block booking served as a significant barrier-to-entry for independents until the 1948 Supreme Court ruling that outlawed the practice. However, like theatre ownership, it did not prove to be an enduring barrier-to-entry that has enabled Hollywood to dominate the movie business for another six decades.

12.10 CHAPTER SUMMARY

Chapter Three highlighted disagreement within the scholarly literature on what actually constitutes a barrier-to-entry. Bain (1956) proposed cost advantages, product differentiation and scale economies. Porter (1980) contended that they were wide ranging and included government policy; economies of scale; capital and resource requirements, absolute cost advantages; proprietary product differences; access to distribution channels; customer loyalty, brand preferences and switching costs. Stigler (1968) however argued that all firms in an industry have to contend with potential barriers like government policy and having to accessing capital, so a barrier to entry exists only when it affects new entrants and not incumbent market leaders. Stigler's (1968) definition was used for the purposes of analysis in this chapter.

The historical evidence presented in the above discussion on barriers-to-entry demonstrated that those barriers erected by the Major studios in Hollywood that have endured and have

sustained their dominance from the late 1910s until the present day were all based upon competitive strategy and upon strategic marketing capabilities.

The evidence showed that the Majors have enjoyed cost advantages derived from scale economies in production, distribution and exhibition, however after 1948, they switched from the mass manufacturing model of production that served them well during the Studio Era when they owned their own theatre chains to an outsourced production strategy based on high quality production values in order to differentiate their products from rival film industries. This has resulted in continually escalating film budgets to cover ever-increasing movie star salaries, spiralling costs to produce sophisticated special effects and high costs of shooting on location rather than in a studio, as was the case prior to 1950.

Independent filmmakers lack the financial resources to secure the services of the world's biggest movie stars and they also cannot afford to compete with Hollywood in terms of producing effects-laden films. Thus the Major studios new product strategies designed to differentiate their movies based on quality (high-cost production values), actually serve as a barrier-to-entry to smaller independent rivals. Thus Hollywood has enjoyed is a distinctly superior marketing capability in terms of new product development (see Chapter Seven).

The only cost advantages based on scale-economies that have endured over time lie in the distribution sector, where the Major studios' worldwide distribution operations, which they developed in the late 1910s, remain unchallenged by competitors in terms of scale, scope and expertise. Film production finance is contingent upon producers securing a distribution guarantee and Hollywood controls the distribution channels thus restricting opportunities for independent studios to secure finance. Independent distributors can only offer independent producers comparatively limited pre-sales to fund production, a limited release and much smaller marketing budgets to launch new product in an increasingly crowded marketplace. Hollywood's lock on distribution represents a significant barrier-to-entry to independent rivals and is another superior marketing capability (see Chapter Eight).

Since its inception in the mid-1910s, Hollywood has also remained unrivalled in terms of its marketing communications capabilities (skills, expertise, experience and large marketing expenditures). This factor serves as an enduring barrier-to-entry to independents.

This chapter also argued that as a result of the Major studios long-standing dominance and marketing capabilities, "Hollywood-the-brand" carries significant brand equity with global cinema audiences; with cinema operators who prefer to book and play Hollywood movies

because they are perceived to have greater commercial potential; with film financiers who perceive that Major studio distribution lowers the commercial risk which in turn makes film financing easier for movies backed by the Majors; and finally with the media (general and entertainment) that has a symbiotic relationship with Hollywood because it is reliant on the Hollywood publicity machine for stories on new movies, stars and business news and so provides greater coverage than it does for rival film industries. Thus, Hollywood-the-brand has presented a formidable and enduring barrier-to-entry to smaller independent film companies and rival industries trying to finance and market low budget films and create space for them in an intensively competitive global market.

The final enduring barrier-to-entry is also based upon a strategic marketing foundation. This chapter argued that Hollywood has supported its movies by engineering a “*parallel world of entertainment*” designed to facilitate high involvement from movie consumers in order to create and maintain a pool of innovators, early adopters and early majority consumers (Rogers 1983 diffusion model) desiring to see new release movies from the Major studios. This ‘*parallel world*’ has been based on four marketing foundations: – 1) Movie publicity that launches new films. 2) Strategic development of a cult of celebrity surrounding movie stars that exploits the public’s appetite for news and gossip about their private lives and facilitates an ongoing ‘soap opera’ playing-out daily in the world media and attracting ongoing publicity for Hollywood stars and Major studio movies. 3) Licensed merchandising on a global scale for Hollywood blockbusters that enables children and adults to become actively engaged with particular movie brands, thus raising their level of involvement with those movies. 4) Movie awards that are given out on a regular seasonal basis that focus increased media attention on Hollywood movies and stars.

These four pillars work synergistically and have created another enduring barrier-to-entry to smaller independent rivals that again face enormous difficulty to create media space for their films.

CHAPTER 13: CONCLUSION

13.0 INTRODUCTION

Hollywood dominance was demonstrated in Chapter One through statistical tables showing that Major studio movies occupied large portions of available playing-time on cinema screens in the largest European markets across three different eras (1930, 1960, 2002) and that they achieved annual market shares ranging between 75%-95% in 2000, in America, Europe and Japan – the world's largest markets.

A multi-disciplinary literature review in Chapter Two identified twenty possible explanations for Hollywood's dominance but argued that no single explanation could explain the enduring dominance of the Major studios over nine decades. The approach taken by this thesis is patterned after a study by Jones (2001), so to understand how and why dominance occurs, Chapter Three drew upon existing economics, management and marketing literatures and then constructed a theoretical lens that holistically integrated existing theories into a framework through which Hollywood's dominance over time could then be understood. It determined that the researcher should look for historical evidence of corporate mergers that may have facilitated market dominance; for evidence that the Major studios were marketing orientated firms possessing superior marketing capabilities that enabled them to outperform rivals in both the acquisition and maintenance of dominance, and finally, for evidence of market leaders constructing barriers-to-entry designed to deter or restrict competition. The research question formulated in Chapter Three was: How did Hollywood's dominance arise and how has it been maintained? So, to facilitate an historical analysis of Hollywood's dominance, historical methodology was discussed in Chapter Four and a six-step method (Neumann 2000) was adopted for this thesis.¹

In Chapter Five, it was determined that only four of the nine Major studios merged during their rise to market leadership and it was argued that mergers *did not play the defining role*

¹ Neumann (2000) outlined six steps in conducting historical research: Conceptualise the inquiry, locate the evidence, evaluate the quality of the evidence, organise the evidence, synthesise evidence linking it with an abstract model or causal mechanisms and report writing. He also stated that historical analysis involves four types of evidence or data – primary sources, secondary sources, running records and recollections. Primary sources in historical studies include newspapers, industry trade papers, letters, diaries, photographs, films, newsreels and novels of the period under study. Secondary sources include written works and audio-visual works that were created after the period under study. Neumann (2000) contends that “*primary sources have realism and authenticity but the practical limitation of time can restrict research on primary sources to a narrow time frame or location. To get a broader picture, many historical-critical researchers use secondary sources, the writings of specialist historians who have spent years of studying primary sources.*” This study located some valuable primary sources including autobiographies, sanctioned biographies, recollections, letters and interviews but generally adopted Neumann's approach and sourced the most-cited film histories. Neumann (2000) also stated: “*Historical-comparative researchers who use case studies and qualitative data may depart from positivist principles. Their research is an intensive examination of a limited number of cases in which social meaning and context are critical. The distinct historical-comparative research method avoids the excesses of the positivist and interpretive approaches. It combines a sensitivity to specific historical or cultural contexts with theoretical generalisation.*”

in the acquisition of dominance. Chapters Six through Eleven, examined the marketing research, product, distribution, promotion, pricing and marketing management capabilities of the Major studios. Analysis of the historical evidence presented in these chapters indicates that the Major studios that became dominant in the 1920s clearly adhered to *the marketing concept*, several decades before the Academy of Marketing first devised that term and before General Electric was credited with being the first firm to adopt its core principles after World War Two (Barksdale and Darden 1971; Brown, Bell and Carson 1996 p. 54).

The evidence showed that the Majors were marketing orientated firms, externally focussed, trying to shape their business environment to their competitive advantage. Customer value drove the business philosophy at Paramount and M.G.M., the two market leaders during the first half of the 20th century and was imitated by the other Majors (*Variety* January 4th, 1956 p. 43; Gomery in Balio 1985 pp 223). The studios used marketing research to understand their customers, they acted with strategic intent to achieve an entrepreneurial vision and they acquired dominance by creating a comparatively superior value proposition to their rivals, because the evidence demonstrates that they excelled in each of Vorhies and Harker's (2000) six core marketing capabilities commonly found among the best-performing firms.

A historical analysis of the enduring barriers-to-entry constructed by the Major studios that protected their dominance over time was presented in Chapter Twelve. It argued that all enduring barriers were founded upon the Major studios' superior marketing capabilities.

This concluding chapter will first provide the reader with an overview of the literature review in Chapter Two on Hollywood's dominance that identified twenty possible explanations and will demonstrate why none can explain the enduring dominance of the Major studios. Second, it will briefly re-describe the theoretical framework and strategic marketing management lens developed in Chapter Three that enables a historical analysis of market dominance to be undertaken and directs the research to look for evidence of corporate mergers playing a role in the acquisition of dominance; for evidence of a marketing orientation, strategic intent and superior marketing capabilities enabling firms to outperform rivals in the acquisition and maintenance of dominance; and also to look for evidence that barriers-to-entry were erected by market leaders to constrain competitors. Third, it will briefly summarise the historical methodology used in this study and will provide an overview of the sources that were consulted and cited in the thesis. Fourth, this chapter will briefly re-visit the discussion on mergers in Chapter Five and concludes that while merger activity was evident in the rise of some Major studios to dominance, they did not play a defining role in that process and explains why. Fifth, this chapter will argue that

the historical evidence presented in Chapters Six through Eleven inclusive, indicates that the Hollywood Majors acquisition and maintenance of dominance for many decades has occurred because they possessed superior strategic marketing capabilities that provided a sustainable competitive advantage.

This chapter will then review the evidence presented in Chapter Twelve which suggests that barriers-to-entry have played a significant role in the maintenance of Hollywood's dominance but also observes that each of the enduring barriers that have sustained that dominance for so long, were all rooted in the strategic marketing capabilities of the Hollywood studios. The summary to this chapter argues that Hollywood's superior business performance to rivals is most logically explained by the Major studios' maintaining superior strategic marketing capabilities and that this provides a unifying theory that can account for each of the twenty possible explanations identified earlier in the literature review. Finally the original contributions and limitations of this study are identified.

13.1 HOLLYWOOD'S ENDURING DOMINANCE UNEXPLAINED.

Hollywood's dominance has been the subject of much research and scholars have proposed a range of single and multiple factor explanations. An inter-disciplinary literature review undertaken in Chapter Three identified twenty possible explanations of Hollywood's dominance and an analysis is shown below in table 13.1 that identifies the logical weakness of each individual explanation. This thesis concludes that none of them can individually explain Hollywood's enduring dominance.

Table 13.1 Twenty explanations for Hollywood's dominance

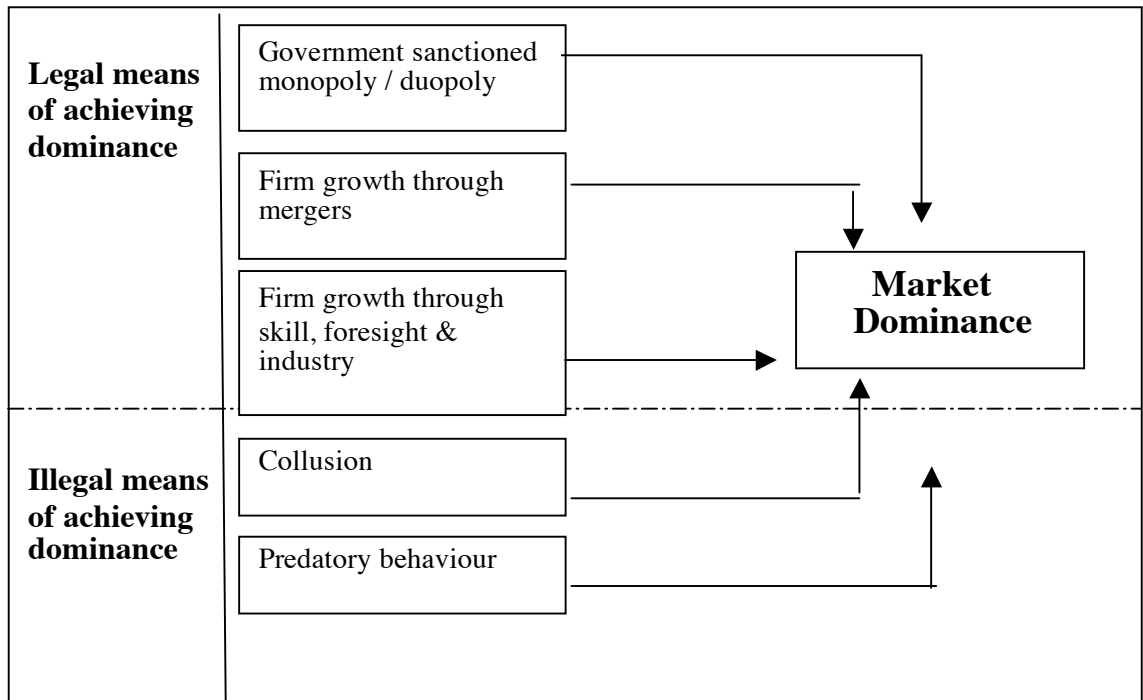
#	Explanation for Hollywood's dominance	References	Key weakness as an explanation for enduring dominance
1	World Wars halted European production, Hollywood filled that void and established its foreign distribution infrastructure.	Kindem 1982; Puttnam 1997; Ulf-Moller 1998.	In six decades since World War Two, no serious rivals have emerged in world cinema.
2	Hollywood benefits from the U.S. domestic market's large size and demography.	O'Regan 1992; Sklar 1994; Hoskins et al 1997; Jacobsen 2001; Waterman & Lee 2002.	India has the world's largest film market, so 'large home market' theory cannot fully explain the Majors' enduring dominance.
3	U.S. Government has actively assisted Hollywood to penetrate foreign markets.	Kindem 1982; Guback 1985; Izod 1988; Segrave 1997; Waterman & Jakayar 2000; Klein 2003.	This is true but what stops other national governments from using similar lobbying tactics to benefit their film industries?
4	Hollywood's exploitation of new technologies enabled the maintenance of dominance.	Wasko 1994; Cowen 2000; Hanssen 2000; Waterman and Jayakar 2000.	Pre-Hollywood dominant firms Edison and Pathe exploited new technologies but declined. TV and video initially undermined Hollywood. No rivals emerged to displace Hollywood.
5	Industry structure - the Major studio oligopoly is too powerful to compete with.	Balio 2002; Klein 2003.	Pre-Hollywood the MPPC was a comprised the nine most powerful film companies in the world but failed. The Majors were bankrupt during the 1960s and vulnerable. Disney grew organically to become a Major studio despite industry structure.

#	Explanation for Hollywood's dominance	References	Key weakness as an explanation for enduring dominance
6	Hollywood established movies as a legitimate business thus enabling access to capital.	Jones 2001.	Pre-Hollywood dominant firms Edison and Pathe had earlier legitimacy and access to large capital but declined as market-powers.
7	Major studios have access to significant resources that smaller rivals can't compete with.	Wasko 1982; 1994; Puttnam 1997; Frumes 1999; Cowen 2001.	Edison and Pathe were much larger than the early Hollywood studios but declined. Britain's Rank had larger financial assets than any Hollywood studio and owned 25% of Universal but did not become a globally dominant studio.
8	High barriers-to-entry block potential competitors.	Huettig 1944; Gomery 1986; Staiger 1985; Silver & Alpert 2003.	Pre-Hollywood MPPC erected seemingly insurmountable barriers but was usurped by the emerging Hollywood studios.
9	Industry clustering - Los Angeles is the entertainment capital of the world.	Veron 1999; Cowen 2001.	Other film industry clusters have existed but don't guarantee dominance (Paris, Rome, London, Tokyo, Sydney, Mumbai). Only France became globally dominant until 1914.
10	Hollywood waged deliberate political and economic war on rivals to weaken them.	Puttnam 1997; Klein 2003.	Large foreign conglomerates acquired some Major studios (News Corp; Sony, Vivendi, Matsushita) indicating Hollywood's periodic vulnerability but its dominance persists.
11	Economic theory of sunk costs explains Europe's decline and Hollywood's rise.	Bakker 2003.	Sunk costs theory cannot explain Hollywood dominance after 1950 after it reduced film output and significantly raised film budgets.
12	Vertical integration of Hollywood studios provided scale advantages over competitors.	Huettig 1944; Gomery 1986; Puttnam 1997; Silver & Alpert 2003.	The Majors vertically disintegrated after they had to sell their theatres from 1950s onwards and went bankrupt yet no rivals usurped them. Pathe and Gaumont were dominant and vertically integrated in the pre-Hollywood era but still declined. Rank was vertically integrated in all three sectors with larger financial assets than any Hollywood studio but did not become dominant.
13	Persistence of Hollywood's domination is due to Hollywood's adaptability and flexible specialization.	Christopherson & Storper 1986; Storper & Christopherson 1989; Aksoy & Robins 1992; Storper 1993.	Flexibility and adaptability don't guarantee dominance. Most film industries also adhere to flexible specialization.
14	Cultural channel economics have favoured Hollywood.	Wildman & Siwek 1988; O'Regan 1992.	Pathe was globally dominant exploiting all cultural channels in the pre-Hollywood era but declined. All English speaking film industries enjoy the same cultural channel advantages but have not usurped Hollywood's dominance.
15	Mass manufacturing capabilities based on Old Hollywood's Studio Era system contributed to dominance.	Staiger 1985; Abel 1994; Puttnam 1997.	Pathe's mass manufacturing capabilities were superior to American firms but it declined. In the 1950s Hollywood reduced its output and has not mass-manufactured films since. India and Japan mass manufactured films but did not become dominant.
16	Hollywood's commercial orientation and production strategy to make movies designed to entertain.	Puttnam 1999; Balio 2002; Schatz 2002.	Pathe was commercially orientated and dominated world film but declined. From 1950-1974 the Major studios went broke - they lost their commercial orientation. They were under serious threat again during the early video boom from emerging Mini-Majors.
17	Hollywood controls the distribution channels.	Lees & Berkowitz 1981; Gomery 1986; Kerrigan & Culkin 1989; Abel 1994; Puttnam 1997; Hoskins, MacFadyen & Finn 1997; Frumes 1999; Klein 2003; Silver & Alpert (2003).	Pathe dominated global film distribution but still declined. Rank's worldwide distribution network did not facilitate dominance. Cannon Films bought Thorn-EMI's worldwide distribution network but went broke. Global distribution does not guarantee dominance.
18	Hollywood used export cartels to dominate foreign markets.	Kindem 1982; Izod 1988.	This option has also been available to rival film industries but was never exploited.
19	Hollywood strategically controlled exhibition (retail) during the Studio Era.	Huettig 1944; Gomery 1986.	The Majors were forced to sell their movie theatres in the 1950s and have not owned cinemas for over half a century.
20	Hollywood has consistently demonstrated superior marketing communications expertise.	Danan 1995; Puttnam 1997; Segrave 1997; Waterman and Jayakar 2000; Cowen 2002; Schatz in Turner 2002.	Promotional capabilities are one element of the marketing mix. In other industries, foreign firms compete on equal terms with America in promotion. Why not in film?

13.2 THEORETICAL EXPLANATIONS OF MARKET DOMINANCE

Without a clear-cut explanation for Hollywood's enduring dominance, it became necessary to review the economics, management and marketing literatures to understand theoretically how dominance is acquired and why it persists. A discussion in Chapter Two determined that dominance is acquired through five routes shown below in Figure 13.1. Persistence of dominance is discussed below.

Figure 13.1 Five routes to market dominance



Note: This figure was constructed based on Hay & Vickers (1987)

Government sanction did not occur in Hollywood's rise to market dominance and no historical evidence was found to suggest that either collusion or predatory behaviour played in role in the Major studios' acquisition of market dominance. It was concluded therefore, that this thesis should investigate whether corporate mergers or firm growth due to 'skill, foresight and industry' determined Hollywood's acquisition of dominance. However, Chapter Three argued that this latter term was too vague to be useful but it implied that firms become dominant because they strategically compete more effectively than their rivals, exhibiting superior skills and capabilities, demonstrating greater foresight in terms of identifying market opportunities and in satisfying consumer needs. Thus it was concluded

that dominance acquired through ‘skill, foresight and industry’ equated to superior business performance based upon a set of core competencies.²

Strategically orientated firms seek to “shape their environment” and to create a sustainable competitive advantage by providing superior performance and value to customers. To achieve that result, as Hay & Vickers (1987) proposed, they need to demonstrate strategic *foresight*. This requires them to be outwardly focused and attuned to the trends and shifts in the business environment and to changes in consumer tastes and market demand. Development of sustainable competitive advantage therefore logically depends upon formulation of appropriate competitive strategy after a careful strategic evaluation of markets, competitors and consumers (Porter 1980). Ultimately, success in the marketplace is often determined by a company’s orientation towards the market and towards its customers (Aaker & Mills 2005 pp. 4-7; Cravens 2000 p. 5).

A marketing orientation is positively correlated to superior firm performance (Day 1994; Deshpande, Farley & Webster 1993; Jaworski & Kohli 1992; Narver & Slater 1990). Market-driven firms possessing superior marketing capabilities outperform less market-driven rivals on four dimensions – profitability, firm growth, customer satisfaction and adaptability (Vorhies & Harker 2000). They achieve this by leveraging-off distinctive capabilities to create competitive advantage based on provision of superior customer value (Porter 1980; Day 1994; Cravens 2000) - see figure 3.2 below.³

² “The importance of competencies to organizations cannot be overstated; in fact, they can be the key to competitive advantage. In order for an organization to succeed in its mission, organisational competencies must match strategic intent. Without the needed competencies, even well-conceptualised and well-stated strategies cannot be successfully implemented and realised. It is competencies that allow strategic intent to be operationalised....From a strategic management perspective, Hitt, Ireland and Hoskison (2005) define competencies as a combination of resources and capabilities. The combination of resources and capabilities can be defined as core competencies when they are valuable, rare, difficult to imitate and difficult to substitute. As such, core competencies can be a source of strategic competitiveness” (Cardy and Selvarajan 2005).

³ “Marketing is so basic that it cannot be considered a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer’s point of view. Business success is not determined by the product but by the customer” (Kotler, et al 2004: p 5, pp 18-19).

Figure 13.2 Marketing orientation delivers superior performance

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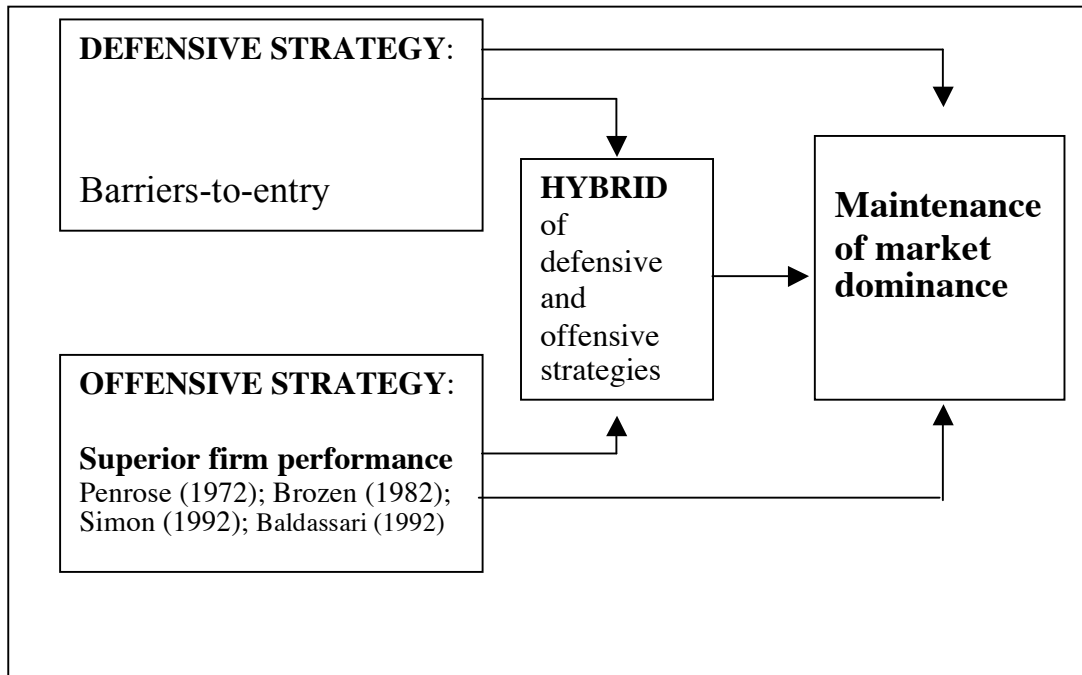
Source: Cravens (2000) p.5.

Thus a *marketing orientation* is based upon the belief that the ultimate winners will be those companies that most effectively create, deliver and communicate superior customer value. A marketing orientation positions customers as central to the firm's viability with core strategy and organisational culture directed towards achieving ongoing customer satisfaction.³

What then are the core marketing capabilities that provide ongoing customer value resulting in superior firm performance? Studies by Vorhies, Harker & Rao 1999 and Vorhies & Harker (2000) identified six key marketing capabilities that typically characterised the best-performing market-driven firms when compared with lower performing rivals: a) Systematic and strategic use of marketing research. b) Products that outperform competitive offerings in satisfying customer needs and desires. c) Strategic pricing. d) Effective distribution. e) Targeted promotion and effective communications strategies and f) strategic marketing management.

Dominance persisted when market leaders strategically outperformed rivals and / or they erected barriers-to-entry to constrain competitors (see Figure 3.3 below).

Figure 13.3 Theoretical approaches explaining maintenance of dominance



Sources: Bain (1956); Stigler (1968); Porter (1980); Utton (1995) Penrose (1972); Brozen 1982; Simon 1992; Baldassari (1992)

In Chapter Three, a discussion of two economic paradigms on dominance – structuralism which argues that industry structure determines firm conduct and business performance (Scherer 1980; Porter 1998) and the rival efficiency paradigm which argues that business performance is determined by management’s use of firm resources and development of competencies (Penrose 1950). Within this resource-based-view, Hamel and Prahalad’s (1989) research found that market leadership can be acquired by entrepreneurs who operate with strategic intent, who devise strategies that stretched their firm’s resources to achieve a desired vision.

Thus, in order to understand Hollywood’s acquisition and maintenance of dominance, the research task will be to identify historical data that investigates three key areas: 1) what role corporate mergers may have played in the rise of the Major studios? 2) What role if any, did a marketing orientation, strategic intent, competitive strategy and superior marketing capabilities play in Hollywood’s acquisition and maintenance of dominance? 3) What role have barriers-to-entry played in the Major studios’ longstanding global market leadership?

Chapter Three developed a theoretical framework to enable a historical analysis of Hollywood's dominance. It holistically integrated theories by Porter (1980); Hamel and Prahalad (1989) and Vorhies and Harker (2000) into a strategic marketing management lens shown below in two levels of detail in Figures 3.4 and 3.5.

Figure 13.4 Theoretical framework for analysis of market dominance

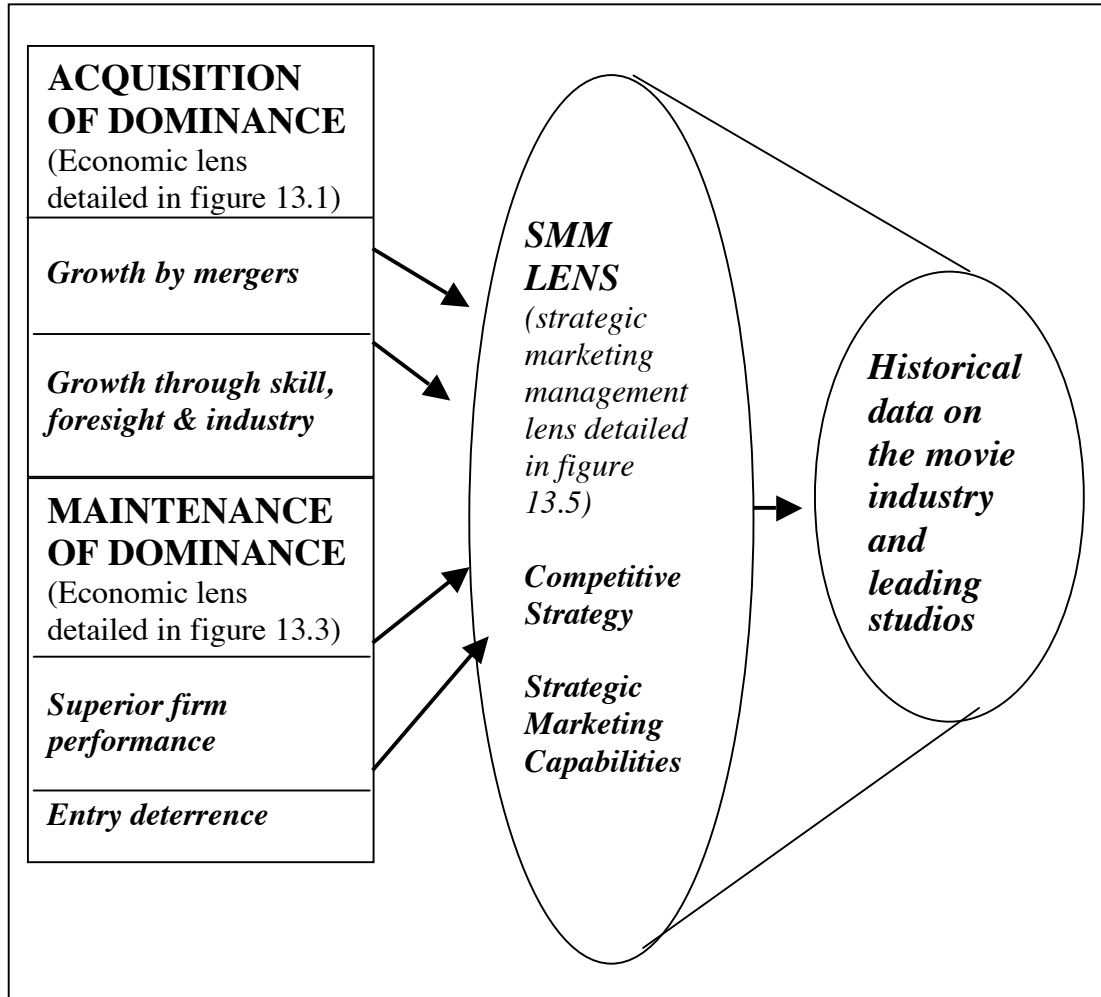
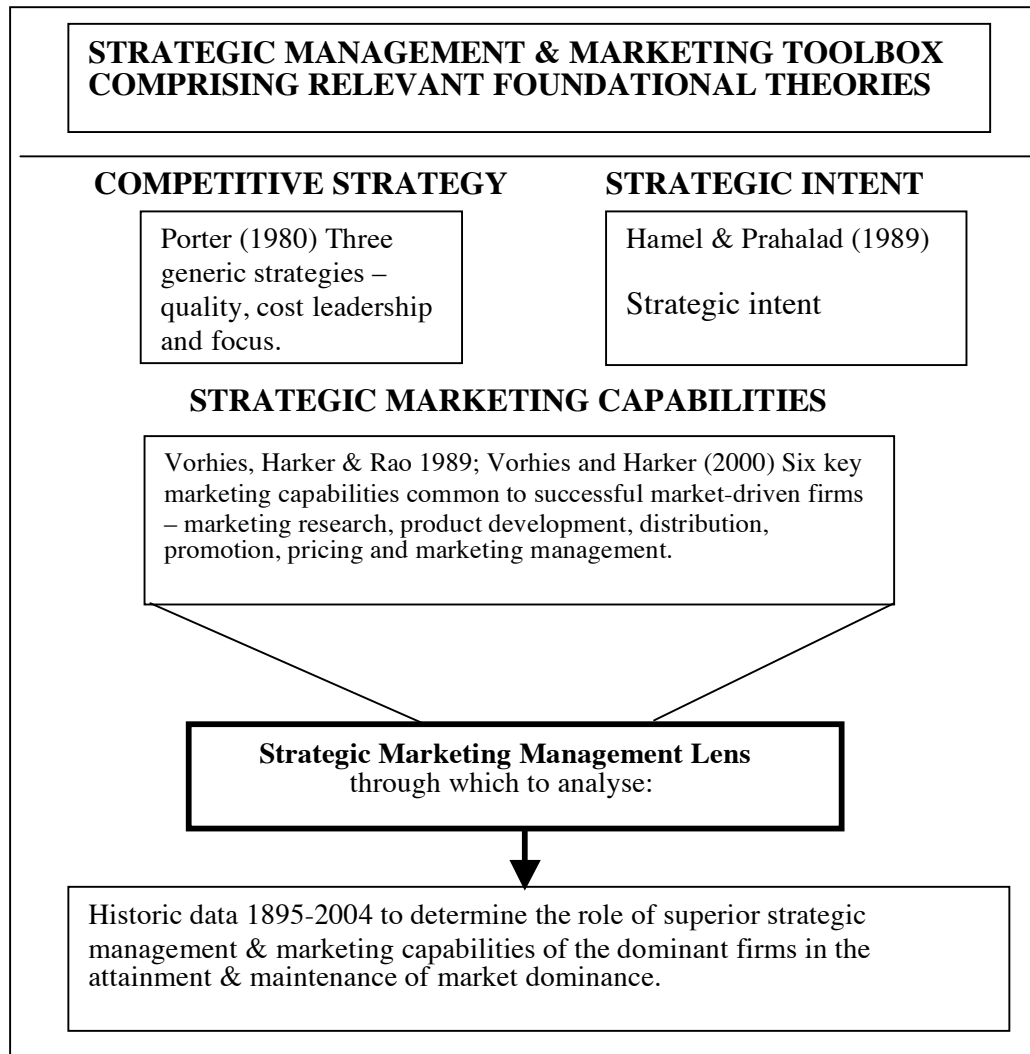


Figure 13.5 Strategic Marketing Management (SMM) Lens



13.3 HISTORICAL METHOD

The use of historical method in business disciplines has considerable precedent (Fullerton 1988; Low and Fullerton 1994; Golder 2000; Jones 2001).⁴ Nevett (1991) drew distinctions between historical and scientific inquiry, stating that they involve four stages: assembling the evidence; internal criticism (establishing the quality / authenticity of the evidence collected); external criticism (testing the credibility of the authentic evidence by comparing it with other evidence available) and finally synthesis (organising the credible evidence into a logical and meaningful account). Similarly, Neumann (2000) outlined six steps in conducting historical research which is the methodology adopted for this thesis: 1) Conceptualise the inquiry. 2) Locate the evidence. 3) Evaluate the quality of the evidence. 4) Organise the evidence. 5)

⁴ Scherer (1996) contended: “Real world industries are complex organisms whose evolution can be understood only through careful attention to historical dynamics”.

Synthesise evidence linking it with an abstract model or causal mechanisms. 6) Report writing. Neumann (2000) also stated that historical analysis involves four types of evidence or data – primary sources, secondary sources, running records and personal recollections. Table 13.2 below provides an overview of the historical sources used for this thesis. Where possible the author drew upon recollections, running records and primary sources such as movie industry trade publications and general media articles. Additionally, literally hundreds of secondary sources were also used including histories of the Major studios and the industry in general, scholarly studies and TV documentaries.

Table 13.2 Sources of evidence for this thesis.

HISTORICAL SOURCES	SOURCES CONSULTED AND CITED
<p>Personal recollections – autobiographies, sanctioned biographies, speeches, memoirs, and interviews.</p>	<p>Famous Players-Paramount: - Autobiography by Adolph Zukor (founder) –Zukor (1953); article by Zukor in <i>Variety</i> (1956); speech by Zukor in Kennedy (1927); speech by Sydney Kent – General Manager, Distribution and Marketing in Kennedy (1927); speech by Jesse L. Lasky – Executive Vice President in Kennedy (1927); speech by Samuel Katz – President Paramount-Publix Theatre chain in Kennedy (1927); speech by Cecil B. De Mille – producer at Paramount in Kennedy (1927); biography of Budd Schulberg (Publicity director – Famous Players-Paramount) written by son – Schulberg (1981).</p> <p>Fox Film/20th Century Fox:- Autobiography of William Fox (founder) - Sinclair (1970); speech by Fox in Kennedy (1927); memos and letters from Darryl Zanuck (Fox President) - Belhmer (1993); recollections by Sol Wurtzel (Fox producer) - Wurtzel-Semonov and Winter (2001); corporate and financial history of Fox studio by Aubrey Solomon (Fox producer / writer) – Solomon (2002).</p> <p>Universal:- Sanctioned autobiography of Carl Laemmle (founder) by Drinkwater (1978); article on studio marketing in 1927 by Laemmle from <i>Saturday Evening Post</i> reprinted in Balio (1976); speech by Robert Cochrane – Vice-President – Universal in Kennedy (1927).</p> <p>Warner Brothers:- Autobiography by Jack Warner (co-founder) - Warner (1965); studio history based on family letters, interviews and recollections by co-founder Harry Warner’s grand daughter Cass Warner Sperling and Millner (1994); speech by Harry Warner in Kennedy (1927).</p> <p>Loews-M.G.M.:- Speech by Marcus Loew (founder Loews-M.G.M.) in Kennedy (1927); biographies of L.B. Mayer (President- M.G.M) - Higham (1993); Eyman (2005). Autobiography by Howard Dietz (M.G.M. Director of Publicity and Advertising) – Dietz (1974).</p> <p>United Artists: Autobiography by Charles Chaplin (co-founder U.A.) – Chaplin (1964). Biography of Mary Pickford (co-founder U.A.) – Whitfield (1997).</p> <p>Columbia: Biography of Harry Cohn (founder) – Dick (1993).</p> <p>R.K.O.:- Speech by Joseph Kennedy (President – F.B.O. that merged to become R.K.O. in 1929 in Kennedy (1927).</p> <p>Edison Film:- Biography by former executives Dyer & Martin (1910)</p> <p>Pathe Freres:- Autobiography by co- founder Charles Pathe - Pathe (1939)</p> <p>Numerous other interviews given by leading movie industry personnel in various media outlets are listed in the bibliography.</p>

Running Records - statistical records and files maintained by organisations relating to the period under study (Neumann 2000).	Selection of 20 th Century-Fox financial records in Solomon (2002). Internal memorandums for Warner Brothers in Behlmer (1985) and for 20 th Century Fox in Behlmer (1993). Some financial records for Pathe Freres in Pathe (1939)
Primary sources – film catalogues, industry trade publications, newspapers and other media, letters, diaries, photographs, films, newsreels and novels created in the period under study (Neumann 2000)	Catalogues: <i>American Film Institute Catalogue</i> – all films released in USA 1893-1920. Trade publications: – numerous statistics and articles from <i>Film Daily Yearbook</i> , <i>International Motion Picture Almanac</i> , <i>Moving Picture World</i> , <i>Variety</i> , <i>Hollywood Reporter</i> , <i>Screen International</i> , <i>Screen Digest</i> , MPAA, Newspapers: ad hoc articles from around the world listed in bibliography. Letters and diaries: some included in books listed in recollections above.
Secondary sources - written and audio-visual works created after the period under study (Neumann 2000).	Worldwide feature film production data 1906-1999 (Robertson 2001). Media and journal articles - hundreds are listed in the bibliography. 26 studio histories covering all nine Major studios and key overseas rivals listed in bibliography. Numerous scholarly books e.g. Dick(1997), Sklar (1994), Puttnam(1997) Also consulted were documentaries shown on TV or available on DVD: <i>M.G.M.: When the Lion Roared</i> (1992 Director Frank Martin); <i>The Universal Story</i> (1995 Director: David Heeley); <i>The Warner Brothers Story</i> (1998 Directors: Richard Goldstone & Keith R. Clarke); <i>The Lady With The Torch</i> (1999 – The Columbia Pictures Story – Director: David Heeley);); <i>20th Century Fox: The First Fifty Years</i> (2000 Director: Kevin Burns); <i>Goldwyn</i> (2001 Directors: Peter Jones Mark Catalena); <i>Cecil B. De Mille: American Epic</i> (2003 – Director: David Brownlow).

13.4 WHAT ROLE DID MERGERS PLAY?

One of the five routes by which firms grow sufficiently in size to achieve market dominance is through corporate mergers. Table 13.3 below lists the eight Major studios that comprised the Old Hollywood oligopoly, that was in-place by 1929 at the end of the silent film era. Walt Disney evolved into the ninth Major studio during the 1950s replacing R.K.O. within the oligopoly, after the latter went bankrupt under Howard Hughes ownership. It can be seen that of the eight studios that comprised the ‘Big Five’ (Paramount, M.G.M., Fox, Warner Brothers and R.K.O.) and ‘Little Three’ (Universal, United Artists and Columbia) in ‘Old Hollywood’, only four were involved in merger activity in the oligopoly’s rise to market dominance. Thus five Major studios, including the late bloomer Disney, acquired dominance through organic corporate growth.

Of those four studios that did merge, Chapter Five argued that it was debatable whether merger activity was in fact *the critical success factor* in their rise to Major studio status and that it was more likely that superior business performance (firm orientation, strategy and marketing capabilities) played the most significant role in their rise to market dominance. The rationale for this position is briefly re-visited below.

Table 13.3 Formation of the Major studios and merger activity

Year formed	Major studio	Companies involved in merger at formation
1912	Universal	IMP, N.Y. Motion Picture Company, Powers, Champion, Nestor, Yankee, Éclair, Rex.
1912	Famous Players	-
1913	Jesse L. Lasky Feature Play Company	-
1914	Paramount	-
1916	Famous Players-Lasky	Famous Players, Lasky
1917	Famous Players-Lasky-Paramount	Famous Players, Lasky, Paramount
1916	Fox Film	-
1919	United Artists	-
1923	Warner Brothers	-
1924	Loews-M.G.M.	Loews, Metro, Goldwyn, Mayer
1924	Columbia Pictures	-
1929	R.K.O.	FBO, Keith, Albee, Orpheum
1923	Walt Disney (incorporated in 1929)	Evolved into a Major studio in 1950s. No mergers until 1990s.

U.S. market context 1909-1912

In 1909, inventor of the movie camera Thomas Edison ended a decade-long legal battle with seven other Major film companies that he claimed had infringed his patented designs for cameras and projectors. He convinced his rivals to pool their patents and form a Trust company – the Motion Picture Patents Company (MPPC) to monopolise the American market. The MPPC comprised the seven largest American film companies, the largest importer of foreign films and Pathe – the world’s first dominant film company. All producers and exhibitors had to buy an MPPC licence to be able to legally use such equipment and also had to pay royalties.

Led by future Universal founder Carl Laemmle, many small film studios and nickelodeon owners decided to remain independent and import foreign equipment and buy or sell films to other independents. The MPPC had a legal monopoly within the U.S. market and used legal and other means to prohibit the illegal use of MPPC equipment by renegade film-makers and theatre operators. The MPPC operated for six years before the U.S. courts ordered its dissolution in 1915 under anti-trust laws, following litigation initiated by Laemmle and William Fox - future founder of Fox film, who refused to sell his film exchange to the General Film Company (the MPPC’s national distribution company). It was in this environment under the shadow of the MPPC, that America transitioned from short films to longer feature films between 1911-1914.

Universal – the first Major Hollywood studio

Universal was created when eight small independents led by Carl Laemmle merged to try to survive the sudden overwhelming market dominance of the MPPC. Whilst data is unavailable for 1911 the year prior to the merger, Table 13.4 below was constructed from raw data in the American Film Institute Catalog and shows that at the end of 1910, the number of films released by MPPC company members won a 41.7% share of the total American market whilst the combined output of the eight small companies that would form Universal eighteen months later provided a combined market share of only 12.3%. This indicates that the companies that would soon merge to create Universal lacked the size, scale and financial resources to compete on even terms with the MPPC.

In this instance, the merger did not facilitate Universal's growth and ascendancy to become part of the dominant Hollywood oligopoly by 1916 (see Table 13.5 below).

Table 13.4 MPPC vs future Universal founders number of releases in 1910

MPPC vs Universal	Film Company	Number of short film releases	Market share
Motion Picture Patents Company (MPPC) Member companies.	Pathe	369	8%
	Kleine (film distributor)	293	6.5%
	Gaumont (via Kleine)	192	4%
	Vitagraph	170	3.8%
	Edison	153	3.4%
	Essanay	142	3%
	Selig	129	2.9%
	Lubin	121	2.7%
	Biograph	118	2.6%
	Kalem	107	2.4%
	Melies (via Pathe)	42	1%
	Total films released from MPPC member companies in 1910	1836 films	41.7%
Future founders of UNIVERSAL (Universal formed in 1912)	Powers Company	114	2.6%
	New York Motion Picture Company	111	2.5%
	IMP Films	108	2.5%
	Eclair	103	2.5%
	Nestor	55	1.2%
	Yankee	34	0.8%

	Champion	25	0.6%
	Rex Co. founded in 1911 'a firm engaged in the distribution of foreign pictures' (Luft 1968)	0	0%
	Total films released from future founders OF UNIVERSAL	550 films	12.3%
All other companies	Total Films released in U.S. Market 1910	2075 films	46.0%
	TOTAL FILMS RELEASED	4461 films	100%

Source: AFI Catalog data; Luft 1968.

Famous Players-Lasky-Paramount – dominant from 1917-1930

Paramount was formed in 1914 when five regional independent film exchanges merged to create a national distribution company. By then however, Adolph Zukor's Famous Players - the first mover in producing feature length American movies was already the U.S. market leader (see Table 13.5 below that shows Major studio annual production output from 1912-1920). Paramount signed a 25-year contract with Famous Players in 1914, for the studio to supply 50 feature films per year. It made a similar deal with Jesse Lasky's studio for another 30 movies annually. Unhappy with the prices for film rentals that Paramount was negotiating with theatres for Famous Players movies, Zukor quietly acquired the shareholdings of three of the original five partners and took control of Paramount in 1916 and then merged their two studios and the new entity then acquired all stock in Paramount, and in 1917 merged eight subsidiary firms into the Famous Players-Lasky-Paramount combine (Puttnam 1998 p. 70; Dick 2001 p. 210-211) which would dominate the movie industry until the onset of the Great Depression (Sklar 1978 p. 145; *TIME*. Monday Jan. 14th, 1929).

Whilst the merger of 1917 may have greatly enhanced the perceived market power of Famous Players-Paramount, as Zukor already owned the controlling interest in Paramount, the merger of 1916 did not provide any additional resources to the new corporation. Chapter Five argued that in reality, the 'merger' was more of an internal corporate reorganisation because Famous Players and Lasky were already both large, self-financed studios with long term distribution deals already in place that had been made with Paramount almost *three years prior to the actual merger*.

Table 13.5 Annual feature film output of top 8 firms in U.S. market from 1912-1920

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Source data: AFI Catalog Feature Films 1911-1920

N.B. raw data on the annual feature film output of all film companies was totalled and the top eight firms identified.

When the ‘theatre wars’ erupted resulting from fierce rivalry between Paramount and First National (1917-1925), threatened by a loss of product supply, Loew’s Inc acquired two financially ailing studios - Metro (1920) and Goldwyn (1924) and then merged them with Louis B. Mayer’s studio to form Metro-Goldwyn-Mayer (M.G.M.) in 1924 as a strategy to create a corporate channel that guaranteed a regular product supply to Loews theatres. The size and scale of this new conglomerate immediately created a new Hollywood Major that within a decade would overtake Paramount as market leader when the latter fell into financial difficulty during the Great Depression.

R.K.O.: - An instant Major created by merger

R.K.O. was born of a merger orchestrated by R.C.A. in 1929 of a small movie studio F.B.O. that merged with the Keith-Albee-Orpheum vaudeville theatre circuit to create a vertically integrated company of sufficient size and scale to serve as a viable customer base for R.C.A.’s new talking picture technology for movie theatres. R.K.O. became the fifth member of the ‘Big Five’ (with Paramount, M.G.M., Fox and Warner Brothers) that were all vertically integrated producers-distributors-exhibitors.

Warner Brothers – an overnight Major through talking pictures

Warner Brothers and Fox were first movers among the Majors to develop talking pictures. Warner had been a relatively small studio, unable to secure adequate distribution for its movies and teetering on the brink of bankruptcy until its enormous commercial success with the first all-talking picture *The Jazz Singer* in 1927 catapulted it into the ranks of the 'Big Five' Major studios. Warner Brothers made a loss in 1926, but following a strategic plan devised by Goldman Sachs and backed financially by the Wall Street firm, by 1928 Warner was a \$16 million company, had acquired First National Pictures along with its distribution company as well as the prestigious Stanley Theatre circuit. By 1930, Warner Brothers owned assets that totalled \$230 million and its share price leapt from \$39 to \$139 during the Spring prior to the 1929 Wall Street crash (Huettig 1944 pp. 42-45).

Fox Film – rapid growth through theatre acquisition and sound

Fox Film grew organically and was fully vertically integrated in production, distribution and exhibition by 1916. William Fox had been content to be a market follower targeting the lower end of the American market with low budget movies playing in his second-tier theatre circuit until the 'theatre wars' erupted between Paramount and First National. To remain competitive, Fox devised a rapid expansion program and also innovated, providing research and development funds for talking picture technology. Whilst Warner was the first mover with its sound-on-disc system, ultimately it was the Fox system using an optical soundtrack strip on the edge of the film that became the industry standard. By 1930, Fox Film had grown sufficiently large to launch a hostile takeover bid for M.G.M. (the market-leader in waiting), that only failed when Louis B. Mayer called upon his White House connections, to facilitate a U.S. Justice Department investigation and ruling that prohibited the Fox takeover under anti-trust laws (Eyman 2005 pp. 143-146). Fox Film later merged with 20th Century Pictures in 1934 to create 20th Century-Fox.

United Artists and Columbia Pictures – two of the 'Little Three' studios were not involved in any form of merger activity and Disney's box office successes with animated films in the 1940s-1950s saw it evolve into a Major studio and replace the bankrupt R.K.O. as a member of the Hollywood oligopoly.

Chapter Five therefore concluded that whilst mergers were a factor in some studios' rise to market leadership, they were *not the most significant critical success factor contributing to the rise of the Major Hollywood studios*. Other well-financed movie studios, some of which

were also involved in merger activities, existed in Hollywood during the 1910s but did not survive or evolve into Major studios (see Appendix 56 and Table 13.5 above). Clearly, issues of business performance were involved in the acquisition of dominance by most of the Major Hollywood studios and in the demise of others that might have achieved that status. Table 13.6 below provides a summary overview of the rise of the Hollywood studios compared to previously dominant film companies Pathe and the MPPC in relation to the five routes to market dominance.

Table 13.6 Summary table - routes to dominance in the movie business 1895-1929

Five routes to dominance	Pathe (France) 1904-1914	MPPC (Edison's 'Trust') 1909-1915	Hollywood Majors 1915-1929
Government sanctioned monopoly?	No	No. Dissolved under anti-trust laws.	No.
Firm growth and market dominance due to mergers?	No	MPPC was a monopoly owned by the largest film companies that pooled patents – <i>Edison Biograph Lubin Selig Essanay Vitagraph Kalem Kleine (distributed Gaumont) Pathe (distributed Melies)</i>	Famous Players-Lasky-Paramount – Famous Players the largest studio merged with Lasky and bought Paramount, then further growth through acquisitions. Loews-M.G.M. – Yes. Created by a merger. Fox Film – No. Organic growth and later by acquisition. Warner – No. Growth through acquisitions. RKO – Yes. Created by a merger. Universal – Yes. Created by a merger of eight small studios. United Artists – No. Columbia – No.
Market dominance through superior business performance (skill, foresight & industry)	Yes – organic growth through a clear vision & superior strategic marketing capabilities (see Appendix 8)	MPPC failed – did not adapt to market shift to longer feature films and movie stars. Dissolved under U.S. anti-trust laws.	Yes – the Majors studios in Hollywood each developed their own strategic vision, superior competitive strategy & strategic marketing capabilities providing a sustainable competitive advantage over their rivals (see Appendix 58)
Collusion?	No	Yes	No evidence of collusion in the Majors rise to dominance.
Predatory behaviour?	No	Yes	No evidence.
OUTCOME	Global market dominance from 1904-1914	Attempted dominance 1909-1915. Market failure by 1913 prior to dissolution under U.S. anti-trust laws in 1915.	Global market dominance after the First World War

Market context 1912-1919: The Rise of Hollywood

The MPPC member companies were dominant in the American market at the time the Hollywood studios began to emerge.⁵ Pathe, was still the world's dominant film company

⁵ “Edison launched a determined program to put all independent motion picture producers out of business” (Edmonds 1977 p. 11). The MPPC comprised Edison Manufacturing, Biograph, Pathe, Vitagraph, Lubin, Selig, Essanay, Kalem and Kleine, which

(Moskowitz *Variety* 1956; Ulff-Moller 1998 p. 93 and p. 98), with its market share estimated by various historians and trade publications to range between 50-70% (Cawkell & Smith 1972; Puttnam 1997 p. 43; Hayward 2000 p. 196; Segrave 1997 p 3; Abel 1999 pp. 48; 57).⁶ The years from 1911-1914 were a period of sudden market transformation as the feature length film replaced short films in cinemas around the world (Nowell-Smith 1997 pp. 114, 125-127, 133, 138); as the escalating popularity of movie stars became a cultural phenomenon (Zukor 1953 pp.176; 210, 219; Whitfield 1997 p. 131) and theatre chains emerged building larger, more opulent cinemas designed to attract middle-class audiences (Kindem 2000; Izod 1988 p. 10). Hollywood succeeded because the emerging Majors were attuned to changing market while the MPPC companies were not.⁷ In Europe, war erupted in 1914 and continental production virtually ceased, creating a global product shortage that the emerging Majors exploited by expanding production output and moving into export markets, replacing the previously dominant European studios.

13.5 STRATEGIC MARKETING DELIVERS SUPERIOR PERFORMANCE

Contrary to a widely-held view, that the Old Hollywood Majors were product-orientated firms lacking a customer-centred philosophy and possessing only fairly primitive strategic

distributed Gaumont films. Cines and Nordisk and all other American and European studios were excluded (Balio 1985 p. 133-152). Member companies within the Trust pooled the patents for their cameras and projectors and the MPPC required all producers, film exchanges and theatres to become licensed operators and to pay royalties, to be allowed to use their equipment.

⁶ "European film companies dominated the world market for feature film before World War I, and there were no signs that American films would obtain a dominant position after the war. French, English and Danish film companies such as Pathe Freres, Gaumont, Éclair, Hepworth and Nordisk Films dominated the world market for motion pictures. The war reversed this scenario....It was however Charles Pathe and Leon Gaumont who industrialised film production and established the commercial film practices that included monopolisation....Film production remained artisanal before 1903, but with the expansion of Pathe's activities, film production became industrialised, and from 1907 until World War I, the company was the largest film producer in the world." (Ulff-Moller 1998 p. 91).

⁷ The MPPC badly misread market conditions between 1909-1914, underestimating the significance of the rise of the cult of the movie star and the popularity of feature length films. The demise of the MPPC can be attributed to two key factors. Its monopolistic practices were deemed illegal by the U.S. courts in 1915 under anti-trust laws and the MPPC was instructed to dissolve. By that time however, it had already lost its market power because it was not attuned to changing market demand for movie stars and feature length films. MPPC President Jeremiah J. Kennedy, a conservative former banker was resolutely committed to the historically profitable short film format and was unwilling to innovate with longer, costlier and riskier feature films. Consequently his own studio Biograph lost the services of D.W. Griffith, who within two years would produce the biggest box office hit in movie history – a feature film 'Birth of a Nation' (Wasko 1978 pp 33). The MPPC also missed the opportunity to support and distribute the films of Adolph Zukor's new studio Famous Players which became the biggest studio in Hollywood by 1915 when Kennedy told Zukor: 'The time is not ripe for feature pictures, if it ever will be' (Zukor 1953 pp 73-74). "The demand of such theatre operators as Loew, reflecting their greater intimacy with what the public wants, received no recognition from the Trust or its affiliates. It displayed an imperviousness to public taste which contributed largely to its downfall. All demand for better quality in films were met by the argument that increased cost of production would necessitate higher film rentals from the theatres; these would force higher admission prices, and it was the opinion of Trust members that admission prices could not be raised above the prevailing five and ten cent level without discouraging consumer demand. There only concession to the exhibitors request was making two reels instead of one reels. Probably an important factor in the resistance of the Trust to the demands for better films was its remoteness from the film audience. Most of the men who dominated the major companies at that time had never been exhibitors and made no effort to discover what the public might want. It was sufficient for them that they had developed a system for standardisation of production and distribution...But their opponents were for the most part, former exhibitors, many of them retained their interests in nickelodeons after becoming producers. Frequent visits to their theatres and daily reports from their managers kept them constantly advised of audience responses and built up an invaluable sense of showmanship. They were quick to realise that habits of discrimination and selection were growing in their audiences, that interest in screen personalities was replacing an omnivorous passion for the novelty of 'living pictures' " (Huetting 1944 p. 18).

marketing capabilities (Levitt 1960 p. 2; Izod 1988 pp. 183-184; Rothenberg 1990 *New York Times*; Wasko 2003 p. 189), this next section draws upon a wide range of historical evidence presented in previous chapters to argue that the key factor in the Majors' dominance of the movie industry occurred because they were in fact, marketing-orientated firms that acted with clear strategic intent to acquire and maintain their dominance, wherever possible shaping the competitive environment to their advantage by employing what Porter (1980) would define as a quality-based competitive strategy. They succeeded because they developed and maintained a set of superior strategic marketing capabilities that enabled them to out-think and out-perform their rivals for almost a century.

Marketing orientation and strategic intent

Marketing orientated firms are externally focused on markets, customers and competitors, internally disseminating what they learn and then responding by producing products or services that provide superior value (Day 1994).⁸ Dominant firms act with strategic intent. Penrose (1972) reasoned that the growth of the firm was contingent upon management decisions relating to the firm's use of its resources. Hamel & Prahalad (1989) observed that global leaders in their studies: "*invariably began with ambitions that were out of all proportion to their resources and capabilities*" and were committed with strategic intent, to a long-term vision that their corporations stretched their resources to achieve. Aaker & Mills (2005) argued that strategically orientated firms seek to shape their environment.

The rise of the Hollywood Majors matches that description because the historical evidence indicates that they stretched their limited resources (compared to Pathe, Edison and the other MPPC companies), to deliver a superior value proposition to audiences – high quality, feature length films with popular movie stars. When European studios could no longer serve export markets during the war, the emerging Majors moved quickly to exploit this opportunity, shaping the environment to their own competitive advantage. The demonstrates that the founders of the Major studios adhered to the 'marketing concept' long before the Marketing Academy created that term and that their studios developed and have maintained a set of superior marketing capabilities that have enabled them to create a sustainable competitive advantage over rivals.

⁸ Commercial success is often determined by a company's orientation towards the market and its customers (Aaker & Mills 2005 pp. 4-7; Cravens 2000 p. 5). Strategically orientated firms closely monitor markets, competitors, customers and other external factors and seek to "shape their environment" by devising competitive strategies that provide customers with superior value and thus develop a sustainable competitive advantage (Porter 1980). Superior business performance is positively correlated to a marketing orientation (Day 1994; Deshpande, Farley & Webster 1993; Jaworski & Kohli 1992; Narver & Slater 1990), and top performing market-driven firms commonly possess superior marketing capabilities in six areas: - marketing research, new product development, distribution, pricing, promotional prowess and marketing management, enabling them to outperform less market-driven rivals them in terms of adaptability, firm growth, customer satisfaction and profitability (Vorhies & Harker 2000).

Old Hollywood studio executives understood the marketing concept

The Major studios were not run by marketing novices, as shown in Table 13.7.

Table 13.7 Career backgrounds of the founders, senior executives and marketing officers of the early Major studios

Dominant film companies	Founding Presidents and Senior Marketing Officers	Career overview	Sources
Universal Founded in 1912.	Carl Laemmle President	Retail manager – sold clothing. Used Cochrane agency for ads & mail order from 1906. Theatre owner, film distributor, producer.	Ramsaye 1986 p. 446; pp. 449-451.
Universal	Robert Cochrane, Vice President	Journalist. Operated Chicago advertising agency. Became Laemmle's business partner from 1905. Universal's first Marketing Manager - promoted to V.P. His brother Phil replaced him as Marketing Manager. His brother Witt ran Universal's ad agency.	Ramsaye 1986 p. 446-452. Staiger 1990 p. 13. Dick 1997 p. 108. Drinkwater 1931 p.60.
Famous Players-Paramount. Merged in 1916.	Adolph Zukor President	Fur salesman. Owned penny arcades and nickelodeons. Throughout his career spent time closely observing audiences in movie theatres. Used audience observation to aid business and marketing decisions.	Ramsaye 1986 p. 431. Zukor 1953 pp 43; 202
Famous-Players	B. P. Schulberg	Journalist. Film publicist / press agent for Rex Films. Hired by Zukor as Famous Players first publicist.	Schulberg 1981 pp. 8-15 Zukor 1953 p. 78
Famous Players - Paramount	Al Lichtman	Film salesman. Set up Paramount's first 'exploitation' department handling advertising, publicity, promotion and merchandising.	Ramsaye 1986 p. 597. Gaines 1990.
Famous Players-Paramount	Sidney Kent	Sales Manager for U.S. Drugists Syndicate. Film distribution sales. Zukor's chief aide then G.M. Distribution & Marketing	Ramsaye 1986 p. 829
Loews-MGM	Louis B. Mayer President.	New England nickelodeon owner. Demonstrated significant promotional capabilities marketing 'The Passion Play' in 1909. Film producer then President of M.G.M. "He was a great audience watcher" spending many hours sitting in movie theatres observing audiences.	Higham 1994 p. 18, 29-30. Mayer's grandson quoted in Stohr 2004. Eyman 2005 p. 298.
Loews-MGM	Howard Dietz	Copywriter in a New York ad agency. Publicist - Goldwyn Pictures. M.G.M. - Director of Advertising & Publicity.	Dietz 1974 pp 40-41; p. 109; p. 111. Crowther 1957 p. 64.
Loews-MGM	Pete Smith	Publicist joined M.G.M. under Dietz, trained to replace him Head of Publicity and became Head of Production	Higham 1994 p. 78.
Loews-MGM	Howard Strickling	Journalist. Trained in M.G.M.'s publicity department Head of advertising and publicity succeeding Pete Smith.	Cohn 1949 Higham 1994 p. 121.
Fox Film Founded in 1914.	William Fox President.	Retail sales – sold clothing. Owned nickelodeon theatres. Film distributor and producer.	Sinclair 1933 p. 34-35; 39; 46.
United Artists Founded in 1919	Mary Pickford, Charles Chaplin, Douglas Fairbanks and D.W. Griffith. Hiram Abrams, General Manager.	The four principals were– actors / director and producers. Abrams was a former distributor and exhibitor, "Acknowledged by all to be as the greatest salesman in the business."	Balio 1976 pp 24-26.
Columbia Pictures Founded in 1920 as CBC became Columbia in 1924.	Jack Cohn and Joe Brandt (President).	Jack Cohn and Brandt worked for Hampton Advertising agency in New York. Harry worked in music publishing. Jack became Laemmle's secretary at Universal. Brandt also joined Universal "Brandt had a gift for salesmanship" and ran the film exchanges. "Joe Brandt was a master of exploitation (marketing)".	Dick 1992 pp. 5, 21, 26-27, 38.
Warner Brothers Founded in 1923	Warner brothers –Harry, Jack, Sam and Abe.	Nickelodeon theatre operators. Film exchange owners (distribution & sales) Producers.	Warner-Sperling & Millner with Warner 1994 pp. 33, 42, 60, 77.
Warner Brothers Founded in 1923	Hal Wallis	Publicist at Warner Brothers. Later Head of Production at Warner Brothers. Won Oscars as producer of Casablanca & Ben-Hur.	Warner-Sperling & Millner with Warner 1994 p. 77.
RKO Founded in 1929	David Sarnoff, Chairman Joseph Schnitzer, President	President, RCA the driving force behind the creation of NBC national radio network. Schnitzer – film distribution and production.	Lasky 1984 p. 24, 42.

Studio founders studied audiences and engaged in strategic marketing

Famous Players-Paramount was the dominant studio within the Hollywood oligopoly from around 1917 until the early 1930s (Sklar 1978 p. 145; *TIME*. Jan. 14th, 1929). The other Majors mimicked its strategies and business practises (*Variety* January 4th, 1956 p. 43; Gomery in Balio 1985 pp 223). President Adolph Zukor, had long held a vision that feature films were the future of the industry. “*My dream was to make feature length pictures to replace the one and two reels*” (Zukor 1953 p. 11). He conducted marketing research to test his theory. He imported an early feature - *The Passion Play* and market-tested it with audiences in Newark in 1909 to see how they would cope with films of such length (Zukor 1953 pp. 57-58).⁹ He *spent the next three years studying the movie business*, making various trips to Europe to closely observe the European film industry where features were being made (Zukor in Kennedy pp. 60-61).¹⁰ He visited Charles Pathe: “*at whose estate and studios I spent many pleasant and instructive hours discussing the future of motion pictures*” (Zukor 1953 pp 42). In 1912, Zukor successfully launched a second European feature *Queen Elizabeth* starring stage-legend Sarah Bernhardt, showcasing it in a legitimate theatre in New York, and charging \$1 admission - ten times the normal ticket price. It was a hit and confirmed audiences would pay premium prices for high quality films.¹¹ He self-financed his studio Famous Players in Famous Plays, to make American feature films. Zukor clearly adhered to a marketing orientation, had a vision and acted with strategic intent, risking his own personal fortune on his belief in a customer-centred business philosophy and a competitive strategy based on quality.¹²

⁹ Zukor stated: “*the audience had not restless despite the hour and a half running time...Exhibitors were angered by the demand for high rental prices...as much as fifty dollars a day. ‘That is outrageous’ Marcus Loew shouted. ‘No picture can be worth fifty dollars a day.’ Even so, he bought the New York State rights...Gradually the exhibitors realised that the public would pay an increased admission price for Queen Elizabeth. Their eyes bugged out when the carriage trade appeared at the box office*” (Zukor 1953 pp. 71-72).

¹⁰ In a speech to the Harvard Graduate School of Business Administration in 1927, Zukor explained how he prepared for the launch of Famous Players and his venture into the production of feature length films: “*from 1909-1912 I made a study of moving pictures. I travelled all through Europe and this country, watched the audiences, and was interested in any picture that had a subject that I felt would appeal to the public. In my own mind, I wanted to verify whether my judgement was right*” (Zukor in Kennedy 1927 pp. 60-61).

¹¹ “*We did gain the knowledge that made us absolutely certain that pictures of the right type had a great future*” (Zukor in Kennedy 1927 pp. 60-61).

¹² “*When my associates and I founded Famous Players, we had a very definite idea. This idea was that motion pictures had to be made with quality stories, quality production, quality stars and quality directors. This was, neither altruistic, or idealistic: it was good, sound common sense. It was the simple theory that an honest merchant gives his customers honest merchandise. We felt that anybody who came to see one of our pictures was entitled to walk out of the theatre completely satisfied, completely happy and very well entertained. The Famous Players pattern of production was extremely successful. Theatres competed with each other to play our product rather than the pictures of other producers and very shortly afterward other producers paid us the compliment of following our pattern of production. ...I knew that only by making it possible for moviegoers to see motion pictures in clean, comfortable and attractive theatres, could we hope to attract the kind of patrons our pictures deserved. In those early days, many ‘better’ people had a great reluctance to go to the movies, because of the unsavory appearance of these early movie houses. And I could see very clearly that we would never be able to overcome this feeling until our industry was able to make it possible for the better element to be attracted by the comfort, good taste and fine service which pleasant and*

Zukor's company Famous Players-Paramount strategically managed its marketing mix. It was the first Major to enter large-scale production of American feature films (Table 13.5 above) and by the end of the First World War, Hollywood led by Paramount, had escalated film budgets to give their movies "*an expensive look*" in terms of production values (Schickel 1968 p. 262) that world audiences soon preferred to their local product, making it impossible for post-war European studios to compete when most capital was diverted to reconstruction (Bakker 2003). Many leading movie stars were also under contract at Paramount including the most popular star of all - Mary Pickford.¹³ Paramount used market research to fine-tune new movies in post-production. In 1922, an audience screening of the *The Covered Wagon* led to filming a new ending.¹⁴ Paramount operated America's first national distribution system, and introduced block-booking, that bundled movies together so that exhibitors had to buy the whole block in order to access movies featuring the biggest stars. This enabled Paramount to leverage optimal prices for film rentals from movie theatres and tripled the fees paid for Mary Pickford's films (Whitfield 1997 p. 149).

To integrate its marketing communications, the advertising, publicity, promotion and merchandising functions were placed under one executive to co-ordinate "*with the establishment of an 'exploitation department' at Paramount in the years 1915-1920. Exploitation involves all forms of promotion.*" (Gaines 1990 pp 2 of 9). Movie marketing campaigns in Old Hollywood were planned while the film was still in production (Laemmle in Balio 1976 pp 157-158; Kennedy 1927 pp. 243-244). Theatre managers in all of the Majors' own theatre chains received training to handle local marketing, adhering to a centrally prepared marketing plan provided in press books that were issued to all theatres. Press books contained all required advertising materials, pre-prepared press releases and

attractive theatres could offer." (Zukor, Adolph 1956. "Dean of the Picture Business Traces Growth From His First Penny Arcade" *Variety*. January 4th, 1956 p. 43.)

¹³ "At the time when star prominence was the single most important factor determining a film's box office success, Zukor had cornered the market. In a 1919 popularity poll conducted by Motion Picture Magazine, the six top stars on the list were all under contract to Zukor" (Koszarski 1990 p. 71). Paramount, which handled not only Famous Players-Lasky but a flock of other studios, distributed virtually every star that counted" (Whitfield 1997 p. 186). Movie stars rapidly achieved iconic status in popular culture becoming the major attraction capable of drawing mass audiences to movie theatres. The industry's biggest star Mary Pickford "was commonly believed to be the best-known woman who has ever lived" (Whitfield 1997 p. 131).

¹⁴ Lasky suggested changing the ending of the film and re-shooting new scenes - I was enthusiastic - 'You make that sequence and in the meantime we'll run some audience tests. Then we'll try the new shots and see what happens. As we had feared, the original version, while pleasing the audiences, did not send them out of the theatre with quite the feeling we had hoped for. And in spite of all the advertising and ballyhoo which can be mustered, the early audience members must report favourably to their friends, and at once, if the picture is to be a smash hit. The new sequence made all the difference in the world. It was a fine picture anyway and would have done well. But in my opinion, Lasky's improvement lifted it into a class that has seldom been attained" (Zukor 1953 pp 223). *The Covered Wagon* became the highest grossing movie of 1923 earning \$3.5 Million (International Motion Picture Almanac 1934 pp. 17-18).

feature stories and other suggestions that could be used with small town radio and press to exploit the movie. They also ensured integrated marketing communications.¹⁵

Paramount differentiated its theatre chain based on quality: *"If it's a Paramount picture then you know it is the best show in town"* (Scully 1962; Eames 1985 p. 12). From the mid-1920s, Paramount's Publix Theatre chain undertook marketing research to identify site-locations for new movie palaces that provided optimal coverage in metropolitan areas by ensuring most patrons using mass transit systems travelled only 30 minutes. Theatre servicescapes were strategically designed,¹⁶ and all theatres were equipped with air-conditioning. Staff underwent intensive customer service training (Franklin 1928 in Waller 2002 p. 122). Prior to talking pictures 'the show' in the largest movie palaces also included live entertainment to enhance customer value. (Gomery in Waller 2002 p. 127). In Old Hollywood, Paramount was a marketing orientated firm possessing relatively sophisticated marketing capabilities for the time.

Carl Laemmle, who had previously run successful nickelodeons, led Hollywood's first Major studio Universal. His theatres were differentiated based upon service to attract female and family audiences (Drinkwater 1931 p. 59).¹⁷ Laemmle was also attuned to the market and observed the public's growing fascination with the anonymous players appearing in short films, who were given no star-billing as were their counterparts in legitimate theatre. In 1909, he innovated and transposed the theatre's 'star system' to the movies launching

¹⁵ "The studios wanted to control the advertising and keep a close watch on every aspect of a picture's promotional campaign. For the studios, the heart of the publicity department's work was the press book. Press books were created for exhibitor's eyes only and the goal was craven manipulation. Every studio, from giant M.G.M. to tiny Republic, used press books. Every feature film, both A's and B's had one." (Sennett 1998 p. 69; pp. 132-133). Universal President Carl Laemmle emphasised the strategic role that press books played in Studio marketing campaigns: *"On the completion of a picture and following its viewing, the three departments of advertising, publicity and exploitation combined first on the preparation of a press book or campaign book. This constitutes a complete and encyclopedic guide to the local theatre owner in selling the picture to the public. In effect, it places in the employ of the smallest theatre owner in the country, the services of the best possible advertising, publicity and exploitation brains that we can secure. There are publicity stories of all possible usable sizes and on every angle of appeal to which the picture lends itself, which the manager may take to his local newspaper. After filling in the name of the theatre. There are suggested advertisements from one-inch single column up to one-page sizes on the more important pictures that are ready for use with the insertion of the theatre's name. The exploitation department supplies a variety of ideas aimed at providing something that the village theatre can utilise, as well as ideas for the biggest city theatre"* (Laemmle in Balio 1976 pp 161-163).

¹⁶ Paramount acquired the Balaban & Katz chain and gave Sam Katz the job of running Paramount's Publix chain. *B&K became the cornerstone and had a policy of treating the movie patron as a king or queen. It offered free child-care, attendant smoking rooms, foyers and lobbies lined with paintings and sculpture, and organ music for those waiting in line. In the basement of each movie palace was a complete playground, including slippery slides, sand boxes and other objects of fun awaiting youngsters. For no extra cost, nurses looked after the children while parents attended the show upstairs"* (Gomery in Waller 2002 p 127).

¹⁷ Laemmle's son-in-law biographer wrote: *"He painted the building white, called it the "White Front" and kept it clean inside. It was a bid for female patronage, and it succeeded. Two months later he (Laemmle) was able to open a second house, naming it "The Family Theatre." There for ten cents a man could take his wife or best girl to see what was then considered a good film in what was considered comfort. Laemmle saw to it that the film was the best that could be got, and that the comfort was at least notably above that of rival nickelodeons. Intervals between pictures were enlivened by screen slides"* (Drinkwater 1931 p. 59). *"Carl's background in marketing prepared him for exhibition"* (Dick 1997 p. 15). *"Carl who had developed a flair for advertising in Oshkosh, and Bob Cochrane, a professional ad man embarked upon a campaign"* (Dick 1997 p. 26).

Florence Lawrence as the world's first movie star when announcing she had signed for his studio - IMP films, which later merged to form Universal in 1912 (Puttnam 1998 p. 49-50; Abel 1999 p. 148). Laemmle's Vice-President at Universal, Robert Cochrane, used his advertising agency expertise to promote the studio's stars as brands. They were marketing orientated executives.

M.G.M. President Louis B. Mayer had also run successful nickelodeon theatres that he differentiated through superior service provision (Higham 1993 pp 18) and like Zukor, Mayer's grandson confirmed that he spent many hours personally observing movie audiences (Stohr 2004).¹⁸ Mayer made a personal fortune distributing the first box office blockbuster *Birth of a Nation* in New England, which demonstrated to him the huge commercial potential of high quality movies. Mayer steered M.G.M to two decades of market leadership from the early 1930s, developing a roster featuring '*more stars than in the heavens*' (M.G.M.'s corporate advertising slogan) and through his commitment to quality productions with wholesome values designed to attract middle class audiences (Eyman 2005). And it was Mayer, who founded the Academy of Motion Picture Arts and Sciences that annually provided Academy Award winners and nominees with peer-recognition for professional excellence and achievement.

Mayer's key executives shared a marketing orientation. Howard Dietz – M.G.M.'s legendary Advertising and Publicity Director had previously worked as a New York advertising agency copywriter and also as a movie publicist. In the mid-1920s, Irving Thalberg, M.G.M.'s Head of Production, institutionalised product-testing and product modification at M.G.M. prior to the release of new movies to try to ensure audiences were given a high quality entertainment experience. M.G.M. became known as 're-take valley'.¹⁹

These few examples above demonstrate that the Presidents who ran the first 'Big Three' Major studios in Old Hollywood,²⁰ understood the marketing concept long before the term

¹⁸ "He was a great audience watcher" spending many hours sitting in movie theatres with audiences observing their reactions to the film. Mayer's grandson interview in TV documentary "Louis B. Mayer" (Stohr 2004).

¹⁹ "The most successful producer of money-making films for M.G.M. was Irving Thalberg. His main talent was editing and cutting. It was said that all M.G.M. films were made and re-made. It was re-take Valley. He had a one-car locomotive built and furnished. This was used to transport to and from previews, which M.G.M. scheduled in Riverside. On the trip to the preview, dinner would be served, and on the trip back, there would be an exchange of ideas about the film, so that Thalberg got the benefit of the entire producing, writing and directing staff" (Dietz 1974 pp. 157-158). Another M.G.M. employee said: "We previewed in Highland Park, San Bernardino, Pasadena," remembered Margaret Booth 'we were always previewing. You'd preview two, three, four times until you got it right' (Eyman 2005 p. 92).

²⁰ Fox, Warner Brothers and R.K.O. did emerge as Big Five Major studios until the mid to late 1920s Universal was Hollywood's first Major studio but declined during the 1920s to become a 'Little Three' studio. Famous Players-Paramount became the market leader from around 1917 until the early 1930s and serves as the model for Hollywood came to dominate the movie business because the other Major studios mimicked its strategy and its business practices (*Variety* January 4th, 1956 p. 43; Gomery in Balio 1985 pp 223). M.G.M. usurped Paramount's market leadership from the early 1930s until the 1950s,

was created, displayed a customer orientation, used intelligence gathered on audiences to respond strategically to create the best possible value proposition for audiences. Chapters Six through Eleven provided a comprehensive range of historical evidence that support these claims and analysed the Major Studios marketing capabilities over time across three eras: ‘Old Hollywood’ from 1912-1949; the ‘TV era’ from 1950-1974 and ‘New Hollywood’ from 1975-2004. That evidence is broadly summarised below in Table 13.8 and provides a comparative analysis of the strategic marketing capabilities of Hollywood’s Major studios to domestic and foreign rivals from 1912-2004.

Table 13.8 Comparative marketing capabilities of Hollywood vs. the rest of the world

ORIENTATION AND CAPABILITIES	HOLLYWOOD MAJORS 1912-2004	RIVALS – DOMESTIC AND FOREIGN 1912-2004
Strategic Orientation	Marketing orientation: Externally and commercially focused on customers, competitors, markets, environmental threats and opportunities. Seek to entertain global audiences.	Artisanal / Product orientation predominates: Most rivals adopted an artisanal approach to film-making focused on the product as art rather than a focus on satisfying audience entertainment needs.
Marketing Research Capabilities (see chapter six)	Superior MR capabilities: Marketing Intelligence: Since 1920s via the Majors’ global distribution networks, from U.S. government agencies; trade press; channel partners; festivals and markets. Market Research: Box office sales analysis (from 1910s); first survey by Paramount (1916); Product test screenings (1920s); Audience research guides media placement (1920s); Audience demand study by Universal (1930); first industry to undertake segmentation and tracking studies (1930s); movie title testing (1940s); advertising strategy research (1940s).	Inferior: No evidence that rivals research. Low independent film budgets do not allocate resources for market research. Money is spent on the film.
New Product Development (NPD) Capabilities (see chapter seven)	Commercially superior NPD process: <i>Idea generation</i> (books, plays, original stories, news, biographies, screenplays). <i>Idea screening</i> (readers cover scripts). <i>Concept development</i> (formula-driven / peer reviewed script development) and <i>testing</i> (focus groups testing concept, titles, casting). <i>Preliminary marketing planning</i> . <i>Business analysis leads to greenlight</i> . <i>Product development</i> - film production. <i>Market testing</i> (test screenings). <i>Commercialisation</i> (re-editing, fine-tune release strategy & advertising). Quality strategy based upon escalating film budgets, big stars, high quality production values, peer recognition from many available awards to continually improve customer value to enable higher charges for film rentals from movie theatres. First movers with significant product innovations – talking pictures, technicolor, widescreen, 3-D, stereo sound, Dolby, surround sound, CGI (computer effects).	Commercially Inferior NPD: Most rivals have no rigorous NPD process. Most are small businesses that take an artisanal approach to script development. They do not adopt a formula-driven approach to script development believing that formulas stifle creativity and result in homogenised product. Producers commission scripts and when satisfied with the final draft, attach talent (actors, director) and seek production finance and / or government funding. Low budget production is triggered by availability of film finance from distribution pre-sales, government agencies, financiers and investors.
Distribution Capabilities	Superior distribution capabilities: Channel dominant. Channel centrality.	Inferior distribution capabilities:

consistently producing the best movies (Fortune 1932 Vol. 6, pp. 51-58; Fortune 1939 Vol. 20 pp. 25-30) and became “the biggest and most successful film studio of Hollywood’s Golden Age” (Eyman 2005 inside front cover flap).

(see chapter eight)	<p>Intensive global distribution unmatched by competitors over nine decades. Large economies of scale. Highly efficient logistical management. Nine decades of distribution know-how. Significant resources for acquisitions. Adapted distribution strategies to match requirements of different eras. Controlled production diffusion (release pattern) to optimise revenue. Extensive channel relations.</p>	<p>Vast majority of rivals have no distribution capabilities. Some operate a selective distribution strategy, mostly in their home market.</p> <p>None have ever operated on the same scale as the Majors. Some have operated a few overseas sales offices.</p> <p>Limited resources. No channel power.</p>
<p>Promotional capabilities</p> <p>(see chapter nine)</p>	<p>Superior promotional capabilities: Unrivalled marketing communications expertise. Powerful merchandising. Large film marketing budgets (P&A). Outspend the rest of the world in media. Sophisticated Washington lobby since mid-1910s that has leveraged U.S. government support in foreign markets when required.</p>	<p>Inferior global promotional capabilities. Some rival industries have reasonable marketing capabilities in home market.</p> <p>Outsourced unit publicity during production. In-house marketing expertise in production companies is very rare.</p> <p>Independent distributor launches the film. Low marketing budget (P&A).</p>
<p>Pricing capabilities</p> <p>(see chapter ten)</p>	<p>Superior pricing capabilities: Major studio movies have always attracted the highest film rentals Premium pricing strategy leveraged-off high quality movies (blockbusters, stars, directors, special effects), global distribution and marketing power.</p>	<p>Inferior pricing capabilities:</p> <p>With rare exceptions, predominantly lower film rentals. Independents have less leverage with cinemas to command higher prices unless they have a potential hit movie.</p>
<p>Strategic marketing management (SMM) capabilities</p> <p>(see chapter eleven)</p>	<p>Superior SMM capabilities:</p> <p>Marketing orientated firms except during the TV era acted with strategic intent (1950-1974).</p> <p>The Majors employ quality-based competitive strategies compared to rivals lower budget films (i.e. big budgets, big stars, high-quality production values including special effects to provide a high quality value proposition vs independent films are typically low budget, modest productions, no stars).</p> <p>The Majors excel in strategically managing movies and stars as brands e.g. star-as-brand (Bogart / Cruise), director-as-brand (Hitchcock / Spielberg), producer-as-brand (Disney / Bruckheimer), movie-as-brand, sequels, remakes and series / franchises (Tarzan / Harry Potter).</p> <p>Used movie stars, film genres and temporal release strategies to segment markets. Stars and genres have in-built audiences. Temporal releasing in Old Hollywood segment theatres using price discrimination. In new Hollywood temporal release drives primary audience into multiplex cinemas and late majority watch the video or on TV.</p> <p>Ongoing innovation in production, distribution and promotional strategies.</p> <p>Integrated marketing communications since 1920s using press books in Old Hollywood's decentralised system and in New Hollywood global campaigns are centrally driven and co-ordinated.</p> <p>Control of distribution guarantees provides financiers with security to lend / invest in studio production slates.</p> <p>Major studios in Old Hollywood were marketing orientated and vertically</p>	<p>Inferior SMM capabilities:</p> <p>Most rivals are small businesses surviving from film to film.</p> <p>Few have in-house strategic marketing capabilities.</p> <p>Most rivals have operated a low cost strategy or a niche strategy serving a unique segment (e.g. art films, in Japan - low-budget monster movies and samurai films in 1950s and 1960s and Anime films in 2000s; In Italy - 'sword and sandal' historical dramas and Italian spaghetti westerns and in 1950s and 1960s, in Hong Kong / China - martial arts films and big budget historical epics; in India - Bollywood musicals, in Britain – occasional big budget historical dramas, in the 1960s the low budget Hammer horror films, "Doctor in the House" and "Carry On" cheap comedies, James Bond and in the 2000s Working Title's recent romantic comedies.</p> <p>N.B. almost every significant box office success from other film industries or independent producers has been distributed and marketed by a Major Hollywood studio (for exceptions see Chapter eight).</p>

	<p>integrated. Controlling exhibition and providing superior value to their audiences was the key to their power.</p> <p>TV era the Majors suffered vertical dis-integration after enforced sale of movie theatres severed their connection to the audience. The Majors declined under third generation management because they failed to adapt to change and lost their marketing orientation.</p> <p>The Majors of New Hollywood adapted to change and exploited new opportunities and have vertically re-integrated by controlling distribution to all markets (theatrical, video, broadcast TV, Pay TV, Internet).</p>	
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Sources: Drawn from historical evidence and arguments presented in chapters six, seven, eight, nine, ten and eleven.

Hollywood's superior marketing research capabilities

Chapter Six presented evidence that demonstrated the Majors developed primitive but effective marketing information systems in the 1920s and have since then conducted marketing intelligence activities through a variety of channels, using knowledge gained to shape the environment to their competitive advantage. A Harvard marketing study of the movie industry in the 1930s, with a strong focus on Paramount and Universal, observed that they actively scanned the environment to detect shifts in audience tastes to identify new trends (Lewis 1933 pp. 86-87).

In the 1920s, the Majors utilised intelligence gained from the motion picture division of the U.S. Commerce Department and from U.S. consulates and embassies via the MPPDA (now MPA) to devise market-penetration strategies in foreign territories.

Over time, the Majors closely monitored and assessed potential threats from product substitutes such as the development of radio, television, home video and video-on-demand. Consequently, Warner Brothers acquired a radio station in Los Angeles that it used to cross-promote its movies. Paramount took early equity positions in the CBS radio and DuMont TV networks, and M.G.M., Disney and Warner Brothers all seriously considered making similar investments in pioneering television stations (Wasko 1994 pp. 10-12). In recent decades, the Majors closely monitored development of digital technologies and responded by taking the lead in developing DCI (Digital Cinema Initiative) a universal standard for digital cinema (Kay 2002).

The Majors have for many decades used their own worldwide network of distribution offices as an intelligence-gathering channel. Professional advisers, channel partners, the trade press

and attendance at film markets, festivals and conventions also provided them with additional intelligence (Epstein 2005 p. 233).

In terms of market research capabilities, the evidence showed that Major studios used a range of research techniques to better understand audiences, markets, and competitor strategies, as well as to enhance product development and marketing communications. They have used daily box office sales analysis since the 1910s (Zukor 1953 p. 37, Sinclair 1970 p. 51); pre-release test screenings to modify products and post-release audience reaction surveys from the 1920s (Zukor 1953 p. 223; Franklin 1927 in Waller 2002 p. 158); media buying research, national movie-goer surveys and positioning research since the 1930s (Gomery in Waller 2002 p. 125; Garrison 1972 p. 147) and Hollywood pioneered segmentation studies and tracking brand awareness in the 1940s (Bakker 2003).

In New Hollywood, the Majors operate sophisticated electronic marketing information systems (Fellman in Squire 2004 p. 363) and utilise a wide range research techniques to aid the new product development process, marketing strategy formulation and the preparation of effective advertising materials (Goldberg 1991; Yoder in Squire 2004 p. 305; Hayes and Bing 2004; Marich 2005).

To summarise, the Majors developed marketing intelligence and market research capabilities that they have used for many decades, to facilitate better-informed management decisions in strategy formulation, new product development and marketing communications. No evidence was detected to suggest that any of Hollywood's rivals have engaged in developing similar marketing research capabilities e.g. whilst India is the world's largest film producer nation, Bollywood does not conduct market research (Bose 2006 pp. 48-52) and independent foreign film distributors don't believe the expected return on investment from using market research to aid the launch campaign, justifies the investment (Marich 2005 pp 28).

Hollywood's superior new product development capabilities

Since the late 1910s when the Major studios escalated film production budgets to ensure that their movies achieved a 'look' that clearly differentiated them from European films (Bakker 2003), Hollywood has pursued and remained committed to a quality-based production strategy (Film Daily Year Book 1931 p. 549; Zukor in *Variety* Jan. 4th, 1956 p. 43).²¹ Chapter

²¹ For the purposes of this thesis, quality is viewed from a commercial perspective and is taken to mean the allocation of big budgets that can provide resources to create movies with attractive production values (cast, locations, sets, cinematography, special effects) and deliver an appealing entertainment experience for cinema audiences. Another element of quality is industry and peer-recognition for cinematic excellence through organizations such as the Academy awards.

Seven demonstrated that a customer-orientated product design process also clearly differentiated Hollywood from its rivals. The Majors developed a formula-driven, new product development process (Crabb 2005 pp. 7-10) outlined above in Table 13.8, to try to ensure the highest quality outcomes. It subjects all scripts to a filtering process, continuous learning drawing upon creative inputs from a rigorous peer-review and a comprehensive commercial evaluation before a movie is given a green-light to proceed into production. Whilst Hollywood movies have often been criticised for being too homogenous and formula-driven, this development process has facilitated the production of movie entertainment that has consistently outperformed competitive offerings for nine decades. The Hollywood approach closely mirrors the well-known eight-step Booz-Allen model (Booz, Allen & Hamilton 1982).

Major studio investment levels in the script development process significantly exceeds rival industries (Table 7.3 Chapter 7). In the 1930s, a leading English producer observed that British screenplays were under-developed in comparison to Hollywood products (Fawcett 1932 pp 35-36; 84-85), a situation that remained unchanged in the 1990s (Finney 1996 p.124; Kerrigan and Culkin 1999; Sawyer 2002). Italian cinema has a long tradition of taking an artisanal approach to filmmaking (Degli-Esposito Reinert in Kindem 2000 p. 224) and in Italy, under-developed screenplays often proceed into production (Ross & D'Amico 1996).

European companies have been reluctant to invest in script development or “*even take the concept of script development very seriously*” (Dale 1997 p. 164). The problem of inadequate script development is not confined to Europe. Similar problems were identified in the Australian film industry, which has lacked a tradition of script-editing and the availability of production finance was more likely to trigger a green-light than adequate script development or evaluation of commercial potential (Rossiter 2003).

Major studio domination of all-time box office charts in different eras confirms that Hollywood's approach to new product development has been more commercially effective over time than other strategies adopted by Hollywood's rivals.

Hollywood's superior distribution and pricing capabilities

French firm Pathe dominated the movie business prior to the First World War and operated an unrivalled global distribution network comprising 41 sales offices strategically located around the world (Segrave 1997 pp 3). The first two Hollywood studios to expand

internationally were Famous Players that opened a London office in 1913 and Universal with branches in Berlin and Copenhagen that same year. The First World War undermined the European industry as production ceased and they were unable to continue supplying their international markets. Hollywood expanded production to fill the product shortage and replaced European studios as the dominant distributors in their foreign territories and have remained channel-dominant ever since. *“The turning point...was Britain’s entry into the 1914 war, and the consequent call-up of key personnel. While Hollywood was intensifying its output, British production was down to a trickle. As one writer cynically observed: Europe went to war and America went to the movies. The U.S. has of course never lost the advantage gained in those years”* (Myers 1956).

The vertically integrated Majors of Old Hollywood established a short corporate-owned channel and implemented an intensive distribution strategy to provide optimal market coverage domestically and in international markets. The scale of their worldwide distribution operations is clearly evident in Appendix 14. It shows that from 1913-2004 no domestic or international rival has ever come close to matching the Majors’ physical distribution capabilities. Warner Brothers, Fox, Paramount and M.G.M. maintained a worldwide network of over 90 offices from the early 1930’s to mid 1970s, U.A. developed that scale of operation from the 1950s-1970s and Universal had about half that number. Comparatively, rival American studios Monogram, Republic, Allied Artists and the largest foreign competitor Rank/Eagle Lion (Britain) each operated about 12 international branches or less.

At various times after the First and Second World Wars, and again in the 1970s-early 2000s, the Majors established a series of joint venture distribution cartels in overseas markets, to reduce operating costs but retain scale efficiencies. All were disbanded by 2006, and each Major once again operates its own international network.

Not only does Hollywood have a monopoly on global distribution but it has also developed many decades of international distribution know-how in all major foreign markets and the Majors have learned how best to regulate product supply during boom and bust cycles.

In Old Hollywood, the Majors mass-produced a weekly program comprising an A and B feature, supporting shorts, cartoons and newsreels to keep programming fresh and returning audiences entertained in the pre-television era movie palaces. The Majors employed a bundling strategy as theatres were forced to buy a block of films in order to secure the best movies featuring the most popular stars. Block-booking enabled the Majors to charge premium film rentals for their big releases as theatre chains competed in a blind bidding auction to secure their best films and in the process paid inflated prices for the lower quality

films that made up the rest of the block. The Majors' core release strategy was narrow, temporal and segmented audiences based on price discrimination. Movies enjoyed long product lifecycles often numbering several years as they were released sequentially and exclusively to first, second, third and fourth run movie theatres. Audiences wanting to see first release movies paid premium prices in first run theatres. Price sensitive audiences waited for the movie release in a later run so the Majors employed a price-skimming strategy.

The Majors adapted their core distribution strategy during the TV era as the cinema audience declined and Hollywood cutback its production, distributing much bigger budget films and hoping to score with blockbuster hits. The price skimming strategy was retained during this era as movies continued to be released exclusively to the different classes of theatre.

In New Hollywood, the nature of demand changed and the Majors expanded their production output and also acquired many independently produced films to fill their distribution pipelines to feed the thousands of new screens in the product-hungry multiplexes, as the exhibition sector went through a construction boom from the 1980s until the late 1990s. The core distribution strategy for the Majors' 'tent-pole' movies switched from a narrow release with slow diffusion to intensive distribution with a simultaneous wide release and the rapid diffusion of blockbuster movies onto thousands of multiplex screens, now on a global scale and supported by saturation worldwide advertising campaigns. Consequently, with much wider diffusion at launch, the product lifecycle of Hollywood movies is now only a matter of weeks or months and after that they are released quickly to post-theatrical markets in home video and pay television while brand awareness from the theatrical launch is still relatively strong.

In Old Hollywood, the exclusive sequential release strategy locked-out rivals from the most profitable movie theatres. In New Hollywood, the blanket release of blockbusters onto tens of thousands of screens has the same effect – screen time in the most profitable theatres remains unavailable to independent rivals. The Majors today employ a premium-pricing strategy as multiplex chains around the world pay premium film rentals to secure Hollywood's blockbusters for what theatre programmers and audiences perceive to be the best quality movies featuring the biggest stars and amazing special effects, in the hope that Hollywood's massive advertising campaigns should optimise each movie's chance of commercial success.

Over the decades, the Majors distribution and pricing strategies have continually optimised their film rentals, which is reflected in the continually escalating price of theatre tickets (see Figure 1 Chapter 10).

Much smaller independent distributors with a smaller volume of lower budget films, cannot match the distribution or pricing capabilities of the Major studios.

Hollywood's superior promotional capabilities

The evidence presented in Chapter Nine showed that whilst early Hollywood marketing might seem primitive by contemporary standards, the Majors continually and consciously exploited all available media channels-of-the-day in each era and adapted their media buying strategies as new technology emerged e.g. radio, network TV, pay TV and the Internet (Film Daily Year Book 1940 p. 37; 1951 p. 83; MPAA 1998; 2005). Movie launches in Old Hollywood, were driven mainly by publicity, merchandising and print advertising campaigns. In the 1950s, Disney, M.G.M. and Warner Brothers pioneered saturation TV advertising, as television began to assume greater importance within the media mix (Izod 1988 p. 163; Sennett 1998 p. 128). New Hollywood adopted an intensive TV advertising strategy as the *modus operandi* to launch blockbuster movies (Hayes and Bing 2004).

The Majors have consistently used ads in the trade press to persuade exhibitors to book their movies and Hollywood's trailers have dominated world cinema screens, targeting captive audiences with promotional messages about forthcoming product (Hayes and Bing 2004 p. 125).

Hollywood has used overwhelming marketing force in launching new movies e.g. in 1939, the U.S. film industry's advertising expenditure accounted for 59% of world film industry advertising expenditure (Film Daily Year Book 1938 p. 37). In contemporary Hollywood, the average *marketing budget* of U.S. \$32 million to launch Major studio movies (MPAA 2005), greatly exceeds the entire production budget of most independent films e.g. the popular French film *Amelie* (2001) cost only \$10 million and Britain's *The Full Monty* (1997) cost \$7 million to produce and market (www.the-numbers.com). British producer and former advertising agency executive - David Puttnam, lamented that British studios even in the 1980s had generally, failed to learn any lessons from Hollywood, about the need to invest in advertising to successfully launch new movies (Puttnam 1998 p. 244).

The evidence presented in Chapter Nine also demonstrated that the Majors in Old Hollywood had a sound understanding of strategic branding principles by comparing movie poster designs and newspaper ads from the 1920s to a selection from the New Hollywood era. Poster designs for *The Sheik* (1922), *The Jazz Singer* (1927), *Gone With The Wind* (1939) and *Gigi* (1958), were conceptually not dissimilar to modern poster designs for *Jaws* (1975), *Raiders of the Lost Ark* (1981) and *Gladiator* (2000) in terms of demonstrating that the Majors possessed strong strategic branding capabilities at different points in history. This is hardly surprising considering that a number of former advertising agency personnel became influential executives at the Major studios in Old Hollywood (see Table 13.7 above).

In terms of Hollywood's P.R. and promotional capabilities, the Majors identified their key publics and implemented P.R. programs to change negative perceptions about the industry, the studios and the stars (Zukor 1953 p. 78; p. 175; Kozarski 1990 p. 92). They also used channel-bonding strategies to maintain positive relationships with exhibitors and decades ago, the Majors created symbiotic relationships with journalists who rely on the Majors, for information. Often-used tactics to create goodwill with film journalists include film set visits during production, special media screenings, movie star interviews or tours, invitations to gala movie premieres and large scale press junkets – a ritual dating back to the 1930s, in which the Majors pay the travel, accommodation costs and a daily per diem for invited journalists to attend a studio-managed location to interview key cast and crew for a forthcoming movie (Hayes and Bing 2004 p. 127, p. 203).

Since the 1920s, the Major studios' trade organization – the MPPDA (now MPAA) has lobbied Washington, to exert pressure on foreign governments to lower tariffs and create more favourable trading conditions for Hollywood exports (Ulff-Moller 19988). The MPPDA has over time, been led by four Presidents, all of whom were high-ranking Washington insiders, ranging from Lyndon Johnson's personal aide to former U.S. Cabinet officers who provide Hollywood with a sophisticated political lobby in Washington.

Hollywood's publicity machine is legendary. The Majors have demonstrated over many decades that they know how to implement and co-ordinate large-scale campaigns that optimise the chances of a box-office hit. They engineered the creation of iconic movie stars and promoted them as brands (Zukor 1953 p. 210, 213; Higham 1993 p.112; Bakker 2003). In Old Hollywood, the Majors became expert at motivating high involvement from devoted fans, creating fan clubs (Deanna Durban's fan club had fifty branches) and by placing publicity stories about popular stars in fan magazines (Staiger 1990 p. 10). In New Hollywood the Majors use entertainment magazines, Pay TV and movie websites for the

same purpose. Throughout the industry's history, the Majors devised thousands of successful movie launches based on star-related publicity (Sennett 1998 p. 20, 41, 128) often creating media controversy to stimulate interest (Gaines 1990).

The evidence also showed that Hollywood successfully exploited synergistic promotional opportunities on radio and television (Anonymous TIME 1943; Izod 1988 p. 103), and the ability to organise and exploit large-scale promotional tie-ins and merchandising opportunities that add significant weight to movie launch campaigns and can yield significant additional revenue streams (Hayes and Bing 2004; Marich 2005).

The Majors have also integrated marketing communications since the late 1910s. Paramount established the first marketing department in 1915, in which advertising personnel, publicists and promotions staff reported through to a single senior executive (Staiger 1990 pp. 9-10). Known as 'exploitation' departments in Old Hollywood, they produced press books for each new movie, which contained the launch strategy, press ads for local newspapers, publicity stories, promotional and merchandising ideas, that enabled theatre managers who were trained in promotional skills in the studio-owned chains (Gomery in Waller 2002 p. 129), to handle the local launch in their home town or neighbourhood. These press books ensured that marketing communications were integrated and tied thematically into the national launch of each movie (Laemmle in Balio 1976 pp. 161-163; Sennett 1998 pp. 69;132).

After the Majors were forced to sell their theatre chains, marketing was centralised and driven from Hollywood. Today, studio marketers launch movies globally (Harry Potter, The Matrix), simultaneously co-ordinating the advertising, publicity, promotions and merchandising in intensive campaigns in many foreign territories.

Hollywood's rivals around the world are comparatively small studios with expertise in film production, rather than distribution and marketing. Bollywood is the only potential rival that has operated along similar lines in terms of promotional strategies and tactics, however the Mumbai industry is focused on its domestic market and the Indian diaspora, rather than making Indian films for global export. When it comes to promotional prowess, Hollywood has never had any serious competition.

Strategic marketing management capabilities

A movie is a new-to-the world product that experiences a very short shelf-life which reinforces Oscar-winning producer Bob Evans' statement that movies are different because

they are like a parachute jump, if they don't open (at the box office) then they are dead (Littwak 1986 p 84). This makes effective segmentation, targeting, positioning and integrated marketing communications critical to commercial survival in the movie business. Chapter Eleven provided a range of historical evidence that demonstrated the Major studios have always clearly understood this and have used film genres, movie stars and temporal distribution to segment markets, strategic branding (stars and advertising imagery) to target and position films to audiences and provide them with a differentiated value proposition based on quality, to entice them into movie theatres.

Movie stars are a substitute form of branding for new products that rarely have any brand equity and stars are used to target and segment audiences because they provide a ready-made and self-selecting market for each movie (Balio 1985 pp. 114-115). The hardcore fan is already pre-sold. Stars also served as a transportable product attribute providing each new film with a marketable element that could be attractive to cinema bookers and to paying audiences.

Film genres are more than mere product categories because they also serve as a psychographic and benefit-seeking segmentation device and draw audiences based upon a person's situational mood (comedy, romance, horror) or on variety seeking behaviour (seeing something different).

Hollywood's temporal distribution strategy to release movies exclusively to different classes of theatres in Old Hollywood or in different 'windows' in New Hollywood, segmented audiences based on price discrimination. Pioneers, early adopters and early majority were willing to pay more to see a current release than to wait until the movie played in a lower run theatre or today, to wait until it appears on video or TV.

The Majors have strategically used sequels, serials, series, franchises, spin-offs and remakes as an ongoing segmentation device, on the basis that popular movies have a pre-sold audience for any brand extensions.

The evidence showed that the marketing function has been centrally driven and strategically co-ordinated since the rise of Hollywood. By the late 1910s, the first two market leaders - Universal and Paramount had established 'exploitation' departments (Laemmle 1927; Gaines 1990) that comprised advertising, publicity, promotions and merchandising personnel who worked together under one executive to develop marketing strategies, co-ordinate campaigns for new movies and ensure integrated marketing communications to project a clear and

consistent brand image and creative theme across all media channels during the launch phase (Laemmle 1927; Dietz 1974 p. 256). All other Majors studios followed.

Analysis of Hollywood marketing practices over time, demonstrated that since the early days of Old Hollywood, the Majors were marketing orientated firms (see section 13.6 above) that displayed a keen awareness of strategic marketing principles and developed a superior set of marketing capabilities that have underpinned Hollywood's competitive advantage. New Hollywood was shown to adhere to the same principles and practices in Chapters Nine and Eleven.

The historical evidence also showed that the Major studios strategically planned marketing campaigns from the earliest days of Hollywood. Universal's first marketing director Robert Cochrane stated that marketing strategies were formulated during the script development stage (Kennedy 1927 p. 243). The Majors in Old Hollywood ensured integrated marketing communications and consistency of message and positioning by publishing press books for each movie that equipped local theatre managers with all promotional elements they would need to launch new films in their market. These managers were formally trained in 'exploitation' techniques. Press books were devised by advertising, publicity and promotions experts in the studio, and provided ready-made print ads, ready-to-publish feature stories, press releases and a range of promotional and merchandising ideas that could be employed in the local market. Marketing was completely centralised after 1948 when the Majors had to sell their theatre chains and cut costs.

In New Hollywood, the Majors were shown to centrally co-ordinate massive publicity, promotions, merchandising and advertising campaigns for each movie for a day-and-date national or global release for major blockbusters (e.g. Harry Potter).

The evidence showed that marketing today begins early in the script development stage when concepts, titles and potential cast are market-tested and senior marketing executives evaluate the commercial potential of the project, prior to the green-light decision to produce the movie. Potential advertising materials are tested during production and in the post-production phase, movies are product-tested with audiences to determine if any re-shoots or other modifications should be made during editing. Chapter Six showed that test audience previews have been common practice in Hollywood since the 1920s. During the pre-release stage, tracking studies inform marketers of awareness and desire-to-see in the pre-release period giving the studios time to fine-tune marketing strategy and advertising. Post-release surveys inform studios about why campaigns did or did not work.

In terms of the strategic management of the marketing mix, the Major studios have continually adhered to four key strategies in order to provide a superior value proposition to customers:

1) Quality products - a quality-based production strategy in which scripts undergo a rigorous and disciplined development process designed to facilitate screenplays that will attract quality talent to the project (key cast, director), to produce a movie that will attract demand from cinemas to book the film and to facilitate strong interest to see it among appropriately targeted market segments. Hollywood production budgets have been the largest in the world since the late 1910s (Baker 2003; MPA 2005). In Old Hollywood, the Majors operated high quality theatre chains e.g. Paramount's Publix chain with its strategically located, opulent movie palaces featuring uniquely designed service-scapes, highly trained staff providing five star service and a range of amenities and entertainment, targeted middle class audiences in the large American cities (Gomery 2002). So too did Loews-M.G.M., that succeeded Paramount as market leader in the 1930s and reigned until the 1950s. Both are indicators that the Majors adhered to a quality-based competitive strategy.

2) Intensive distribution - the Majors have been channel dominant since the end of the First World War operating global distribution infrastructure and capabilities on a scale unmatched by any rivals (Puttnam 1998). The Majors adapted to changing audience tastes and to the evolving product form of cinemas and adjusted their distribution strategies accordingly. In Old Hollywood they supplied a weekly program of entertainment to theatres. After they sold their theatre chains and TV diffused widely, the Majors reinvented their business model and became channel-centric. They reduced product supply and focused on creating event-cinema – big budget blockbusters, intensely marketed and likely to attract mass audiences. In New Hollywood, as product-hungry multiplexes proliferated around the world, the Majors increased production output, focused on a blockbuster strategy and also established boutique distribution subsidiaries that acquired independent films in order to provide theatre chains with a wider choice of movies. The Majors focus today is on exploitation of intellectual property rights of their movies across various new media and through increased levels of merchandising.

Over many decades Hollywood has continually delivered a reliable supply of the most commercial movies to theatres and nine decades of international distribution know-how provides a sustainable competitive advantage over smaller, newer rivals.

3) Promotional power - Chapters Nine and Eleven provided statistical data that indicated American studios have always outspent the rest of the world in advertising movies and that the average size of Major studio marketing budgets today greatly exceeds the average budget to actually make an independent film anywhere else in the world. Add to that, the Hollywood publicity machine's legendary expertise and the ability of the studios to engage hundreds of large corporations as promotional and merchandising partners. in synergistic launch campaigns for blockbuster movies, and it is evident that smaller rivals around the world simply cannot match Hollywood's promotional expertise or its capabilities. It should also be noted that the Majors were applying similar tactics and merchandising movies back in the 1920s.

4) Premium pricing – the Majors have continually pursued a policy of obtaining optimal film rentals. The real profitability for cinemas is at the candy bar (Wasko 2003 p. 112), so theatres need to book movies that will attract the biggest audiences. Hollywood's blockbusters featuring the biggest stars and supported by the Majors' promotional power and massive advertising expenditures, have made Studio movies the most commercially attractive proposition for movie theatres around the world. Hence they are willing to pay premium rentals to secure the 'best movies'. As early as 1917, Paramount's block booking policy that bundled movies together to achieve the best prices, tripled the film rentals for Mary Pickford's films (Whitfield 1997 p. 149). Nothing has changed today and it is only a very rare independent film that can command similar premium rentals as a Major studio movie (e.g. *The Passion of the Christ*). High rentals are reflected in the ever increasing ticket prices paid by consumers at the box office (see Figure 1, Chapter 10).

Summary

This section showed that the Major studios in Hollywood have developed a set of greatly superior marketing capabilities to their rivals over many decades. These capabilities were a critical factor in Hollywood's rise to market dominance and in sustaining the dominance of the Major studios for nine decades. The next section will summarise the role that barriers-to-entry may have played in the persistence of dominance. Table 13.9 below identifies fourteen barriers but only six proved to be *enduring barriers-to-entry* (in bold type) that sustained Hollywood over time.

Table 13.9 Enduring barriers-to-entry erected by Hollywood 1930-2004

1930-1949 Old Hollywood	1950-1974 Hollywood-in-decline (TV Era)	1975-2004 New Hollywood
Vertical integration – Majors strategic control of exhibition in world's largest market (U.S.) though theatre ownership	Vertical disintegration – enforced sale of Majors theatre chains under U.S. anti-trust laws	Vertical re-integration – Majors strategic ownership and control of post-theatrical markets (home video, network TV)
Slate-financing using movie theatre chain real estate as collateral for bank loans to finance annual movie production.	The Majors were forced into single picture financing which proved to be an unsustainable business model in an increasingly uncertain market with no ancillary revenues	Slate-financing reintroduced because it spreads the risk for investors – the Majors can now recoup from theatrical + post-theatrical markets (DVD, TV, Cable, Internet).
<i>Big budget movies with high production values + big stars differentiates Hollywood</i>	<i>Big budget movies with high production values + big stars differentiates Hollywood</i>	<i>Mega budget movies with high production values + big stars differentiates Hollywood</i>
Movie stars were contracted employees – <i>Hollywood paid big salaries to retain top stars</i>	Movie stars were free agents – <i>Hollywood paid big salaries to secure top stars in movies</i>	Movie stars were free agents – <i>Hollywood pays mega salaries to secure top stars for movies</i>
<i>Worldwide distribution</i>	<i>Worldwide distribution</i>	<i>Worldwide distribution</i>
<i>Unrivalled marketing capabilities & expenditure</i>	<i>Unrivalled marketing capabilities & expenditure</i>	<i>Unrivalled marketing capabilities & expenditure</i>
The Majors strategic ownership of theatres road-blocked independent films access to the most profitable cinemas.	After the enforced sale of theatres, the Majors reduced their annual output creating a product shortage facilitating opportunities for independent films to play to wider audiences	Hollywood's wide-release distribution for blockbusters road-blocks multiplex screen availability shutting out independent films.
Block booking required theatres to play all studio films from a studio & road-blocked independent studio access to the most profitable theatres	Hollywood abandoned block booking after 1948 when it was declared illegal under anti-trust laws - more screen time became available to Hollywood's rivals.	Leading multiplex chains rely upon Hollywood studio product to fill theatres in order to optimise box office & candy bar revenues - so less screen time is available to independent films.
<i>Hollywood built unmatched brand equity with audiences, cinemas and with film financiers</i>	<i>Hollywood retained unmatched brand equity with audiences, cinemas and with film financiers</i>	<i>Hollywood retains unmatched brand equity with audiences, cinemas and with film financiers</i>
<i>Hollywood created a 'parallel world' of reality entertainment</i> – based on the cult-of-celebrity & designed to facilitate high involvement – gossip columns, radio shows, fan clubs, fan magazines, film awards.	<i>Hollywood maintained the 'parallel world' of reality entertainment.</i> Japan, Britain, France, Germany had their own studios and stars but none matched the Hollywood soap opera.	<i>Hollywood perpetuates its parallel world of reality entertainment</i> - celebrity gossip, scandals, awards, box office reports, TV shows, merchandising, movie websites & on-line fan communities.
		Recurring cash flow from film libraries in post-theatrical markets.
		TV package sale formulas are linked to theatrical box office and P&A
		Global merchandising partnerships e.g. Disney-McDonalds 10 year deal
		Product placement agents want Hollywood movies

Note: Bold, italicised barriers have endured over time

13.6 ENTRY DETERRENCE AND PERSISTENCE OF DOMINANCE

There are divergent views on what constitutes a barrier to entry. Bain (1956) advocated product differentiation, scale economies and product differentiation. Porter (1980) proposed that a range of barriers - government policy, capital and resource requirements, economies of scale, cost advantages, proprietary product differences, channel access, customer loyalty, brand preferences and switching costs. Stigler (1968) argued that all firms have to contend with potential barriers like government policy and accessing capital, so a real barrier exists only when it affects new entrants. This thesis adopted Stigler's (1968) definition.

A historical analysis of barriers-to-entry erected by the Major studios revealed that those that have endured and sustained their dominance from the late 1910s until the present day, were all rooted in competitive strategy and their strategic marketing capabilities. The six enduring barriers that served Hollywood over time have been:

1) **Production capabilities:** *Hollywood has continually escalated production budgets that enabled the Majors to secure the biggest stars and give their movies a 'more polished look' through higher quality production values that visually differentiate Hollywood product from lower budget films from rival studios around the world. "Sometimes nothing looks as good as a bad Hollywood movie. In 1992 the opening night entry was Basic Instinct...U.S. critics had dumped their contempt on it. Yet, in the Lumiere Theatre at Cannes, on that 60ft-wide canvas, it had the kind of luminosity, confidence and throbbing pulse that no Franco-Polish minimalist masterpiece could match. This, we were reminded, is why audiences in almost every foreign country prefer Hollywood movies to their own: because ours are bigger, slicker – movie-er"* (Corliss 2007).²² The Italian epic feature films produced between 1911 and 1917 clearly rivalled the early studio movies in terms of quality production values but the Italian industry could not compete with Hollywood budgets after the First World War (Bakker 2003; Nowell-Smith 1998 pp. 125-129). Big budget, foreign made films have been made but often with Hollywood's financial backing and distribution by the Majors e.g.

²² "Whether one likes it or not, the young generation in India has virtually no linking for Indian films which claim only working class and lower middle class types of audience – mainly women and children. American films have captured the imagination, whether viewers know English or not"... "Many theatres all over India switched over to showing foreign films completely or by as much as 60%-75% in a number of cases. This is particularly noticeable in cities like Bombay, Calcutta, Delhi and Madras" (Eswar 1963). "Domestic movies: Under the shadow of Hollywood? 'I love watching Hollywood blockbusters. They gave me audio and visual enjoyment which domestic films cannot provide,' said 26 year old Chen Qiang who works at a Beijing joint venture...Chen buys film magazines every month, his favourite magazine is Movie View Biweekly, a popular magazine published in Southwest China's Sichuan Province, introducing the latest Hollywood films and stars" (China Daily 2002). "Most Koreans prefer Hollywood movies to Korean movies due to the fact that the quality of Korean movies was inferior to American movies" (Hwang 2007). "According to a survey released on Tuesday. "Nearly 59% of Spaniards think home grown film productions are mediocre or uninteresting...Films from the United States draw two thirds of the audience in Spanish theatres. The biggest fans of home grown cinema were in the lowest income bracket with lower educational qualifications" (Reuters 2007).

Britain's *Lawrence of Arabia*, *A Man For All Seasons* and in recent years, Chinese epics like *Crouching Tiger, Hidden Dragon* (the first ever foreign language blockbuster), *House of Flying Daggers* and *Curse of the Golden Flower*. There have also been productions from independent studios non-aligned with Hollywood or from other nations that have featured big stars and contained superb production values but they usually represent a handful of films each year compared with Hollywood's large annual output. Mega budgets are integral to Hollywood's production strategy and are therefore rooted in Hollywood's marketing capabilities.

2) Product capabilities: *The Majors have always paid the highest salaries to secure the top movie stars* for the films. What other film company or nation can afford to pay leading actors \$20 million per movie as Hollywood does for A list movie stars like Tom Cruise and Tom Hanks? Occasionally top stars may be prepared to accept lower wages to make an interesting independent film but only the Majors and the independents that they support, can afford to engage A, B and C list stars for all of their movies. Independent filmmakers also cannot afford to compete with Hollywood in terms of producing effects-laden films. Thus the Major studios new product strategies that have been designed to differentiate their movies based on quality (high-cost production values), actually serve as a barrier-to-entry to smaller independent rivals. These mega salaries have served Hollywood as an enduring barrier-to-entry because stars are a security blanket for film financiers, distributors and movie theatre chains that invest in or contract to distribute or exhibit movies before they are made because a well-known star provides a marketable element. Without major stars it is difficult for independents to secure a distribution deal, which is the key to raising production finance. Thus, the Majors willingness to pay colossal salaries for top stars has been an integral part of Major studio production strategy and is rooted in Hollywood's marketing capabilities related to new product development and quality differentiation.

3) Distribution capabilities: *The Majors are the only film companies to operate an intensive distribution strategy and an extensive worldwide distribution network.* Hollywood's global reach, enduring relationships with theatre chains around the world, distribution know-how, scale economies, operating efficiencies and large acquisition budgets, all contribute to the overwhelming channel power of the Major studios. Smaller independents can't compete on even terms in securing screens for their films and new entrants in the industry have not been able to establish distribution coverage on the scale that Hollywood has achieved since the First World War. In the pre-Hollywood era, Pathe - the first dominant film company operated an extensive worldwide distribution network with 41 sales offices around the world and distribution was a critical success factor in the rise of the French company to market

dominance. Other occasional challengers like First National, Miramax, the Rank Organisation, Thorn EMI, and Polygram have at times emerged as potential rivals and established overseas distribution offices but all historic challengers were either acquired by Major studios (e.g. Miramax) or declined as a market force (e.g. Rank). Channel dominance by the Majors has been an enduring barrier to entry for rival film companies and is rooted in their distribution and marketing capabilities.

4) **Promotional capabilities:** *Hollywood's marketing power* is based upon its extensive advertising, publicity, promotion and merchandising capabilities as well as its *enormous investment in advertising expenditure* to launch movies in all eras. These capabilities have never been rivalled and are another enduring barrier to entry because investors and cinema programmers know that Hollywood backed movies will receive higher levels of investment in advertising than smaller independent distributors can afford to give their films. Therefore it is less attractive for cinemas to book non-Hollywood films.

5) **Marketing management capabilities:** *"Hollywood-the-brand"* carries significant brand equity as a system and style of filmmaking with global audiences; with cinema operators who prefer to book and play Hollywood movies because they are perceived to have greater commercial potential; with film financiers who perceive that Major studio distribution lowers the commercial risk, which in turn makes film financing easier for movies that are backed by the Majors and finally with the media (general and entertainment) that has a symbiotic relationship with Hollywood, because it is reliant on the Hollywood publicity machine for stories on new movies, big stars and business news and therefore provides greater media coverage than it does for rival film industries. Creative talent and film corporations want to work with Hollywood because it is the most commercially successful film industry in the world and they know that by doing so, they can access greater resources to make their films and reap higher rewards if they are successful. Thus, Hollywood-the-brand has presented a formidable and enduring barrier-to-entry to smaller independent film companies and rival industries trying to finance and market low budget films and create space in an intensively competitive global market.

6) **Marketing management and promotional capabilities:** *Hollywood has created a 'parallel world' of reality entertainment* that absorbs movie fans around the world and stimulates high levels of consumer interest and involvement in Major studio movies, Hollywood stars and in movie-related merchandising. Everyday, Hollywood news stories permeate all media channels and celebrity stories play-out like a global soap opera on the world media-stage. The Hollywood marketing machine has over many decades used many

varied strategies and tactics e.g. film publicity, scandals and exposes, gossip columns, fan clubs, fan magazines and movie awards –to grab headlines and stimulate ongoing high levels of interest in Hollywood movies and stars.

This ‘parallel world’ of movie-related entertainment is strategically designed to facilitate high involvement from movie consumers in order to create and maintain a pool of innovators, early adopters and early majority consumers (Rogers 1983 diffusion model) desiring to see new release movies from the Major studios. The ‘*parallel world*’ has been based on four marketing foundations: – 1) Movie publicity that launches new films. 2) Strategic development of a cult-of-celebrity surrounding movie stars which exploits the public’s appetite for news and gossip about their private lives, that facilitates the ongoing ‘soap opera’ playing-out daily in the world media and that attracts ongoing publicity for Hollywood stars and Major studio movies. 3) Licensed merchandising on a global scale for Hollywood blockbusters that enables children and adults to become actively engaged with particular movie brands, thus raising their level of involvement with those movies. 4) Movie awards that are given out on a regular seasonal basis that focus increased media attention on Hollywood movies and stars.

Bollywood uses similar tactics with India and probably does this better than other film industries around the world but even so, exposure of Bollywood films and stars is limited to the Indian media. Most film fans around the world could readily name at least fifty Hollywood stars but if asked, how many Indian, French, Italian, German or Japanese stars could they list?

The Hollywood global soap opera is an integral part of popular mass culture – many people are interested in hearing about the latest Hollywood movies or news or gossip about the stars. Hollywood movies are a regular topic of social conversation. Thus, Hollywood has created a whole ‘parallel world’ of entertainment about the movie industry that can interactively involve anyone with such interests. Millions of people around the world have been conditioned to discuss aspects of Hollywood every day at work, on public transport, at lunch, dinner parties, at a bar or with family. No other film industry has had the same level of impact on the popular consciousness. This represents another enduring barrier to entry for non-Hollywood filmmakers trying to make space and get their film noticed. This is the sixth enduring barrier to entry erected by Hollywood that is rooted in its strategic marketing management and promotional capabilities.

13.7 HOLLYWOOD'S RIVALS – WHY CAN'T THEY COMPETE?

Rivals to Hollywood that potentially might have challenged the Majors' dominance can be identified in two ways – rival film industries and rival film companies. Table 13.10 below provides a historical overview identifying the leading producer-nations during the 20th century – America, France, Italy, Germany, Britain, Japan and India.

Table 13.10 Share of total world output for annual feature film production for the largest seven producer-nations over the period 1914-1999 (see Appendix 57)

Nation	1914-1920	1921-1929	1930-1939	1940-1949	1950-1959	1960-1974	1975-1979	1980-1989	1990-1999
USA	66%	36%	26%	29%	12.3%	5.4%	4.9%	7.1%	11.5%
India	?	4%	10%	14%	11.3%	11.1%	16.8%	22%	55.4%
Japan	?	19%	20%	10%	15.7%	13.4%	9.9%	8.8%	9.0%
Italy	1%	1%	2%	5%	5.6%	7.3%	4.7%	3.2%	3.6%
France	?	2.5%	7%	5%	4.9%	4.7%	6.1%	4.3%	5.1%
Germany	11%	17%	7%	4%	4.1%	3.0%	2.1%	1.9%	2.2%
Britain	5%	4%	7%	4%	4.1%	2.9%	1.6%	1%	1.7%
Top 7 producer nations	83%	83.5%	79%	71%	69.3%	47.8%	46.1%	48.3%	58.5%
Rest of the world	17%	16.5%	21%	29%	30.7%	52.2%	53.88	51.7%	41.5%
World film output per decade	11,964	16,445	18,985	13,962	23,953	48,141	16,980	36,030	28,490

Source data: market shares have been calculated from raw production output data in Robertson (2001) pp. 16-17.

Drawing upon historical evidence discussed previously in Chapters Six-Eleven, Table 13.11 below compares these other large film-producer nations as potential rivals to Hollywood. It shows their relative market positions, strategic orientation and marketing capabilities. What is clearly evident is the critical importance of the strength of the Major studios strategic marketing capabilities relative to their much weaker rivals, demonstrated by the fact that Hollywood films have continually over many decades, achieved the most commercial success, with 276 Major studio movies placed in the all-time top 300 box office hits (Appendix 10 Table 20). Analysis of all-time hits lists from previous eras, reflect similar patterns (*Variety* Jan. 6th, 1960 p. 34; *Variety* Jan. 8th, 1975 p. 26).

Table 13.11 World's leading film industries 1914-1999

	USA	Britain	France	Germany	Italy	India	Japan
Share of world film production output (1914-1999) <i>Source: shares calculated from Robertson 2001 pp. 16-17</i>	High: 66% (1914-20) Low: 4.9% (1975-79)	High: 7% (1930-39) Low: 1% (1980-89)	Pathe (Pre-WW1) 50-70% High: 7% (1930-39) Low: 2.5% (1921-29)	High: 17% (1921-29) Low: 1.9% (1980-89)	High: 7.3% (1960-74) Low: 1% (1914-29)	High: 55% (1990-99) Low: 4% (1921-29)	High: 20% (1930-39) Low: 8.8% (1980-89)
Global market dominance	Yes since WW1	No	Yes before WW1	No	No	No	No
Number of films in worldwide all-time top 300 box office hits	276	15	1	0	1	0	2
Primary orientation	Commercial movies	Commercial films	Pre-WW1: Commercial films Post WW1: Artisanal	Mostly artisanal some commercial	Artisanal	Commercial films	Commercial films
Production focus	International markets	Big budget films: International markets Low budget: Domestic market	Pre-WW1: International markets Post-WW1: Domestic market	Domestic market	Domestic market	Domestic market	Domestic market
Use of marketing research to aid product design	Yes	No evidence of any	No evidence of any	No evidence of any	No evidence of any	No	Unknown
Rigorous product development process	Yes	No	No	No	No	No	Unknown
Distribution	Global and intensive after WW1	Domestic market dominated by Hollywood No global capabilities	Pre WW1 global and intensive Post-WW1: Some domestic strength No global capabilities	Domestic market dominated by Hollywood Since mid-1920s No global capabilities	Domestic market dominated by Hollywood No global capabilities	Indian films dominate domestic market No global capabilities	Japanese dominated home market until 1980s. Increasing Hollywood share No global capabilities
Promotional capabilities	Exceptionally strong globally	Strong in Britain	Strong in France	Strong in Germany	Strong in Italy	Strong in India	Strong in Japan
Pricing capabilities	Premium rentals	Mostly low rentals	Mostly low rentals	Mostly low rentals	Mostly low rentals	Mostly low rentals	Mostly low rentals
Strategic marketing management capabilities	Exceptionally strong	Historically Weak	Historically Weak	Historically Weak	Historically Weak	Strong in India	Strong in Japan
Vertical integration	Pre: 1948 Majors were producers-distributors-exhibitors Post-1948: Majors only producers-distributors	Rank was producer-distributor-exhibitor	Pathe Gaumont were producers-distributors-exhibitors No modern French Majors	UfA was producer-distributor-exhibitor No modern German Majors	No Italian Majors Since First World War	No Indian Majors Fragmented distribution	Shochiku Toho Toei Producers-distributors-exhibitors

In terms of a marketing orientation - France (led by Pathe in the pre-Hollywood era), Britain, Japan and India, all established commercial film industries producing movies intended to entertain domestic audiences and in Pathe's case, international audiences. In the post-Pathe era, "*The European film industry remained artisanal*" (Ulff-Moller 1998 p. 7) with Italian, German and French studios giving the film director as auteur, the power to determine the

final form of the film: French director Jean-Luc Godard said in 1993 “*Films are made for one or maybe two people*” (Puttnam 1998 p. 232). Making films to satisfy audiences is not the primary focus of an artisanal approach to filmmaking. “*The Americans have found their speciality, they do not try to imitate the European art films*” (Ulff-Moller 2001 p. 23),

The result is that foreign rivals only rarely produce films that can truly compete with Hollywood’s product at the box office. However, if Britain, Japan and India established commercial film industries catering for the entertainment needs of their domestic markets and achieving significant box office success within their home markets, why did none emerge as serious rivals to Hollywood. A brief summary analysis of each of Hollywood’s six major foreign rivals appears below.

France

French studios dominated the movie business in the pre-Hollywood era. Leading studios Pathe, Gaumont, Éclair and Eclipse produced entertaining short silent movies. Market leader Pathe, misread market-readiness for feature films and retained a short film policy, which undermined its market position and it declined as a world cinema power. The First World War terminated most production in Continental Europe and gave Hollywood the opportunity to establish their own international distribution channels replacing the previously powerful Europeans in world markets (Myers 1956; Sklar 1978 p. 144; Puttnam 1998 pp. 72-73 and see Chapter Eight).

After the War, French studios generally adopted an artisanal approach to production and focused on making films for the domestic market. By the 1920s-1930s Hollywood began to dominate distribution in France (Nowell-Smith 1998 p. 118-119). Whilst the industry has over time produced many domestic box office hits in France, only three French-made films have achieved significant success at the international box office - *The Fifth Element* (1997) starring Bruce Willis, which grossed \$236 million worldwide, *Chocolat* (2000) which made \$153 million and *Amelie* (2001) which grossed \$152 million worldwide. All three films were either co-financed and/or distributed by Hollywood studios. In the mid-1990s, Hollywood movies achieved higher market penetration and the French industry was described as being caught in a crisis between art and commerce. “*No longer a dominant cinematic force even in its own country, the proud investors of filmed entertainment sit aghast as Hollywood siphons millions of francs out of its citizen’s pockets and lures away the country’s promising young talent. At a time when American directors like Quentin Tarantino, Larry Clark and Tom DiCillo are pushing French film out of art houses where it once reigned, the audience for*

foreign language features in the U.S. is graying and not being replenished. Unless French filmmakers switch reels and begin making movies that the global marketplace demands, the country that produced classic motion pictures like *Jules et Jim* will become just another ancillary market” (Martin 1996).

Italy

Italian studios emerged as a potential threat to the emerging Hollywood, during the early transition to feature films prior to the First World War. Leading studios Cines, Itala, Milano, Palatino and Ambrosia produced impressive historical epics that became box office hits from 1911-1917. However after the War, Italian filmmakers, unable to access significant sources of capital to continue making big budget productions, like the French, also reverted to an artisanal approach, producing mainly low budget art films thereafter (Degli-Esposito Reinert in Kindem 2000 p. 224).²³ During the later TV era (1950-1974) when Hollywood reduced its output, low budget Italian ‘sword and sandal’ epics e.g. *Hercules Unchained* and ‘spaghetti westerns’ e.g. *A Fistful of Dollars*, a few had high quality production values and achieved a modest degree of commercial success as exports in international markets but never seriously threatened Hollywood despite the Majors’ vulnerability at that time. Italy has produced only one international all-time box office international hit – the Oscar winning *Life is Beautiful* (1998) that achieved \$229 million and was distributed by a Hollywood studio.

²³ “The trend towards this sort of production, partly derived from the French models (Film d’Art) was immediately successful with Italian audiences, and also encountered favourable reactions from abroad. The success of the new genre became an important cultural phenomenon with the release of *The Fall of Troy* (1911). Despite its hostile reception by Italian critics, the film was greeted with unprecedented public approval in Europe and America, inspired by its spectacular monumental reconstructions of classical architecture, and by its unashamed aspiration to artistic grandeur. Such aspiration to the status of art formed the basis of the most successful period in the history of Italian silent cinema, which, despite relatively modest resources available to its creators, managed to secure a deserved place among the great powers of international production nations between 1911 and 1914” ... “the full length feature film emerged earlier in Italy than in most other countries. The *Crusades* - Cines Films 1911, *Dane’s Inferno* - Milano Films 1911, *The Last Days of Pompeii* - Ambrosia 1913, *Quo Vadis* - Cines 1913, *Antony and Cleopatra* - Cines - 1913, *Julius Caesar* - Cines - 1914...the apotheosis of the historical genre was reached with *Cabiria* - Itala Film 1914, a film that symbolises the zenith of achievement of silent cinema in Italy” (Nowell-Smith 1997 p. 125).

“With the emergence of the full length feature, the Italian film industry underwent further transformation. In order to make a profit on a smaller number of film shows, the exhibitors enlarged their halls, ticket prices went up, and so, in turn, did directors’ pretensions. From a popular spectacle, designed in large part for working-class audiences, cinema became a middle-class form of entertainment. This new situation accentuated competition between companies, whose number grew to excess after 1915, shifting the centre of production from the north (Turin and Milan) to Rome and Naples, challenging the monopoly of the bigger companies, and hampering any further consolidation of the newly formed production base. The embryonic studio system of the years after 1910 was then replaced by a growing fragmentation of the industry” (Nowell-Smith 1997 p. 127).

At then end of the First World War, the Italian industry was in severe difficulty (Nowell-Smith 1997 p. 128).

An artisanal orientation also permeated Italian film production from the early silent days. During the first two decades of the silent film era: “Italian cinema privileged an artistic production that would appeal to a general public over a commercial production solely geared toward pure entertainment. More interested in the cultural appeal of the final product than in the economic result, as was the case of the American production system, Italian producers seemed to consider the film industry a sort of artisan-like adventure” (Degli-Esposito Reinert in Kindem 2000 p. 224).

Germany

Germany emerged from the First World War as a significant exporter of silent films and remained a powerful market force until the Nazi regime commandeered the industry for propaganda purposes. German cinema after World War Two never regained its global position (Silberman in Kindem 2000 pp. 206-220). German filmmakers have since then also adopted an artisanal approach. The highest grossing German-made film of all-time internationally was *Das Boot* (1997), which grossed only \$85 million worldwide and was distributed by a Major Hollywood studio in the U.S. market where it made \$11 million.

Britain

Britain has traditionally operated a commercial film industry focused on its domestic market. The largest British film company was Rank, a firm that was bigger than any of the Major studios during the 1940s and 1950s and actually acquired 25% of Universal in an attempt to open the American market to Rank films. However, Universal refused to distribute a large backlog of Rank films after the war claiming they were un-releasable (Segrave 1997 p. 146). A number of British studios arose during the 1980s that enjoyed some box office success (Goldcrest, Palace, Virgin) before failing commercially. However Britain's most internationally successful studios have been Eon whose James Bond films have been financed and distributed by UA or MGM-UA since the 1960s and Working Title now owned by Universal, but producer of international box office hits *Four Weddings and a Funeral*, *Bridget Jones* and *Love Actually*. Universal finances and distributes Working Title films.

Japan

Japan has operated a successful commercial film industry since the 1920s. It was modelled on Hollywood and has its own vertically integrated Major studios, a star system and film genres that catered for the tastes of the domestic Japanese market.

Japanese filmmakers chose not to compete internationally with Hollywood (Desser in Kindem 2000 pp. 12-13). During the TV era (1950-1974), its low budget monster movies e.g. *Godzilla* and science fiction films e.g. *Battle in Outer Space* enjoyed some limited export success and an occasional Samurai film also achieved limited international success (*The Seven Samurai*; *Yojimbo*). In recent decades, Japanese Anime films have become a very successful niche export market and achieved significant international box office success with several appearing in the all-time top 300 box office list of movies e.g. *Spirited Away*.

India

Like Japan, India has remained domestically focused. It is the largest film market in the world and India produces double the output of the United States each year but its films are produced to satisfy the Indian markets and the diaspora living abroad. It enjoys some limited export success in middle-eastern markets. India has not historically focused on making movies for world markets and there has never been an Indian-made international blockbuster hit movie. The most successful Indian export has been *Monsoon Wedding* that grossed only \$30 million worldwide (www.boxofficemojo.com).

Rival studios

After a comprehensive review of the history of the movie business, a list of ten film companies from different eras have been identified, that in the author's view, were the most-likely studios to have been able to challenge Hollywood's Majors. They are shown below in table 13.2. The once dominant and market-orientated Pathe, one of the first studios to make longer feature films (*The Passion Play* 1909), misread the changing market around 1911-1914 and stuck to its short film policy rather than switching over to feature film production. This gave the first-mover advantage to the Italians and to the emerging Hollywood studios led by Famous Players-Paramount. Pathe's market power was subsequently eroded. The MPPC was ordered to dissolve under anti-trust laws in 1915 but had already faded as a market power because it also failed to adapt to feature films.

Despite significant Wall Street investment, Triangle Films failed financially after only four years - its film budgets were only half those of Paramount (Bakker 2003 p. 39); but its overheads were high because its movies featured expensive, unknown stage actors with limited box office appeal, thus it had a poor reputation with exhibitors, its film exchanges didn't pay their way and its own showcase theatre scheme collapsed (Lahue 1971 pp. 48-49).

Table 13.12 Rival studios most likely to have threatened the Majors 1912-2005

Company	Vertically integrated	Company profile
Pathe 1896-1929	Yes - France	The first globally dominant film company with massive financial resources lost market share in the U.S. after joining the MPPC. Pathe withdrew from feature film production in 1914 due to concerns over rising film budgets just as demand for features escalated. The First World War devastated the European industry and Pathe also lost its large Russian market after the Bolshevik revolution (Puttnam 1977 pp. 75-76; 87). Pathe's U.S. company was sold to R.K.O. in 1929.
MPPC 1909-1915	Yes – U.S.	The MPPC comprised the seven largest film companies in America plus Pathe but was dissolved under U.S. anti-trust laws in 1915. By then it had already lost significant market share because it refused to release feature length films as market demand for longer movies was escalating (Zukor 1953 pp. 73-74).
Triangle 1915-1918	Yes – U.S.	Vertically integrated producer-distributor with contracted theatres was established by leading producers and directors, financed by significant equity capital raised on Wall Street, it made feature length movies featuring leading stage stars that failed at the box office, however Triangle's production budgets were half of Paramount's (Bakker 2003 p. 39). Triangle went bankrupt in 1919 (Koszarsky 1990 pp. 64-66; Lahue 1971 pp. 48-49).
First National 1917-1928	Yes – U.S.	Vertically integrated exhibition-production company grew rapidly from 1917-1920 making movies featuring leading stars (Balio 1985 pp. 120-121) to become a major market force capable of blocking Paramount's access to first run theatres for its movies (Zukor in <i>Variety</i> 1956). First National was undermined as theatre chain members within the circuit were strategically acquired by Zukor.
Ufa 1917-1945	Yes - Germany	Established by the German government and then privatised to guarantee financial viability, Universum was a large-scale vertically integrated producer-distributor-exhibitor that achieved significant export success with high quality silent films during a boom period for the German film industry. In the 1920s Germany was a serious export rival to Hollywood in world markets offering a different style of avant-garde art film. After the war Hollywood product flooded German cinemas and Ufa went bankrupt but was revitalised by loans from Universal and Paramount (Silberman 2000 pp 206-215). In the sound era, Ufa became a vehicle for Nazi propaganda until it ceased to trade in 1945.
Toho 1929-	Yes - Japan	Created by merger of a film studio, a film laboratory and a real estate firm, Toho became a large-scale vertically integrated producer-distributor and exhibitor in Japan, operating a studio-star-genre system modelled on Hollywood. World War 2 bombing devastated the film industry but Toho rebuilt to remain one of three dominant Japanese Majors with Shochiku and Toei (Desser 2000 pp. 15-21).
Republic Pictures 1935-1959	Yes - Studio + large scale distribution in U.S.	Created by merger of five poverty row studios and backed by Consolidated Film Laboratories, Republic was " <i>the most important and influential studio in the history of the B movie</i> " mainly westerns and serials. It operated a large-scale distribution network within the U.S. market and was a profitable company until the diffusion of TV undermined the market for B pictures (Slide 1998 p. 172).
Rank 1937-1996	Yes – Britain Selective international distribution	Large scale vertically integrated producer-distributor-exhibitor with an international distribution company BEF. Rank films enjoyed significant commercial success within the British Empire but limited export success in non-English speaking territories or in the large U.S. market despite Rank owning 25% of Universal Pictures during the 1940s (<i>Fortune</i> 1945 pp. 149-151).
Cannon Films 1979-1989	Yes - Studio + selective international distribution	Run by Golem and Globus - two Israeli cousins, Cannon rapidly emerged as a Mini-Major producing a higher volume of movies than the Major studios that were financed by video pre-sales and a large revolving line of credit from a French bank. It acquired Thorn-EMI's international distribution company and in 1986 Cannon made 41 films, more than the combined total of 35 produced by Warner, Universal, Paramount and Fox (Yule 1987 p. 220). Cannon's B grade movies failed to achieve any major box office success and it declared bankruptcy in 1989.
Miramax 1979-	Yes - Studio + U.S. distribution	Rapidly emerged as a highly successful Mini-Major (Biskind 2004). Acquired by Disney in 1993, founders Harvey and Bob Weinstein were left to run Miramax as a Disney subsidiary until they resigned in 2005 to form a new studio.
Dreamworks SKG 1994-	Yes - Studio + U.S. distribution	The high profile Mini-Major established by Steven Spielberg, Jeffrey Katzenberg and David Geffen achieved some major box office hits (<i>Shrek</i> , <i>Saving Private Ryan</i>) but had insufficient output and failed to make a profit (Kafka & Newcombe 2003). Dreamworks was acquired by Paramount in 2006.

First National posed a serious commercial threat and for a short period enjoyed significant market power as an exhibition cartel but it was undermined by Famous Players-Paramount when Adolph Zukor gradually acquired the leading theatre circuits that were First National franchises, bringing them into the Paramount-Publix chain. This undermined First National's economic base and it imploded. Warner Brothers then acquired First National Pictures and its distribution operation.

German studio – Ufa, was a government-backed, large-scale, vertically integrated film conglomerate that became a serious international competitor to Hollywood during the silent era between the world wars, however domestic political and economic forces in the 1930s undermined its commercial viability. It failed in 1945.

Toho is one of Japan's three Major vertically integrated film companies that control the Japanese market. However, like its rivals Toei and the older Shochiku, it has throughout its history remained domestically focused on the Japanese market and has displayed no serious international ambitions.

Republic Pictures was a 'poverty row' studio created by merger with substantial financial backing. It focused on producing low budget movies but when the market for B pictures dissipated during the 1950s as TV diffused widely, Republic failed to adapt to new market realities. Republic ceased trading in 1959.

As discussed above, Rank was a large, vertically integrated film company that produced films for the British market but which had limited international export potential.

Cannon Films was the first Mini-Major that emerged during the early video boom, using video pre-sales and massive bank loans to finance its low-budget productions. Whilst Cannon's annual output became far greater than any of the Major studios, its scripts were poorly developed, its movies featured very few well-known stars and it failed to produce a single box office success. Cannon acquired Thorn EMI's worldwide distribution network but collapsed financially after being unable to service its massive debt.

Miramax and Dreamworks are both Mini-Majors based in Hollywood that were acquired by Major studios. Miramax as an independent studio and distributor became too successful and seemed on the road to achieving Major studio status, before it was acquired by Disney in 1993. Today it operates as a subsidiary.

Dreamworks SKG teamed Spielberg, Katzenberg and Geffen in a dream-team reminiscent of United Artists. Despite a \$1 billion capitalisation, significant box office success and numerous film awards, like U.A. before it, Dreamworks failed to produce sufficient output and made no profits during its first decade before Paramount acquired the studio in 2005. Prior to the takeover, it handled its own domestic distribution but internationally its films were distributed by Universal.

In summary, film industries and studios that adopted an artisanal orientation (France post-Pathe, Germany and Italy) were simply unable to compete with Hollywood's greatly superior strategic marketing capabilities. Companies that adhered to a product-orientation (Pathe after 1909, the MPPC) declined because they misread changing market conditions and because they did not possess a marketing orientation, they could not adapt to changing audience needs. By comparison, the early Majors in Hollywood were attuned to the desires of audiences for feature film entertainment showcasing popular movie stars. Film industries and studios that were primarily focused on their domestic markets (Britain, Japan, Toho and India) produce films that do not satisfy the entertainment needs of a global audience and should they decide to change strategy they do not possess the international distribution capabilities necessary to compete with Hollywood, so they face massive barriers-to-entry in export markets. Studios that niched in the lower budget end of the market or could not match the Major studios larger budgets (Republic, Cannon and Triangle) were ultimately unable to compete with Hollywood's quality-based value proposition and went out of business. Serious threats to the Major studios (First National, Dreamworks and Miramax) were either undermined (First National) or acquired by Major studios (Dreamwork and Miramax) to eliminate them as competitive threats to the Majors' dominance.

13.8 THESIS CONCLUSION

The theory underpinning the strategic marketing lens used in this thesis indicated that acquisition of market dominance might be due to firms achieving growth by merger. This thesis argued that merger activity did not play a defining role in Hollywood's rise to power because although four out of the nine Major studios were involved in mergers at the time they were formed, only two – M.G.M. and R.K.O. gained instant Major studio status as a result of the mergers.

The eight companies involved in the merger that created Universal did not provide sufficient resources to enable it to immediately compete on even terms with the MPPC (owned by America's seven largest film companies and the globally dominant French firm - Pathe). The

three companies involved in the Famous Players-Lasky-Paramount merger had contractually committed to a 25-year business relationship three years prior to the merger. Thus, the thesis argued that when Famous Players (by then, already the largest studio in Hollywood) and Lasky merged, and then acquired Paramount, and later merged eight subsidiaries into one giant corporation, no new resources were created so in reality, the merger was more of an internal reorganisation because the company was by then, already market leader.

The other Major studios – Fox Film, U.A., Columbia and later, Walt Disney all grew organically to become Major studios. Fox was already a Major studio and large enough to try to take-over M.G.M. when it later merged with the smaller 20th Century Pictures in 1934. Warner Brothers made enormous profits in a short time period due to its first-mover advantage investing in and launching talking picture technology. This enabled Warner as a new Major studio, to grow through acquisition and it bought First National Pictures and the Stanley Theatre chain, to consolidate its market position and create a corporate distribution channel for its own movies.

The theoretical lens also indicated that market dominance could be acquired and maintained through superior firm performance based upon a marketing orientation and superior marketing capabilities. This thesis uncovered historical evidence that demonstrated that the Major studios in Hollywood were marketing orientated firms, that acted with strategic intent, that employed a competitive strategy based on quality to differentiate Hollywood movies and developed a set of marketing capabilities that were clearly superior to all potential rivals (other national film industries and individual rival studios) over the last nine decades.²⁴

Finally, the theoretical lens also indicated that barriers-to-entry typically play a role in the maintenance of dominance. This thesis argued that only six of the fourteen barriers identified through the research, were enduring barriers-to-entry that sustained Hollywood's competitive advantage over the entire ninety year period under study, and that each of those six enduring barriers were rooted in the strategic marketing capabilities of the Hollywood studios. Thus the final conclusion of this thesis is that it has been the Major studios' strategic marketing capabilities that are the real underlying cause of Hollywood's acquisition and longstanding dominance of the movie business.

²⁴ For the purposes of determining commercial quality, key components of quality were deemed to be the size of film budgets, presence of popular movie stars, production values and peer recognition for professional excellence and achievement through Academy Award nominations. On all counts the Major studios proved to have superior capabilities than domestic or foreign rivals. Quality can be interpreted in different ways so additionally, an analysis of all-time Top 100 film lists compiled from a range of sources including film critics, critics associations, an art film magazine, newspapers and a business magazine, revealed that Hollywood movies still occupied between 34%-76% of places in those lists (see Appendix 59 and 60).

13.9 LIMITATIONS OF THE RESEARCH

A key limitation of the historical analysis of Hollywood's dominance is that it is not possible to cover every contextual aspect of the different eras in which the Major studios acquired and maintained their market dominance. Other key limitations are the availability and reliability of movie industry statistics prior to the New Hollywood era (1980s). To address this issue, historical statistics quoted in the thesis were drawn from sources widely regarded as legitimate based on numerous citations in many scholarly works e.g. the *American Film Institute (AFI) Catalog*, *Film Daily Year Books*, *Variety* and scholarly film industry histories and encyclopaedias e.g. Balio (1976, 1985, 1987), Thompson (1985), Slide (1986, 1998), Abel (1994, 1999) and Segrave (1997) etc. Another related limitation is the unavailability of the Major studios' internal corporate records over the ninety-year period under study. However, a wide range of primary sources and recollections by Major studio executives has been used to try to counter this weakness. A further related limitation is the limited availability in English, of historical information on many other 'foreign' film industries and studios that were potential rivals to Hollywood.

This thesis focused only on Hollywood's acquisition and maintenance of market dominance. Care should be taken by scholars and practitioners when applying the strategic marketing management lens and its related 'soft models' to other industries.

13.10 ORIGINAL CONTRIBUTION

The literature review found *no existing theoretical model* within the economics, management and marketing literatures, that could comprehensively explain origins and persistence of market dominance over prolonged periods of an industry's history. Well-known models that might possibly have provided that kind of framework such as Scherer's SCP or Porter's five forces were developed for purposes other than analysing origins and persistence of dominance over time and at best could only provide a static "snapshot-in-time". Consequently, this thesis constructed its own theoretical framework to enable a comprehensive analysis of dominance in the movie industry by holistically integrating relevant foundational theories from the existing economics, strategic management and marketing literatures.

Following the method of Jones (2001), three relevant theoretical lenses were constructed as core components that link together to form the over-arching theoretical framework. 'Soft'

models were developed on both the acquisition of dominance and maintenance of dominance based on key foundational theories drawn from the economics literature. A strategic marketing management (SMM) lens was then constructed in order to resolve two elements of ambiguity contained within the foundational theories on acquisition and maintenance of dominance that were reflected in the two economic lenses. The practical manifestation of that theoretical lens is *the formulation of a set of guiding questions* that help to direct the research and facilitate efficient identification of relevant historical data drawn from literally hundreds of sources and covering a span of one hundred years of industry history. These guiding questions are based upon the foundational theories located within the strategic marketing management lens developed for this thesis to enable analysis of Hollywood's historical dominance in the movie industry. They could also be used to assist managers and other researchers to similarly analyse dominance in other industries. As such they represent an original contribution.

This thesis argues that the SMM lens and the integrated economic, management and marketing theory underpinning it, offers a potential new theory for understanding the acquisition and persistence of market dominance because each of the twenty existing explanations of Hollywood's dominance can be accounted for when the history of the Major studios' success is analysed through the strategic marketing management lens.

This thesis also represents the first comprehensive analysis of Hollywood's dominance from a strategic marketing management perspective. The literature search over four years found no other study that has undertaken an in-depth strategic analysis of Hollywood's dominance from this perspective. Scholars have previously developed theoretical explanations on dominance in the movie industry or on the global popularity of Hollywood movies from the perspective of their own disciplinary bias. This thesis differs because it has drawn upon foundational theories in the economics, management and marketing literature to construct a holistic theoretical framework that enabled a comprehensive multi-disciplinary analysis of Hollywood's dominance.

13.11 IMPLICATIONS FOR MANAGEMENT

For rival film industries and studios that wish to compete commercially with Hollywood, the key lesson from this study is that the Major studios have succeeded for so long because they adopted a marketing orientation and developed superior strategic marketing capabilities that has enabled them to consistently outperform all competitors.

Traditionally, foreign governments have tried to protect and/or nurture their indigenous film industries by erecting of trade barriers (which in most cases Hollywood was able to work around e.g. Britain's quota quickies or able to neutralise); production subsidies (film grants) or tax incentives (e.g. Australia's 10BA). The problem with this approach is that it is one-dimensional. It addresses only one aspect of the six necessary marketing capabilities – stimulating local production but it does not address critical success factors like the creation of a rigorous new product development process or the necessary integration with marketing research, distribution, promotion and strategic marketing management that facilitate premium pricing strategies for export sales and eventually lucrative film rentals.

The implications are that governments need to devise policies that begin to address the development of those other strategic marketing capabilities e.g. tax incentives or other financial policies that would facilitate the longer-term development of large scale (e.g. pan-European / Pan-Asian), professionally run distribution networks capable of competing on even terms with Hollywood. Well-run distribution powerhouses with size and scale would facilitate films with export potential across all release windows (theatrical, DVD, Pay TV, VOD etc). Distribution risk could be partially spread through slate-financing deals in which coalitions of independent studios could seek to raise both production and P&A (marketing) finance in one package which at worst would provide a four-walling opportunity for a studio.

Finally, new media channels (e.g. the Internet and other forms of digital delivery) provide opportunities for Hollywood's rivals to access new audiences directly and potentially bypass existing distribution bottlenecks. Two journal articles published in *Business Horizons* by the author that partially drew upon the research undertaken for this thesis, begin to address such issues - Silver and Alpert (2003) "Digital Dawn: A Revolution in Movie Distribution?" and Silver and McDonnell (2007) "Are Movie Theaters Doomed?"

13.12 RECOMMENDATIONS FOR FURTHER RESEARCH

Research is suggested in two key areas:

- 1) Does the SMM lens and its integrated economic, management and strategic marketing theories work when applied to dominance in other industries?
- 2) Does the digital age potentially level the playing field for Hollywood's rivals?

APPENDIX 1: A BRIEF HISTORY OF THE MOVIE BUSINESS

Pre-Hollywood (1893-1908)

Thomas Edison created the movie industry when he invented and patented the first moving picture camera and a peepshow device called a kinetoscope, that enabled an individual to watch flickering black and white images that moved, lasting about one minute. For about 18 months from 1893-1895 a new commercial industry began to bloom as kinetoscopes parlours began appearing around the world enabling people to pay to see the wonder of moving pictures.

However, the trajectory of the movie business changed direction in 1895 when the French Lumiere brothers demonstrated *a new technology – a film projector* in Paris, enabling an audience to see film as a shared social experience. The economic foundations of an exhibition sector had now been established. Short films were exhibited anywhere that would show them - at fairgrounds, museums and in vaudeville theatres. As the novelty of watching films on day-to-day activities lasting a few minutes wore off, story films were introduced to attract audiences. The French film *A Trip to the Moon* became the first box office hit in 1900. At this point in time permanent movie theatres did not exist.

Edison acquired patents to an American projector and litigated against new entrants into the industry that had developed their own film equipment or were importing European cameras and projectors. A decade long struggle known as the 'patent wars' began in the U.S. market draining the financial resources of largest film companies in America and retarded their growth.

Before Hollywood, France dominated the early movie industry

In the first two decades of the new industry, long before the Hollywood studios existed, the French film industry towered over the rest of the world (Puttnam 1997; Abel 1994; Hayward 2000). Georges Melies' Star Films was the first to penetrate the U.S. market opening a sales office in New York in 1903 (Musser 1991). Pathe Freres became the undisputed world market leader from around 1904-1914 operating a large-scale manufacturing plant making cameras and projectors for export, several large film studios outside Paris, a worldwide network of sales offices and a French cinema chain. Like Pathe, its main rival Gaumont, was also well capitalized and vertically integrated operating large film studios, overseas distribution offices and its own cinemas chains. Facilitated by the emergence of film exchanges that rented movies, replacing the practice of studios selling films direct to exhibitors, from 1905-08 demand in the United States market exploded in what became known as 'nickel madness' and patrons paid only a nickel to see a movie show (Huettig 1944; Sklar 1994).

Estimates vary of the number of *nickelodeon theatres* that suddenly mushroomed across America and range between 5,000 and 9,000. Pathe with sales offices in New York and Chicago was primed to take advantage of this sudden surge in market demand. Other French studios Gaumont, Eclipse and Éclair also exported to the U.S. market (Hayward 2000; Abel 1994) and Denmark's Nordisk and Italy's Cines were also important film studios supplying films to America on a major scale. By 1907, 66% of all films released in the burgeoning U.S. market were European (Kerrigan & Culkin 1997). "By 1908, Pathe had become the largest single source of motion pictures in the U.S., market" (Seagrave 1997). And "by 1909, Pathe Freres worldwide sales were double the combined total of all producers in the United States combined" (Cawell & Smith 1972).

As we know, Pathe and the French studios eventually lost their dominant position, yet the first major American movie companies were not the current set of Hollywood studios and

they also lost their dominant position. The leading American film companies from 1900-1908 were Edison, Biograph, Lubin, Selig, Kalem, Essanay and Vitagraph. All were manufacturers that produced films as an ancillary service to exhibitors purchasing their film equipment and they were all focused on the U.S. market (Fennett 1988). Edison called a truce in the 'patent wars' and joined with eight of his rivals (including Pathe) to monopolise the American market through formation of the Motion Picture Patents Company (MPPC) in which they pooled the patent rights for their equipment and enforced a rigid licensing system on independent producers, distributors and exhibitors. The MPPC aggressively pursued those who did not comply through litigation or with strong-arm tactics (Sklar 1994; Puttnam 1997). The MPPC's attempt to dominate the U.S. market lasted from 1909-1915.

The rise of Hollywood and demise of the MPPC (1909-1929)

In a competitive response to Edison's strategy to monopolise the industry, independent producer Carl Laemmle merged his film company IMP with nine other independents to form Universal Studios and led the revolt against the MPPC. Laemmle and William Fox, who founded the Fox Film Corporation, both took the fight into the U.S. courts initiating a legal battle that eventually resulted in an anti-trust ruling forcing the MPPC's dissolution in 1915. By then however, the American independents (who had begun migrating from the East Coast to Hollywood) had already undermined the MPPC's market power. They achieved this through product innovations, creating the movie star system and by making increasingly bigger budget feature length movies that proved to be more popular than the MPPC companies' short films, in the newly emerging and luxurious permanent theatres that were replacing the old nickelodeons in the U.S. market. So a small group of independents were able to undermine the market power of the MPPC monopoly that was backed by the most powerful film companies in the world (Sklar 1994; Puttnam 1997; Balio 1985; Wasko 1978).

European film industries were decimated by the wartime hostilities on that continent from 1914-1918 and during that time they were unable to supply either the rapidly growing American market or their traditional export markets in Latin and South America. Prior to the War, America had achieved a dominant market position only in Germany and Britain (Seagrave 1997). However, during the conflict, the emerging Hollywood studios (Universal, Fox and Paramount) found themselves unchallenged in their home market for the first time, they adopted the "studio system" of mass production and they established their own international distribution infrastructure exporting their movies to those overseas markets that Europe could no longer supply. From 1914-1920 American was the world's largest film industry producing double the combined output of the leading European film industries for this period (AFI catalog; Robertson 2001). The Hollywood Majors have dominated the world film market since the First World War. (Balio 2002; Gomery 1986; Guback 1985; Huettig 1944; Kerr and Flynn 2002; O'Regan 1992; Puttnam 1997; Thompson 1985; Wasko 1994; Waterman & Lee 2002).

'Old Hollywood' - The Studio Era (1930-1949)

During Hollywood's golden age known as the "Studio Era" from 1930-1949, the "Big Three" studios (Universal, Paramount and Loews-MGM) had evolved into an oligopoly of eight Major studios that dominated the movie business – the "Big Five" were Paramount, Loews-MGM, Warner Brothers, 20th Century Fox and RKO and the "Little Three" were Universal, United Artists and Columbia Pictures. The "Big Five" were vertically integrated, owning and operating large theatre chains as well as their movie studios and distribution companies. They employed business strategies that resulted in independent film companies initiating litigation accusing the Majors of ant-trust violations. And even though the Great Depression led the dominant studio Paramount and most of its rivals to the brink of bankruptcy and a new technology – radio, began to siphon-off some audiences, Hollywood rebounded by the late 1930s and reigned supreme during the Studio Era with heavy demand

for Hollywood movies around the world (Stanley 1978; Balio 1985; Gomery 1986). However in 1948, the U.S. Supreme Court ruled against the Major studios in the anti-trust case known as the Paramount Decrees, and they were ordered to sell-off their theatre chains in what became known as '*divorcement*'.

'Hollywood in decline' – the TV era (1950-1974)

The Paramount ruling and enforced divorcement from their theatre chains undermined the Hollywood studios business model as will be explained in chapter six. At the same time, the diffusion of commercial television, changing post-war demographics in the U.S. market and other macro-environmental factors combined with the enforced theatre sell-off to trigger what would become a steep, twenty-five year decline in movie theatre admissions from around 1950-1974 as Hollywood experienced political, economic and demographic earthquakes that shook the movie industry to its foundations. During this period RKO went bankrupt and Disney emerged as a Major studio replacing RKO in the Hollywood oligopoly. With continuing audience decline and rising production costs on big budget movies that failed to connect to audiences, by the late 1960's, the Majors in Hollywood were bankrupt and being taken over by larger entertainment conglomerates. During this era, the U.S. market still accounted for 60% of world box office.

'New Hollywood' (1975-2005)

A second 'golden age' began for the re-capitalised Major studios in the mid-1970s that facilitated a significant increase in movie theatre admissions from the mid 1980s onward. This was due to a combination of factors:- a) the emergence of a generation of exceptional creative talent attuned to modern audience tastes led by Steven Spielberg, George Lucas and James Cameron and their ability to continually generate commercially successful blockbuster movies (Schatz 2002). b) Hollywood's adoption of a blockbuster production strategy with its accompanying wide-release distribution and global marketing campaigns (Wyatt 1994; Danan 1995; Balio 2002). c) New technologies provided additional revenue streams for Hollywood movies in the form of new media markets e.g. home video, pay TV, video-on-demand etc (Wasko 1994; Silver & Alpert 2003) and d) the diffusion of the multiplex cinema which provided greater choice and convenience to movie audiences (Hayes & Bing 2004; Epstein 2005).

Today, the world film market is dominated by six Major film companies - Warner Brothers (part of Time-Warner), Walt Disney, 20th Century Fox (News Corporation), NBC-Universal, Paramount (part of Viacom) and Sony (which owns and operates Columbia Pictures, MGM and United Artists).

APPENDIX 2 North American Annual Market Share - Top 10 Studios 1998-2003

1998	1999	2000	2001	2002	2003
Buena Vista (Disney) 16.2%	Buena Vista (Disney) 16.9%	Buena Vista (Disney) 14.7%	Warner Brothers 15.1%	Sony 17.1%	Buena Vista (Disney) 16.6%
Paramount 15.8%	Warner Brothers 14.9%	Universal 14.6%	Universal 11.8%	Buena Vista (Disney) 13.0%	Sony 13.2%
Warner Brothers 11.00%	Universal 12.9%	Warner Brothers 11.9%	Paramount 11.0%	Warner Brothers 11.8%	Warner Brothers 12.7%
Fox 11.00%	Paramount 11.5%	Paramount 10.5%	Buena Vista (Disney) 10.9%	Fox 11.6%	Universal 12.7%
Sony 11.00%	Fox 10.8%	Dream Works 10.3%	Fox 10.5%	New Line (Warner) 9.6%	New Line (Warner) 10.8%
New Line (Warner) 8.00%	Sony 8.7%	Fox 9.7%	Sony 9.0%	Universal 9.5%	Fox 8.7%
Dream Works 5.7%	Miramax (Disney) 4.5%	Sony 8.9%	Miramax 7.5%	Paramount 7.5%	Miramax (Disney) 7.6%
Miramax (Disney) 5.7%	Dream Works 4.5%	Miramax (Disney) 6.4%	New Line 7.1%	Dream Works 5.4%	Paramount 7.1%
Universal 5.4%	New Line (Warner) 4.2%	New Line (Warner) 5.3%	MGM/UA 5.5%	Miramax (Disney) 4.2%	MGM/UA 4.0%
MGM/UA 2.8%	MGM/UA 4.2%	MGM/UA 1.4%	Dream Works 4.9%	MGM/UA 4.0%	Dimension (owned by Miramax) 3.2%
All others 7.4%	All others 6.9%	All others 6.3%	All others 6.7%	All others 6.3%	All others 3.4%

Sources: 1998-2003 *Los Angeles Business Journal* press reports accessed online at www.findarticles.com

European Audiovisual Observatory – Focus Reports 1998-2003 www.obs.coe.int www.boxofficemojo.com e-mail newsletters from www.showbizdata.com

APPENDIX 3 The most successful “independent” movies 1999-2004

This table is not available online.
Please consult the hardcopy thesis
available from the QUT Library

Source: www.the-numbers.com Note: *Crouching Tiger, Hidden Dragon* and *Love Actually* were either partially financed, co-produced and distributed by major Hollywood studios

APPENDIX 4: No serious rivals to Hollywood have emerged

France invented the cinema (Lumiere Brothers) and commercially dominated the early film industry during the silent era until the First World War. Pathe Freres was universally recognized as the dominant film company in world cinema from 1904-1914 (Abel 1994 pp 24; Puttnam 1997 pp 33-37; Hayward 2000 pp 196). Danish film company Nordisk was the world's second largest film exporter during this same period (Puttnam 1997 pp 47-49).

Thomas Edison, inventor and patent holder of the first motion picture camera and viewing devices tried unsuccessfully to monopolise the film industry through the establishment of the Motion Picture Patents Company (MPPC) comprising the world's most powerful film companies and using aggressive patent enforcement through a strict licensing system. His attempted stranglehold on the U.S. market through the MPPC was broken through anti-trust action by the U.S. government and competitive resistance by independent film companies led by Universal and Fox Film, both East Coast studios that relocated to Hollywood to take advantage of cheap land, a temperate climate for filming and to avoid harassment from the MPPC. The MPPC was forced to dissolve in 1915 and the Hollywood Majors emerged shortly thereafter (Ramsay 1926; Anderson 1985 pp 133-152).

During the silent era, Germany had a thriving commercial film industry from the late 1910s into the 1920s and became the second largest producer-nation behind the United States, making 11% of the world's films from 1914-1920. Germany increased its world market share to 17% from 1921-1929. The giant German film combine Ufa (Universium-Film AG) was a large-scale vertically integrated company that operated Europe's largest film studios, had its own distribution company and owned and operated cinema chains. Ufa dominated

cinema markets in Germany, Austria, Switzerland, the low countries (Holland, Belgium), Scandinavia, Eastern Europe and the Balkans and German films received wide critical acclaim. However, two world wars, the policies of the Nazi regime and ongoing poaching of the best German creative talent by the Hollywood Majors, all undermined the German film industry (Puttnam 1997 pp 96-101). Germany's share of global annual production output declined to 7% from 1930-39 and dropped to 4% from 1940-1949 (Robertson 2001 pp 16-17).

The *introduction of a new technology* - talking pictures, stimulated film production around the world as the novelty of sound attracted audiences keen to see and to hear films in their own language (See table 1 below).

Table 1 World feature film output – leading film producer nations

	USA	Japan	India	Germ	France	UK	USSR	China	Italy	Czech	World Total
1930	509	N/A	194	180	98	75	123	N/A	6	23	1338
1931	501	N/A	228	199	157	93	88	N/A	12	23	1423
1932	489	498	148	150	156	110	67	60	20	24	1875
1933	507	450	144	129	152	115	35	N/A	34	44	1773
1934	480	413	171	142	119	145	59	69	35	34	1854
1935	525	470	233	111	128	165	34	80	21	34	2030
1936	522	558	217	128	145	192	49	N/A	37	31	2134
1937	538	583	179	108	124	176	45	75	32	49	2357
1938	455	554	172	113	122	134	41	86	68	41	2189
1939	483	437	165	118	94	84	52	58	79	41	2012
Total films	5009	3963 incomplete	1851	1378	1295	1289	593	428 incomplete	344	344	18985
Share 1930-1939	26 %	20 %	10 %	7 %	7 %	7 %	3 %	2 %	2 %	2 %	100 %

Source data: Robertson (2001) pp 16-17

From the late 1920s until the Second World War that curtailed production, Japanese movie studios consistently produced similar annual output levels of films as the American studios. Yet Japan never seriously rivaled Hollywood as a national competitor for world audiences despite having a vertically integrated industry modeled on the Hollywood studio system comprising a few powerful studios that owned distribution and theatre companies, created its own movie star system and popular film genres. The Japanese studio system of this period chose not to focus exports but to serve a large domestic market at home. After the war, Japan again ramped up its production output and began making films for export (Desser 2000 pp 12-17). By 1954, Japan had overtaken the United States as the largest producer-nation in the world and it remained in that position until 1974 when it was overtaken by India. Yet aside perhaps from anime, Japanese movie studios today have had only very limited international success.

Since 1975, India has consistently produced double and sometimes treble the output of Japan and the United States, the next largest producer-nations. Table 2 below shows that in 2001-2002, India was the largest producer-nation in the world with a higher annual output of 850 films than the next three largest nations combined – USA (449), Japan (293) and France (106) which together had a combined annual output of 848 films. India also had the highest annual admissions of any nation - 2.8 billion (table 1.4) but its domestic market with an annual box office of only \$1 billion is far less affluent than North America because the average admission price at 35 cents (US) is much lower than the average ticket price in America (US:\$5.39). Suybramanyam (2000) states “Mainstream Indian films have huge audiences in many parts of Africa, Asia, the Middle East, Europe and North America. By the

beginning of the 1980s, Indian films were shown in over one hundred countries. The popularity of Indian films is by no means limited to the Indian diaspora.”

However, outside India, the majority of these films are watched on Pay TV or home video rather than in cinemas (Suybramanyam in Kindem 2000 pp 53). Today, the Indian film industry is highly successful in its home market, it continues to make many more films than Hollywood, *yet none of its films have ever become a blockbuster outside the home market* and India is not a serious market challenger on the world scene.

Other film companies have also emerged from time to time, that developed the size and scale that *should have enabled them to compete* with the Majors, yet none has been able to mount a sustained challenge or to survive as a global force in the world film market. Only the Walt Disney Company, one of Hollywood’s own, can claim that distinction.

First National Exhibitors Circuit was a buyers’ combine formed by independent exhibitors as a competitive response to counteract Paramount’s growing channel power. It signed a number of major movie stars to make films for the circuit (Zukor 1953 pp 195). From its 26 original members in 1917, it grew rapidly to include 639 theatres in 1920 (Huettig 1944 pp 32-34).

Table 2: The global market – annual number of feature films produced

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

source: European Audiovisual Observatory www.obs.coe.int Paillard Focus Report 2001

First National Pictures was established to supply product to its own theatre circuit and it made 64 films between 1917-1920 (AFI catalog data). It established a large studio at Burbank in 1922 but the following year Paramount’s owner Adolph Zukor began acquiring the largest theatre circuits that were members of the First National combine, thereby undermining the exhibition company that financed its film production (Huettig 1944 pp 40). First National was thereby eliminated as a potential competitor to the Major studios and Warner Brothers later acquired First National Pictures in two installments in 1927-28.

United Artists was formed as a vehicle for four leading movie personalities to be independent of the Major studios in 1919 (Huettig 1944 pp 32; Balio 1976 pp 12-15).

However, UA could not produce a sufficient annual output of movies from the four founders production companies, so it supplemented their product with films from other independent producers. UA was one of the “Little Three” Major studios in Hollywood during the Studio Era but during the 1950s, UA became the market leader and remained so throughout the 1960s. However UA began to decline in the 1970s and in 1981 it merged with MGM. In 2005, MGM-UA was acquired by Sony and United Artists and MGM are studios operating within the Sony film portfolio that also comprises Columbia Pictures, Tristar and Screen Gems.

Despite the Second World War, Britain’s Rank Organisation emerged as a significant force in world cinema and by 1944, its assets, including Pinewood studios, surpassed those of Hollywood’s biggest studio Loews-MGM. Rank even acquired 25% of Universal Studios, thus providing a secure domestic distribution channel for its films in the large U.S. market. Rank was a vertically integrated company with its own domestic distribution operation in the U.K. It acquired two large cinema chains Gaumont-British and the Odeon circuit and also took a 50% shareholding in Australia’s largest cinema group Greater Union. Rank bought Denham studios from leading independent producer Alexander Korda and through Eagle Lion, its international distribution company, Rank provided commercially successful films to countries within the British Empire for nearly thirty years. Yet since the 1970s, Rank has faded into feature film oblivion after the box office failure of a big budget movie ‘Raise the Titanic’ that was intended to compete with Hollywood’s blockbusters but quite literally *sank the studio* (Falk 1997 pp 189-199).

Walt Disney was a highly successful boutique studio during the 1930s and 1940s that achieved significant commercial success with family movies like Snow White, Bambi, Peter Pan and Cinderella. However it took Disney nearly fifty years to evolve into a true Major movie studio under Michael Eisner, Frank Wells and Jeffrey Katzenberg, effectively taking the defunct RKO’s vacant position among the Hollywood studio oligopoly (Holliss & Sibley 1988 pp 103-110; Eisner 1998 pp 147-170).

During the home video revolution in the 1980s, Cannon Films emerged as a significant market force leading a group of new studios known as the ‘Mini-Majors’. While Hollywood initially ignored the embryonic video market, the Mini Majors pre-sold their movies to new and product-hungry video distribution companies, using those revenues to finance their film production. They quickly emerged as a potential threat to the Major studios. Cannon produced far greater annual output than any Major studio, it had global distribution infrastructure supplying large cinema chains around the world and a significant line-of-credit financing from French bank Credit Lyonnais, yet Cannon went broke. The most successful mini-Majors were later acquired by the Major studios and the unsuccessful companies went bankrupt (Meyer, Behr & McAlevey 1986; Yule 1987; Runkle 2005).

More recently, DreamWorks was another bold independent venture formed in 1994 by leading film personalities Steven Spielberg, Disney’s Jeffrey Katzenberg and music mogul David Geffen. The company initially secured a billion dollars in capital, guaranteed worldwide distribution through Universal and some of its films have achieved considerable box office success and won several Best Film Oscars. Yet after a decade, “DreamWorks was not even close to turning profitable by early 2003.” (Madapati & Agarwal 2003). In late 2005, DreamWorks was acquired by Paramount Pictures for US\$1.6 billion which included the assumption of \$400 million of DreamWorks debt (Kilday & Szalai 2005).

APPENDIX 5: 20 explanations for dominance in the movie industry dominance

#	Explanation of dominance	Literature
1	Scale efficiencies from industrialized mass manufacturing capabilities based on a Fordist model	Staiger 1985; Abel 1994
2	Commercial orientation and production strategy designed to produce entertaining movies	Puttnam 1999; Balio 2002; Schatz 2002
3	Control of distribution channels	Lees & Berkowitz 1981; Gomery 1986; Kerrigan & Culkin 1989; Abel 1994; Puttnam 1997; Hoskins, MacFadyen & Finn 1997; Frumes 1999; Kerr & Flynn 2002; Klein 2003); Silver & Alpert (2003).
4	Strategic control of exhibition (retail)	Huettig 1944; Gomery 1986
5	Vertical integration	Huettig 1944; Gomery 1986; Puttnam 1997; Silver & Alpert 2003
6	Access to significant capital	Wasko 1982; 1994; Puttnam 1997; Frumes 1999; Cowen 2001
7	Industry structure (the Major studio oligopoly)	Balio 2002; Klein 2003
8	High barriers to entry	Huettig 1944; Gomery 1986; Staiger 1985; Silver & Alpert 2003
9	Home market characteristics (U.S. domestic market size and demography)	O'Regan 1992; Sklar 1994; Hoskins et al 1997; Jacobsen 2001; Waterman & Lee 2002
10	Industry clustering (Los Angeles the entertainment capital)	Veron 1999; Cowen 2001
11	World Wars halt European production – Hollywood fills the product void	Kindem 1982; Puttnam 1997
12	Economic theory of sunk costs explains Europe's decline and Hollywood's rise	Bakker 2003
13	Hollywood used export cartels to dominate foreign markets	Kindem 1982; Izod 1988;
14	Hollywood waged political and economic war on its rivals	Puttnam 1997; Klein 2003
15	Flexible specialization	Christopherson & Storper 1986; Storper & Christopherson 1989; Aksoy & Robins 1992; Storper 1993
16	Cultural channels	Wildman & Siwek 1988; O'Regan 1992.
17	Hollywood has consistently demonstrated superior marketing communications expertise	Danan 1995; Puttnam 1997; Seagrave 1997; Waterman and Jayakar 2000; Cowen 2002; Schatz in Turner 2002
18	U.S. Government assistance to Hollywood over time	Kindem 1982; Guback 1985; Izod 1988; Puttnam 1997; Seagrave 1997; Waterman & Jakayar 2000; Waterman & Lee 2002; Klein 2003
19	Industry legitimacy	Jones 2001
20	Exploitation of technological change enabled Hollywood to dominate	Wasko 1994; Cowen 2000; Hanssen 2000; Waterman and Jayakar 2000

APPENDIX 6: CRITICAL EVALUATION OF EXISTING EXPLANATIONS OF HOLLYWOOD'S DOMINANCE

Following is a critical analysis each of the twenty explanations for or contributing factors to Hollywood's dominance identified in the scholarly literature, to try to *determine if there are any enduring causal factors* that can explain dominance in the movie industry across all time periods from the early silent era to the present day. The approach will be to describe the relevant theory and then to discuss the weaknesses of that theory as a causal factor that can account for Hollywood's enduring dominance over time.

Explanation #1 World Wars decimated competitor film industries

This explanation proposes that Hollywood was able to rise to dominance and maintain that dominance because war destroyed the European film industries eliminating them as a significant competitor to Hollywood in the world film trade. European production effectively ceased during both conflicts and Hollywood filled the void emerging from both wars with strengthened international distribution networks, greater market penetration and local audiences around the world appreciative of Hollywood movies and their famous stars (Guback 1985; Kerrigan and Culkin 1999; Kindem 1982; Puttnam 1997).

Bakker (2003) argues that foreign policy and cultural barriers also undermined the European industry during the First World War when consumers in Britain, France and Germany became hostile towards films from enemy countries containing propaganda messages. Governments in France and the UK banned German films and vice versa.

Weaknesses of Explanation #1:

The impact of the world wars on film industries in Europe and Japan is a matter of historical fact. However, it has been over sixty years since the end of World War 2, a period of relatively political stability and ongoing development for the global economy. Since 1945 there have been periods where some countries have had a thriving local film industry – France, Italy and Japan in the 1950s, Britain and Hong Kong in the 1960s and India recently. Yet over those sixty years, none of these countries have emerged as serious potential rivals to Hollywood. And since the 1980s, Hollywood has extended its market penetration in each of those countries except for India.

This discussion demonstrates that the theory that the two World Wars constricted European film industry development and helped Hollywood to dominate was historically true but must logically be invalid since 1945.

Explanation #2 Market characteristics (market size and demography)

This explanation proposes that the large size of the U.S. home market provides Hollywood with significant competitive advantage over other national film industries. America has a sophisticated and affluent English speaking audience that enables Hollywood to recoup its production costs in its domestic market and then to competitively price its films in international markets to undercut films from competitor nations. This provides foreign exhibitors with better value because Hollywood's production values in terms of the use of famous movie stars, the quality of production design, sets and special effects are much higher than rival low budget productions from smaller independent or foreign film companies. Competitors don't enjoy similar advantages of critical mass in size and scale within their own home markets, so their local productions are unable to recoup production costs in their own domestic market and also have difficulty gaining access to the U.S. theatrical market which Hollywood films saturate (Cowen 2002; Hoskins, McFadyen and Finn 1997; Jacobson (2001); O'Regan 1992; Waterman and Jayakar 2000; Wildman and

Siwek 1988). Until the 1990s, the U.S. market accounted for approximately 60% of world box office. This statistic has since then reversed, with “foreign” territories (rest-of-the-world) now with 60% of global box office revenues and North America with 40%.

Puttnam (1997) commented on the early American market in the silent era. “As an industrial power, the U.S. may have lagged far behind its trading partners but the size of its movie-going audience dwarfed that of any individual nation, this was the great advantage of the American market and the reason why it became so important to succeed there” (Puttnam 1997).

Within this “home market” framework, other scholars argue that demographic factors can also explain Hollywood’s dominance. A series of three major demographic shifts in the U.S. population changed the characteristics of the American audience for film. In the pioneering years massive waves of immigration from Europe of people seeking employment in the America’s newly industrialised cities, provided a working class audience that fuelled the nickelodeon boom. This ethnically mixed audience also provided a “cultural melting pot” as a litmus test of the likely popularity of American movies in European markets. The rationale was that if they succeeded in the domestic market with such a diverse audience then they would be likely to succeed overseas. As more Americans became affluent, a middle class audience base began attending movies and developed a weekly cinema going habit. After World War Two, returning servicemen married and settled down and city based populations migrated to the suburbs to take advantage of cheap land for housing. Movie theatre admissions declined dramatically as parents stayed home to watch free entertainment on TV and the youth market with its increasing access to automobiles, then became the core demographic for movie theatres (Ramsaye 1926; Sklar 1994; O’Regan 1992; Seagrave 1997; Bakker 2003).

Weaknesses of Explanation #2:

The large home market theory does not account solely for Hollywood’s global dominance over time, otherwise other film producer nations would have become serious competitors. India today produces more movies than America and it has a larger domestic film market than the United States with annual Indian admissions totalling 2.8 billion in 2003, compared to 1.4 billion admissions in the United States. However India is a much poorer market with 30-40% of the population living below the poverty line and an average cinema ticket price across India of only US \$ 0.35 cents compared to an average ticket price of US \$5.39 in the United States (see Table 1.1 in Chapter 1). Indian films are produced primarily for domestic market consumption and also for export to a diaspora of approximately 15 million people of Indian origin living overseas in 70 countries (Sahoo 2002).

Compared to Hollywood’s movies, the economics of the Indian film industry actually works in favour of smaller budget films because Indian films are available to exhibitors around the world at much lower prices than Hollywood films, yet beyond the diaspora, Indian films with few exceptions have had limited export success in western cultural channels. This means that *the “large home market” theory cannot fully explain the enduring dominance of Hollywood because logically India should also enjoy the same benefits due to the large size of its market.* This section indicates that the nature of the product, cultural channels and distribution strategy are likely to also play a critical role in Hollywood’s success. These are marketing issues.

Explanation #3 U.S. Government assistance sustained Hollywood dominance

This explanation proposes that Hollywood has gained unfair competitive advantage because it has received overt assistance from the U.S. Government to help its exports overcome protectionist barriers mounted by other countries. For example, French government film

censorship records show that “American films flooded France in the immediate post-war period” and in 1919, 90% of all films shown in France were foreign, and mostly American (Ullf-Moeller 1998).

Puttnam (1997) argues that European protectionism has been based on a cultural platform and that tariffs, quotas and other measures were implemented in order to protect the indigenous culture embodied within the national cinema of each country and that these nations were swamped by the popularity of Hollywood movies from the First World War onwards.

France initially increased tariffs on American imports but Ullf-Moeller notes: “American firms were able to jump over any tariff wall, since the production costs had already been met by the home market”. So, another protection method was necessary and a quota system was introduced that severely curbed American movie imports into France (Ullf-Moeller 1998). However, despite numerous attempts by European and other foreign governments to protect their national film industries through subsidies, production quotas and import tariffs, America has still dominated the global film industry since the 1920s (Puttnam 1997; Ullf-Moeller 1998; Semati & Sotirin 1999).

Scholars note that since the First World War, U.S. government policy and bureaucrats overtly assisted Hollywood to gain access to international markets. The U.S. State Department and the U.S. Department of Commerce actively lobbied foreign governments to abandon protectionist policies. The success of these diplomatic and political negotiations reduced institutional barriers to entry in those countries and enabled the Major studios to enter those markets, export their movies and eventually dominate them (Guback 1985; Izod 1998; Puttnam 1997; Seagrave 1997; Bjork 2000; Kindem 2000).

Weaknesses of Explanation #3:

Whilst the U.S. Government has actively supported the Majors to penetrate foreign markets, many other national governments have also supported their own indigenous film industries. Foreign government actions have ranged from industry development schemes (e.g. Australia’s 10BA tax incentive scheme and Britain’s Eady levy); to protective economic measures involving local production quotas, tariffs etc. None have worked in keeping Hollywood out of their home markets (Puttnam 1997).

Is this because America wields the greatest economic clout? Such was not the case in the early decades of the 20th century when European powers had the strongest economies in the world, yet by 1905, the American market quickly became the world’s largest single market for cinema. American firms began actively penetrating European markets from around 1912 with their silent movies and this was achieved without any government assistance. French firm Pathe had also previously dominated world cinema without any form of government assistance.

What then, stops other national governments from using the same lobbying tactics that the American government used to open up markets for their film exports? The Washington lobby is a powerful economic influence in the world but so too is the European Union lobby. And with the continued strong growth of the Chinese and Indian economies, the Asian lobby may well become equally powerful over a relatively short period of time.

A European film industry supported by the E.U. has the potential to operate on a similar scale to Hollywood. As Chinese and Indian standards of living rise, their indigenous film industries also have the potential to rival the size and scale of Hollywood within their own

cultural channels. Large Chinese and Indian diasporas live around the world and represent a potentially high-yielding market segment for future Chinese and Indian films.

The key problem for non-American film industries appears to be that in an increasingly open world film market, they lack the ability provide an ongoing supply of films that have the same commercial appeal with global film audiences that Hollywood movies achieve. This is despite the fact that many governments provide assistance to local producers to make and market their films internationally e.g. Australian film agencies in each state and nationally, provide marketing grants to producers to travel to film festivals and to film markets to exhibit and sell their films.

Some scholars argue that protectionist policies implemented by foreign governments to protect their own national cinemas from domination by Hollywood and to nurture local film production, have actually done more harm than good and have retarded the growth of commercially orientated film industries. They reason that provision of subsidies resulted in introverted films designed to satisfy local film bureaucrats, local critics and local audiences rather than production of films with real commercial potential in world markets (Cowen 2001; Dale 1997; Finney 1996; Pena 2001; Waterman 2000). Government assistance does not account for Hollywood's ongoing domination. It does however highlight the power of Hollywood's *public relations capabilities* in dealing with Washington.

Explanation #4 Exploitation of technological change enabled Hollywood to dominate

Some scholars advance theories that innovations in technology have been causal factors contributing to Hollywood's dominance. The introduction of sound technology was successfully exploited by the Major studios and did enhance their dominance during the Studio Era. And the popularity and wide diffusion of new media (home video, Pay TV) has altered the economics of the movie business in favour of Hollywood over the last twenty years which has helped to create important new revenue streams for Hollywood (Cowen 2000; Wasko 1994; Waterman and Jayakar 2000; Hanssen 2000).

Weaknesses of Explanation #4:

Christensen (1997) differentiates between disruptive and sustaining technologies. Talking pictures and the new media (video, cable, satellite) proved to be sustaining technologies for Hollywood, helping to enhance its dominance in world film markets. However, film production and exhibition technology did not change substantially over the first 70-80 years until the advent of digital technology. Cameras and projectors evolved and became more sophisticated but the fundamental technology remained the same. In exhibition, screens got bigger - Cinemascope, Cinerama, IMAX and sound systems improved Dolby but these were all sustaining technologies.

Wasko (1994) states that Hollywood continually monitored new technological threats and some of the Majors even invested in radio and television in the early days of their development. However these new technologies were not seen by the Majors as their core business and Hollywood abandoned any initial interest they had in TV and radio to focus on their core business - making movies for the theatrical market where the real profits lay at that point in time. Television however proved to be the first truly disruptive technology for the movie industry and its diffusion undermined Hollywood's core audience and admissions fell sharply as American homes began to watch television. Digital cinema also has the potential to become a disruptive technology and could provide the means for other film industries to rise to challenge Hollywood's dominance (Silver & Alpert 2003). Persistence of dominance seems more likely to be determined by how firms within an industry choose to innovate and whether the technology becomes a sustaining or as a disruptive technology (Christensen 1997). In the case of the movie industry, the Majors appeared to be strategically astute and

attuned to changing market dynamics until the end of the Studio Era (1948-49) but experienced difficulty from 1950-the mid 1970s. After that with the advent of the digital era, Hollywood seemed to regain its ability to adapt and innovate utilising technology, yet the Major studios remained the dominant force in the movie business during those difficult 25 years from 1950-1974.

This discussion of Explanation #20 argues that exploitation of new technology does not guarantee dominance.

Explanation #5 Industry structure and economies of scale

This explanation proposes that an oligopolistic industry structure and large economies of scale underpin the Majors dominance of the movie business. The structuralist school of economic thought argues that in industries where a high concentration of firms exists (monopoly, duopoly or oligopoly), those large firms with economies of scale and resulting market power can influence and manipulate industry pricing to their own competitive advantage. The Chicago school of economists however proposes that dominance is achieved by firms that are more efficient than competitors over the long term (Rosenbaum 1998). These paradigms are discussed in more detail in chapter three during the construction of the theoretical framework for this thesis.

Some film scholars advance the theory that one of the underlying causes of Hollywood's dominance is therefore based on industry structure and consequent economic control of the industry. The Majors vertically integrated ninety years ago, and in spite of being forced to sell-off their theatres under anti-trust laws after 1948, they retained strategic control of the production and distribution sectors and have continued to dominate world cinema as an oligopoly for over seven decades (Gomery1986; Puttnam1997; Puttnam1997; Kerrigan and Culkin 1999; Kindem 2000; DeVany et al 1999-2003; Balio 2002; Klein 2003).

Weaknesses of Explanation #5:

The Majors have consistently used their size and scale economies in distribution and marketing to secure the best theatrical release play-dates for their movies, effectively blocking access to theatrical screens to non-aligned independent competitors and thereby limiting the commercial potential of those competitors movies (Silver & Alpert 2003).

However, history shows that industry structure and economies of scale do not account for dominance in the movie industry. In the early stages of film industry lifecycle (during fragmentation and shakeout), French firm Pathe dominated world cinema. The company achieved critical mass in production of films and had developed the only worldwide distribution network of sales offices. Changing market conditions in America convinced Pathe to become a member of Thomas Edison's Motion Picture Patents Company (MPPC) a Trust company established in 1909 to enable the nine member firms to monopolise the industry by pooling patents for film equipment. The MPPC comprised some of the richest and most powerful film companies in the early industry and sought to monopolise the American film production and distribution sectors through the MPPC and its film distribution arm the General Film Company. This strategy involved enforcement of patent protection using an exclusive licensing system for American producers and exhibitors.

Comparatively much smaller U.S. independent film companies refused to comply with the MPPC's licensing policies. Using European film equipment or counterfeit copies of MPPC patented cameras, they continued to make films and sell them to unlicensed exhibitors. These independents managed to break Edison's stranglehold on the film industry within a six-year period. They innovated by producing feature length films and created the movie star system that proved immensely popular with global audiences. By the time that the U.S.

Government ruled that the MPPC was an illegal monopoly in 1915 and ordered it to disband, the MPPC with its ongoing commitment to short films featuring uncredited actors, Edison's Trust company was already a spent force in the burgeoning American market. The independents led by Universal, Fox and Paramount emerged as the leading American film studios.

This example demonstrates that industry structure (monopoly) and firm size and scale (the MPPC comprising the seven largest film companies) in this instance were insufficient to establish dominance and that much smaller firms were able to undermine the MPPC market power through innovations in product design (strategic marketing) that proved popular with consumers and through legal action.

Explanation #6 Legitimacy theory

This explanation proposes that industry legitimacy or corporate legitimacy in the early stages of a new industry can facilitate firms becoming dominant. Thomas Edison and the other early American film companies used patent protection as a strategy to gain control of the U.S. market from Pathe and other European firms that were dominant. Edison and his rivals formed a Trust (the MPPC) that gave them what they thought was a legal legitimacy by monopoly but only lasted six years before U.S. courts ordered it to dissolve under American anti-trust laws – the Sherman Act and Clayton Act (Abel 1999; Jones 2001; Kindem 2000; Puttnam 1997; Thompson 1985).

Other scholars advance theories on social legitimacy to explain dominance. A conservative social movement in America in the early years of the century opposed the early American movie industry and lobbied for the introduction of censorship due to the risqué nature of some films shown in nickelodeons and due to the sleazy nature of the social environment they provided. This lack of social and cultural legitimacy retarded the American industry and its ability to access capital necessary for growth. This enabled foreign firms to dominate the early American film market (Jones 2001; Sklar 1994).

Industry legitimacy in France enabled Pathe to access the capital that it required to expand its business. One decade later, industry legitimacy enabled the Hollywood studios to gain access to significant levels of finance required for the growth and the development of their cinema chains. Until that capital became available to Hollywood, the studios were unable to expand their operations and move into the realms of big business and become part of Corporate America (Cowen 2001; Jones 2001; Puttnam 1997).

Weaknesses of Explanation #6:

Edison's Motion Picture Patent Company *was the legitimate firm* in the U.S. market. Edison was a nationally renowned inventor and an industrialist of stature. The nine companies that formed the MPPC were the most commercially successful film companies in America at that time. The MPPC owned the legal patents to the biggest selling movie cameras and film projectors and it had negotiated a deal with the world's largest film stock supplier Kodak to supply raw film stock on an exclusive basis to MPPC-licensed producers. Yet in its six years of existence, the MPPC was unable to completely dominate the American market. While it had the resources, access to capital and the legitimacy, it failed because MPPC companies *did not detect that market demand was changing* in favour of feature length films with popular movie stars (Balio 1985).

This discussion demonstrates that industry legitimacy or corporate legitimacy alone cannot explain dominance in the movie industry.

Explanation #7 Access to capital

This explanation proposes that dominance has been achieved and maintained because the Major studios have been able to access substantially more capital to meet their business needs than their independent competitors. Wasko (1994) provides an economic rationale for Hollywood's dominance. The Majors achieved market power because they had access to significant investment capital. Initially this occurred on a deal-by-deal basis from individual financiers from the mid-late 1910s. After that, large capital requirements were met on an industry-wide basis by Wall Street after the mid-1920s when significant finance was required for theatre chain expansion and for the conversion of the industry to talking pictures. Frumes (1999) and Cowen (2001) also argue that Hollywood's ability to access large scale capital to finance and market the Major studios production slates creates a massive barrier to entry for new entrants and provides a significant competitive advantage over rival firms.

Weaknesses of Explanation #7:

In the early silent era, the Edison Manufacturing Company was a subsidiary of a large industrial corporation and had access to significant capital. It owned the U.S. patents for film cameras and projectors, mass manufactured such equipment and produced films as a service to its equipment customers (Dyer & Martin 1910). Edison tried for two decades to dominate the film industry but ultimately failed despite the fact that his corporation had greater capitalisation than any of his American rivals at the time. Puttnam (1997) argues that, Edison didn't keep pace with the explosion in demand during 1905-07 nickelodeon boom years because capital was being diverted to other new inventions and to other business activities and sufficient investment was not being provided to support his film studios. This indicates that whilst Edison had sufficient access to capital, *he did not fully appreciate the potential market opportunities in the emerging film industry* to supply exhibitors with film product. Clearly access to capital was insufficient to achieve dominance in the movie business without a marketing orientation.

Britain's Rank Organisation and Cannon Films are examples previously discussed of film companies that have had access to significant capital but were unable to establish industry dominance or even survive as feature film companies.

In the Studio Era (1930-48), post-theatrical markets did not exist, there was no TV or video, so films at the end of their theatrical life received a residual book value of US \$1 in studio accounts (Puttnam 1998). After the Majors were forced to divest their theatre chains, the business model for the industry changed fundamentally. Today, post-theatrical after-markets (home video, Network TV, Pay TV, Syndicated TV) provide almost 80% of a big movie's revenue through post-theatrical sales (Hollinger 2002). Consequently, ownership of intellectual property in the form of large film libraries now forms the basis for "New Hollywood's" business model. The ongoing sale and re-sale of licensed movie titles in their libraries to television and DVD provides the cash flow to the Majors and the film libraries are the real collateral for the banks (Dale 1997). And if the new economics of the movie industry see the majority of a film's revenue being realised in the video and TV after-markets, rather than in the initial theatrical market dominated by Hollywood, then logically this should also create market opportunities for smaller independents and rival national cinemas.

It is also a normal business practice within the film industry that a distribution guarantee is the key to obtaining the necessary production finance to make movies. Film investment banks and other financiers will not commit production finance without a distribution deal in place. Producers are also required by the standard terms of distribution deals to take out completion guarantor insurance cover which ensures that in the event of a budget overrun,

that the production will still be completed. This form of insurance covers the distributor's risk of providing advance guarantees that are cash contributions made to the production budget. It ensures that distributors will receive a finished film for them to market (Crabb 2005).

Investment capital in today's globalised financial world knows no international boundaries. Many Hollywood's films are co-financed by foreign companies. So why does Hollywood still enjoy the lion's share of global film finance? This discussion demonstrates that access to significant capital alone, *is not a causal factor* of industry dominance.

Explanation #8 Barriers to entry

This explanation proposes that the Majors maintain dominance because they erected high barriers to entry. Hollywood has throughout its history raised significant structural barriers to entry based upon economies of scale in production and distribution, upon anti-competitive business practices, upon its blockbuster strategy of big budgets, big star salaries and upon its comparatively superior expertise in marketing (Balio in Turner 2002; Blumenthal 1988; Cowen 2002; Dale 1997; Frumes 1999; Gomery 1986; Hoskins, MacFadyen and Finn 1997; Huettig 1944; Kerrigan and Culkin 1999; Kerr and Flynn 2002; Kindem 2000; Puttnam 1997; Schatz in Turner 2002; Silver & Alpert 2003; Wasko 1994; Waterman and Jayakar 2000).

The introduction of feature length movies, continuity scripts and mass production techniques during the silent era raised the quality of Hollywood's production values and these bigger budgets benefited Hollywood by raising barriers to entry further to potential rivals (Staiger 1985). A technology shock in the form of the introduction of talking pictures altered industry economics in favour of Hollywood because costs across all sectors of the industry rose dramatically. Hollywood was able to draw upon massive capital investment from Wall Street, while European film industries could not afford to compete as barriers to entry were raised still further (Hanssen 2000).

Frumes (1999) proposed that the essence of the Majors' power during the Studio Era was its contractual control over creative talent (actors, writers, directors and producers) which served as a barrier-to-entry. Since the 1920s, the Major studios have actively poached the best European filmmaking talent, enticing them to work in Hollywood (Puttnam 1997).

Today, while other nations develop local film talent, many creative personnel aspire to work with the Majors, because Hollywood is where the major opportunities exist for creative filmmakers. This is due to the size of Major studio film budgets, availability of sophisticated facilities and infrastructure, an abundant pool of available talented actors and technicians, availability of the biggest salaries, the best marketing, the most prestigious film awards and ultimately fame. Hollywood views the independent sector as a nursery for emerging talent. The studios target the talent with the best potential and nurture business relationships with them. (Puttnam 1997; 1999; Waterman 2000).

Huettig (1944) also noted that a "cosy" symbiotic relationship existed between the Majors' and their rivals within the Studio Era oligopoly. The Majors often loaned out their movie stars to each other but did not loan them to independent producers, and Huettig also noted that the theatre circuits owned by the Big Five Major studios were also the best customers for films supplied by other members of the Hollywood oligopoly.

Weaknesses of Explanation #8:

Barriers to entry were extremely high when the American independent film movement thwarted Edison's attempts to monopolise the industry. The MPPC comprised the largest and

most powerful film companies in America. These member firms' size, scale and access to resources easily surpassed their much smaller American rivals. The MPPC owned the legal patents to film camera and projection equipment and operated a licensing system that coerced the majority of independent film-makers and exhibitors to use MPPC equipment. Yet the anti-MPPC independent movement led by the emerging Universal Studios, Fox Film Company and Famous Players-Paramount innovated with feature length films and creation of movie-stars and supplied products that better satisfied the needs of the rapidly growing American market than films produced by MPPC member companies.

High barriers to entry simply *could not contain Edison's more agile and market-orientated competitors*. Innovative product design proved to be the key to undermining the dominant firms that had much more market power than their smaller rivals. High barriers to entry are a significant contributing factor to maintenance of Hollywood's dominance but history demonstrates that seemingly insurmountable barriers to entry can be overcome.

Explanation #9 Industry clusters are a factor in firm dominance

This explanation proposes that the presence of an industry cluster helps to facilitate Hollywood's dominance. Los Angeles is widely recognized as the entertainment capital of the world. Consequently, it undoubtedly provides Hollywood with clustering advantages in terms of local accessibility to finance, talent, infrastructure as well as an excellent climate for filming and a variety of exotic locations within a relatively short distance from the city. This has provided an ongoing competitive advantage to Hollywood (Cowen 2001; Hoskins, MacFadyen & Finn 1997; Kindem 2000; Veron 1999).

Weaknesses of Explanation #9:

Other film industry clusters also exist elsewhere in the world but on a much smaller scale - London, Rome and Tokyo. However, these cities do not possess all of the same advantages that the L.A. industry enjoys.

As a case in point, Sydney also has a film industry cluster comprising world class studio facilities at Fox Studios and the Warner Brothers studios on the Gold Coast are only one hour away by air. Sydney and Melbourne are the head office locations of the three largest national cinema chains. Two of these, Hoyts and Village Roadshow, also operate their own film distribution companies and other independent film distributors are also headquartered in Sydney. Atlab is a world class post-production facility based in Sydney and also on the Gold Coast and is used by Hollywood productions taking advantage of cheaper costs of filming there. Many Australian actors also work in Hollywood films and four of them have won Academy Awards for performances over the last decade. NIDA (National Institute of Dramatic Art) and The Australian Film and Television & Radio School (AFTRS) are both located in Sydney and produce highly skilled graduates in acting and film crafts. The Australian Film Commission; the Film Finance Corporation, the NSW Film and TV Office and a small number of specialist film financiers, insurance companies and legal specialists are also based in Sydney. A Federal Government initiated taxation incentive scheme known as 10BA facilitated the transformation of Australian film production from a cottage industry in the 1970s to a world class industry by the late 1990s. Many Australian technical crew personnel also work regularly on big Hollywood productions made locally and overseas.

However, with all this world class infrastructure and creative and technical talent clustered in Sydney, the Australian film industry *still does not produce a steady output of big box office hits*. Australian-produced international hit movies are rare - *Mad Max* (1979) and *Crocodile Dundee* (1986) were privately financed independent productions later sold to Major studios and *Babe* (1995) was financed and distributed by Universal.

This discussion on Explanation #9 demonstrates that the mere existence of a high quality industry cluster does not guarantee a commercially successful local film and television industry capable of competing on level terms with Hollywood. Cluster theory (Porter 1980; 1994) may be a contributing factor to maintaining dominance but itself cannot account for Hollywood's enduring dominance over time.

Explanation #10 Hollywood has waged political and economic war to contain rivals

This explanation proposes that the Hollywood studios waged economic and political war against competitors. Guback (1985) and Puttnam (1997) argue that over many decades, Hollywood has exploited political, economic and historic forces to establish and maintain its international dominance. The historical evidence supports this claim and several examples have been provided above and below within this literature review.

Weaknesses of Explanation #10:

The Majors have over many decades "shaped their business environment" exploiting political, economic and historic forces to their competitive advantage however this kind of firm strategy could not save those studios from financial ruin during two time periods. Firstly, during a prolonged film industry recession in the 1960s / early 1970s and secondly, again during the home video boom of the late 1970s / early 1980s, industrial conglomerates seeking entry to the entertainment business, acquired every one of the Major Hollywood studios. Ownership of several Majors has changed again a number of times since then. At the time when the Majors were economically most vulnerable, an absence of any serious commercial competition from elsewhere in the world film industry enabled Hollywood to recover and by the mid-1980s, 'New Hollywood' had emerged to exploit the "multiplex" and "home video" boom to the Majors' collective commercial advantage.

This section logically indicates that competitive strategy that seeks to exploit environmental opportunities is *not in itself sufficient* to sustain dominant firms through tough economic times.

Explanation #11 Sunk costs theory can explain European decline and Hollywood's rise

This explanation argues that the economic theory of sunk costs can help explain the demise of the European film industry and account for the rise of Hollywood to international dominance during the silent era. The escalation of Hollywood production budgets due to longer features, movie stars and higher production values, constituted "sunk costs" that raised barriers to entry after the First World War as the US economy boomed and the European film industry could no longer compete on even terms. Sunk costs theory stipulates that for products with high sunk (spent) costs like movies (and movie theatres), market size is critical, because total costs are nearly equal to the sunk costs of production (or the business operation), so the firm's commercial success is therefore dependent on the number of units sold (Bakker 2003).

In the early days of the industry when sunk costs (budgets for short films) were low, European companies had been able to dominate. To differentiate their films, France and Italy made longer films and improved their quality with higher production values. Bakker (2003) argues that this raised the size of movie budgets and as these sunk costs increased, unit sales and therefore market size became more important and the Europeans became more reliant on the growing American market for their exports. With the elimination of serious competition from European film companies due the war, Paramount and Fox led the market by substantially elevating film production budgets. This escalation phase peaked during the First World War and necessitated an export drive by the emerging Hollywood studios at a

time when European nations were starved of capital and could not take part. Throughout the 1920s, approximately 25% of movie revenue came from European sales (Kindem 1982). By the time the war ended the Europeans were severely disadvantaged and could not catch up because sunk costs had increased and market size was more important than it had been. In addition, the European market, which had been reasonably integrated prior to the war, had disintegrated due to wartime animosities and by subsequent protectionist measures taken by European governments in the post-war period.

European domestic markets were much smaller than the American market. Charles Pathe acknowledged that the Hollywood studios could afford to dramatically increase their film production budgets and that Europeans could not. This was because Hollywood studios could recoup production costs of longer feature films completely in the large American home market and then sell exports cheaply overseas, especially to countries that could not afford the luxury of having their own national film industry. This in-turn increased the power of the Hollywood studios (Bakker 2003). After the First World War, European nations consequently became locked into the small size of their domestic markets, as sunk costs rose, market size grew in importance.

Weaknesses of Explanation #11:

Since 1950, the Majors production strategy has generally been to make fewer movies but with much bigger budgets. They seek to spread their risk by acquiring independently produced movies to fill out their distribution pipelines. This strategy is risky because each year success depends on a few very big budget movies to fulfil their blockbuster potential. Should the Majors again enter a prolonged period of box office weakness as they did in the 1960s and 1970s, they could find themselves in very severe financial difficulty, particularly as the DVD and Pay TV markets mature.

Hollywood's enormous budgets do raise barriers to entry, making it very difficult for smaller rivals to compete, but those big budgets also carry high financial risks that have in the past sent Major studios into financial ruin. *Cleopatra* (1963) brought 20th Century Fox to its financial knees. Serious budget overruns forced management to terminate all other Fox films in production until *Cleopatra* was completed. The studio was only saved two years later by the blockbuster success of *The Sound of Music* (Thomas & Solomon 1985). The dramatic failure of United Artist's big budget \$35 million western *Heaven's Gate* (1980) destroyed the finances of that studio and it was taken over by MGM the following year (Bergman 1986). Similarly, Rank, the British Major that owned more assets than most Hollywood studios during the 1950s and 1960s and operated its own worldwide distribution company tried unsuccessfully to compete with Hollywood by producing a US \$40 million budget film. *Raise the Titanic* (1980) was based on a best selling novel and featured well known movie stars however the film was a financial disaster and Rank subsequently withdrew entirely from feature film production due to the failure of one film.

Bakker (2003) states that if products are easily exportable, then market size is theoretically close to world market size. Commercial success must therefore be based on optimising the number of units sold, and in a highly competitive market, *success must also be critically dependent upon effective strategic marketing* and favourable market conditions.

So, this discussion of Explanation #12 demonstrates that the dominance of the Hollywood studios cannot be attributed solely to sunk costs theory but must also be linked to the Majors strategic marketing capabilities.

Explanation #12 Vertical integration enables control of the value chain

This explanation proposes that vertical integration has enabled the Majors to dominate the movie business. Some scholars attribute Hollywood's dominance to industry structure and the Major studios' strategy of vertical integration. Availability of substantial capital from Wall Street enabled Hollywood's first mover Adolph Zukor to vertically integrate from production into distribution when he merged his own production company Famous Players with Paramount to create the largest film combine in America. This triggered the competitive reaction from First National, which set into motion a chain of events that resulted in further vertical integration in the industry and a wave of mergers and acquisitions over the next decade. The end result was the emergence of the "Big Five" and the "Little Three" that made up the Major studio oligopoly in Hollywood (Kerrigan and Culkin 1999; Miller, Govill, McMurria and Maxwell 2001; Puttnam 1997).

Vertical integration of production and distribution enabled the Majors to employ coercive business practices such as block booking and blind bidding that created bottlenecks in exhibition programming and consequently blocked competition from independent rivals.

Weaknesses of Explanation #12:

Hollywood experienced vertical *disintegration* after the 1948 Paramount Decrees forced the sale of the Majors' theatre chains, yet the Majors continued to dominate world cinema for almost fifty years since then. Today, only the Majors' film studios and distribution companies are vertically integrated. They are not allowed to own theatre chains in the United States and the majority of leading movie theatre companies are publicly listed on the American stock market. Vertical integration is however, one factor that is common to Pathe's business strategy, to the Major Hollywood studios during the Studio Era and to other national film industries that have in the past had strong domestically focused film industries - Germany during the late teens and 1920s, in Japan from the 1930s and in Britain during the post-War period.

In the U.K., the Rank Organisation was vertically integrated comprising Pinewood film studios, General Film Distributors (later renamed Rank Film Distributors) and Gaumont cinemas (Anonymous 1986). The only example of a commercially successful film industry in which film companies have not necessarily been vertically integrated is the current Indian film industry that comprises five regional film industries, of which Bollywood is the best known. Whilst there are a few very successful Indian studios, there is no Indian equivalent of the Hollywood "Majors" that dominate the industry in the same way and these *Bollywood film companies are not vertically integrated*. Distribution in India is regionally fragmented with studios often dealing directly with Indian cinemas to sell their movies. (Subramanyam 2000)

This section has shown that other firms around the world have been vertically integrated like the Hollywood studios, so this theory alone cannot account for the Majors' dominance.

Explanation #13 Flexible specialisation

This explanation proposes that despite significant change enforced on industry structures by macro-environmental forces, the Majors have survived and maintained their dominant status by transforming their corporate strategies to adapt to the new business environments. Some scholars (Christopherson and Storper 1986; Miller, Govill, McMurria and Maxwell 2001) argue that it has been Hollywood's flexibility that has enabled it to change with the times and thus maintain its dominance of the film industry. Miller and Shamsie (1999) demonstrate that in the stable period of certainty that existed during the Studio Era that the Majors that had the most significant property based assets (theatre chains and contracted talent)

performed best. After the enforced sale of their theatre chains after 1948, the firms that performed best in Hollywood and most easily adapted to the new post-divorcement environment were the studios that had the best knowledge-based resources i.e. intellectual property, relationships with creative talent and financiers, and marketing skills

Weaknesses of Explanation #13:

The ability to adapt to changing industry and market conditions over time is fundamental to business survival and by necessity is a critical issue for any firm facing change. However this flexibility does not, by itself, guarantee dominance. Many firms in many industries adapt to change but they don't all become market leader or remain dominant players within the industry. Strategic management tries to "shape the environment" to a firm's competitive advantage but success is not guaranteed. This discussion *does indicate however that strategic management and marketing are likely to play a significant role in the acquisition and maintenance of market dominance.*

Explanation #14 Cultural channels

This explanation proposes that Hollywood movies benefit economically more than films from other cultures because its movies play well in the English speaking world that also happen to be the richest nations. O'Regan (1992) argues that English speaking countries are collectively the most affluent nations in the world and provide a large, wealthy, ready-made cultural system for Hollywood to exploit for its movies. Other cultural systems exist but are hindered on two counts - countries within their cultural systems are less wealthy than the U.S. and the English speaking west, so their films don't make as much money. And non-English speaking films are rarely successful in the United States, which is still the world's largest single market. India produces more films each year than Hollywood and has more cinema annual cinema admissions. There has however, *never* been an Indian-made movie that became a blockbuster hit in the United States.

Weaknesses of Explanation #14:

Pathe exploited the same cultural channel benefits during the early silent era providing filmed entertainment that succeeded cross-culturally around the world so historical fact does not support this theory.

The most important "foreign" territories for Hollywood in terms of film revenues are:- Japan, Germany, Britain, Spain, France, Australia, Italy and Mexico (Epstein 2005). English is the official language only in Britain and Australia and yet the "foreign" (non-American) box office today accounts for 60% of worldwide revenues. This indicates that the popularity of Hollywood's movies is global and that cultural channels do not seem to inhibit the commercial success of Major studios movies in foreign markets. (MPA Economic Review 2004).

This discussion demonstrates that the commercial success of Hollywood movies crosses cultural boundaries, while it is very rare for 'foreign language' films to become box office hits outside their own cultural channel which undermines the theory that cultural channels can alone account for Hollywood's enduring dominance. *Product design* may however be a factor.

Explanation #15: Mass manufacturing underpinned film industry dominance

This explanation proposes that during the Studio Era (1930-48) Hollywood's industrial organisation and mass production capabilities underpinned its dominance. Staiger (1985) argues that in "Old Hollywood" that it was the development of the "Studio System" mode of

production and the use of continuity scripts (written screenplays that enabled detailed planning and costing of films) that enabled the Majors to optimise profits. They achieved this through efficient work practices based on specialisation of labour and modeled on the Henry Ford system of mass production. This system gave Hollywood economies of scale that provided a significant competitive advantage over other national film industries and over American independent rivals that were by comparison, only small businesses during the 'Studio Era' (1930-1948). This era was also known as 'the golden years of Hollywood' (Collins 1987).

The dominant firm in Hollywood during the pre-Studio Era was Paramount, which was established specifically to create a scale distribution operation with critical mass capable of supplying 104 feature films per year, enough to meet the demands of any theatre owner needing to change programs twice weekly (Puttnam 1997). Paramount's ensuing channel power derived from its mass manufacturing capabilities was so great that it provoked an aggressive competitive response from exhibitors that refused to pay Paramount's rising prices for programming. Exhibitors formed First National, a buying combine and entered production with First National Pictures to supply their own theatres (Huettig 1944).

In the case of Pathe, the French film company that first dominated the movie industry, mass manufacturing capabilities also played a significant role in that firm's market power. Charles Pathe inferred this when he said "I did not invent the cinema, but I did industrialise it" (Pathe 1939). When the sudden Nickelodeon boom occurred in America from 1905-08, it created a product shortage as these new theatres proliferated and public demand for movies rapidly escalated, so nickelodeons needed a guaranteed regular supply of product (Huettig 1944; Berg 1989). Pathe became dominant in the U.S. market by 1908 because it was able to meet that surge in demand due to its mass manufacturing capabilities (Musser 1991).

Weaknesses of Explanation #15:

Thompson (1985) argues that mass manufacturing capabilities underpinned Pathe's sudden dominance of the American market because leading American producers in nickelodeon era were not organised and did not have the scale of operation to meet the sudden increased demand enabling Europeans, led by Pathe, to invade the U.S. market. However, the historical evidence does not support Thompson's theory. Table 3 below shows the leading U.S. studios actually cutback their annual production output from American industry highs in 1903. This data drawn from the AFI Catalog, indicates that the *American film companies actually did have the manufacturing scale and organisation to deliver far greater output* because they had done so only two years before the 1905 commencement of the nickelodeon boom, but they chose not to. The question is why? The historical evidence shows that the Americans were not as well attuned to changing market conditions as Pathe, an issue that is examined further in chapter five.

Abel (1994) and Puttnam (1997) only partially attribute Pathe's dominance to its mass manufacturing capabilities. They argue that effective channel management in the French home market (fairgrounds and café concerts) and internationally, particularly in the American market (nickelodeons) also played a key role in Pathe's dominance. "Between 1902-07 Pathe surged to world dominance by marketing reliable cameras and projectors, *quickly tripling its film production* and by establishing programs as a regular spectacular attraction in the fairgrounds, café concerts and nickelodeons" (Abel 1994 pp 9).

Table 3 Production output of top four US film companies 1903-1908

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Source: AFI Catalog data

Puttnam (1997) states “By 1908, Pathe’s domination of world cinema was complete” and that the company’s success was based on industrial organization, creating output competitors could not match, and from Pathe’s realisation that the real profits lay in vertically integrated production and distribution not in the manufacture of film equipment (Puttnam 1997 pp 37).

During the fragmentation, shakeout and maturity stages of the film industry life cycle from 1893-1949, mass manufacturing movies for a regular cinema-going mass audience was clearly only one factor contributing to leading firms’ ability to dominate the movie business (see other factors in the discussion of the remaining 19 theories in this chapter).

As the Hollywood film industry entered a period of industry lifecycle decline in the post-studio era from 1950-1974, cinema admissions dropped and the Major studios became primarily financiers and distributors of films and cut back their annual output. Since 1950, the Majors in Hollywood have out-sourced production and no longer operate to a mass production model, so the significance of Staiger’s theory of mass manufacturing and industrial organisation *as an enduring factor for Hollywood’s dominance* is undermined.

Scale-efficiencies in production from the film factories that were once the Major studios are no longer realised in contemporary Hollywood. The reverse is true. Comparatively, lower budget independent films can be made much more efficiently. Big budget blockbusters with large movie star salaries, expensive special effects and technicians paid minimum wages and adherence to union rules on minimum and maximum hours worked, all inflate Hollywood film budgets and decrease efficiency.

This discussion on Explanation #1 showed that while industrial organisation and mass manufacturing capabilities were certainly contributing factors to both Pathe and to Hollywood’s dominance during the Studio Era, they are not enduring factors that can solely explain Hollywood’s dominance over time.

Explanation #16 Hollywood’s production strategy underpins dominance

This explanation proposes that the Majors’ dominance rests on their production strategy – on the type of movies that they produce that have proved to be so popular with world audiences. In Hollywood, the movie industry was, from its earliest beginnings, run as a business producing entertainment for mass audiences. In contrast, in other national film industries where the pervasive domestic film culture is anti-commercial film or anti-Hollywood, a

predominantly artistic orientation may have played to Hollywood's advantage by reducing potential competition in export markets. In a few countries this has not been the case - in Germany in the early 1920s; in Japan before the 1980s; in Hong Kong before reunification with China and in India. *These nations all developed vibrant commercial film industries* without any form government protection or assistance. (Kindem 2000; Puttnam 1997; Waterman and Jayakar 2000).

European movies in the early silent years when Pathe dominated the industry were designed to entertain and were enormously popular around the world, particularly in the U.S. market where prior to 1907, American films were considered inferior to Pathe product (Abel 1999). The tradition of a more artistic orientation in European filmmaking began after a French film trade article appeared in 1907. Written by Edouard Benoit-Levy, who ironically co-owned the emerging Omnia-Pathe chain of permanent cinemas in France targeting middle class audiences with popular short films, it proclaimed that film deserved to be considered an art form. This influential article prompted a debate and new ideals within the film community that later elevated film-making in Europe to the status of high culture and later spawned the art film (Abel 1994, 1999; Cowen 2002; Puttnam 1997; Sklar 1997).

Semati and Sotirin (1999) analysed the global popularity of Hollywood through a political framework. They propose that Hollywood's hegemony is a "product of the political dynamics of the contemporary proliferation of political identities and democratic struggles." They argue that it is political and cultural forces that provide the best explanation for Hollywood's transnational domination and the global popularity of its movies. They theorise that the enormous appeal of Hollywood movies is because it projects an appealing democratic ideology through its films that had wide appeal in the twentieth century during eras when the free world was threatened by totalitarian aggression.

Puttnam (1999) agrees that Hollywood's movies are successful not just because they are accessible but also because they champion appealing democratic values. He argues that contemporary Hollywood's big blockbuster formula targeted at predominately young male audiences, with heavy emphasis on visual style, fast pace and action makes it easier for non-English speaking audiences to comprehend and engage with the movie. "The secret of Hollywood's dominance is not simply economic. American movies appeal to audiences because they deliver visceral power and special effects rather than dialogue and plot, and therefore require relatively little grasp of English. In this their appeal mirrors that of the early silent films in the United States - which provided newly-arrived immigrants - few of whom spoke a great deal of English - with access to a cheap, easily understood form of entertainment. The plots of those early films directly addressed the dreams and aspirations of these new arrivals. They were tales of fortunes made, of ordinary folk triumphing over adversity, of love won, of loyalty and courage rewarded." The implication is that by comparison, more cerebral art films, with their heavier emphasis on story complexity and dialogue, struggle to engage a wider audience both in the US domestic market and in markets outside their own home territory. Silent films appealed cross-culturally because the images on screen told the story. Many non-Hollywood films rely heavily on dialogue and characterisation.

Hollywood has constructed an industrial system for producing popular film entertainment that employs a formula-based story telling process that creates movies that have wide visceral appeal for international audiences. The Majors have developed a rigorous system for deciding what gets made and for quality revision of screenplays. (Balio in Turner 2002; Cowen 2002; Dale 1997; Frumes 1999; Semati and Sotirin 1999; Schatz 2002; Staiger 1985).

Frumes (1999) proposed that the essence of the Majors' power during the Studio Era was its contractual control over talent, as well as its control of distribution and exhibition. He argues

that with the world's leading actors, writers, directors and producers all contracted on-staff at the Majors studios, Hollywood created a competitive advantage its movies (through quality product design) that other nations and smaller independent firms could not match.

Weaknesses of Explanation #16:

Hollywood movies have over many decades been unrivalled in terms of popularity with audiences as measured by box office revenues. Logically it is hard to argue that high quality production values, the presence of popular movie stars and entertaining stories have been key success factors contributing to Hollywood's dominance. Effective product and brand management is a critical component of any corporation's marketing mix (Kotler 2000).

During the Studio Era, before television, the Majors were continually able to supply their theatre chains with popular movies featuring big stars that satisfied the regular cinema-going audience. However, admissions declined dramatically after the boom war-time years and during the 1950s and 1960s, and the Majors experienced periods of boom and bust with many big budget Hollywood movies failing at the box office as the core adult audience began staying home to watch TV (Wasser 2001). By the end of the 1960s / early 1970s, most of the Major studios were in severe financial trouble and one by one were all taken over by larger conglomerates. In the post-Studio Era (1950-1974) Hollywood seemed unable to comprehend that its core audience was changing and that producing 'more of the same' type of movies would fail to match changing audience expectations. The Major studios clearly had the wrong production strategy. During this period, some national cinemas e.g. Japan, France and Britain flourished but *still none were able to displace Hollywood* as the dominant force in the industry, which indicates that production strategy alone, whilst a critical success factor, does not underpin enduring dominance in the movie business.

After the abandonment of the industry's Production Code in the late 1960s, which lifted censorship restrictions on movie content, independent filmmakers began producing movies containing graphic sexual and violent content. This approach proved popular with the now more youthful core movie-going audience in movies such as *Bonnie and Clyde*; *The Wild Bunch* and *Easy Rider* that became box office hits. The real turning point in the fortunes of the Major studios after three decades of declining admissions came in 1975. The smash hit movie *Jaws* changed Hollywood's production strategy and marketing. The Majors began making 'high concept' big-budget, special effects laden blockbusters, franchises and sequels specifically targeting teenagers and young adults (Wyatt 1994). Since then, and with the advent of multiplex cinemas, Hollywood experienced almost twenty years of increasing annual box office sales (MPA Economic Review 2004).

This review of Explanation #16 on Hollywood's dominance showed that the Majors' production strategies cannot explain their enduring dominance over time because from 1950-74 the Major studios fell into financial disarray because their movies failed to appeal to audiences and halt declining admissions, yet they still remained dominant in world cinema despite the rise of independent film making around the world.

Explanation #17 Control of distribution channels underpins dominance

This explanation proposes that Hollywood dominates because it controls the channels of distribution. It should be noted that Pathe, the firm that dominated in the early years of the movie industry had established an unrivalled global network of international sales offices through which its films were distributed during the first decade of cinema. Whilst other

European companies also established some overseas offices, none operated on anywhere near the same international scale as Pathe (Abel 1994; 1999; Kindem 2000; Puttnam 1997; Seagrave 1997).

“From 1907-11 Pathe sought to consolidate and extend its position through a strategy of monopolistic expansion by moving to exert greater control over distribution (renting rather than selling through half a dozen regional subsidiaries) as well as in exhibition (constructing a circuit of over 200 permanent cinemas across France)” (Abel 1994).

Seagrave (1997) argues that the critical success factor for Pathe was its strategy of opening local offices “in a country or area as soon as the market became big enough.” She notes that the American market was growing so rapidly at the time, that local producers were unable to meet demand. This enabled Pathe and other foreign competitors to enter the U.S. market without a hostile response from the American firms who also had little incentive to pursue foreign markets at that time due to rapid domestic market growth (Seagrave 1997 pp 3).

Abel (1994) argues that Pathe’s dominance was due to four key strategies, three of which were distribution strategies - monopolising the French fairgrounds; establishing the first worldwide distribution network and exploiting the nickelodeon boom in the U.S. market (Abel 1994).

Since 1916, the Hollywood Majors have also employed a strategy to dominate distribution channels both within the American domestic market and internationally. Hollywood became globally dominant after the First World War when it established an international distribution network in territories that were abandoned the French and the Italians during the war. Since that time it has retained its channel dominance (Gomery 1986; Hoskins, MacFadyen and Finn 1997; Frumes 1999; Kindem 2000; Miller, Govill, McMurria and Maxwell 2001; Seagrave 1997; Silver and Alpert 2003; Thompson 1985).

“The centre of power of the film industry based in Hollywood has, since the close of the First World War, rested with control over international distribution. The Hollywood industry has long dominated bookings around the globe, and film box office figures in the United States, even with blockbusters, are small in comparison with the total take from all sources around the world” (Gomery 1998). Other authors, Puttnam (1997) Kerrigan & Culkin (1999) and Kerr & Flynn (2002) also cite distribution as the foundation of the Majors’ dominance of world cinema.

The thesis that distribution has been *the key* to the Majors dominance seems hard to argue with on face value. Historical facts seem to support the argument. Pathe realised early global market leadership after his company established a worldwide network of sales offices through which it sold its films and film equipment. The Hollywood studios emerged as Majors after they developed national distribution within the American market and international distribution channels after the First World War.

Weaknesses of Explanation #17:

For over eight decades, Hollywood has dominated world cinema, even during the 1950s and 1960s, when cinemas experienced a steep decline in admissions due to the diffusion of television. The Major studios all fell into severe financial difficulty after they failed to deliver regular box office hits and suffered cycles of boom and bust. This was a period in history when a serious competitor might have been able to take advantage of Hollywood’s weakness. It was an era when European and Japanese films flourished and became popular, yet these potential competitors did not have the worldwide distribution infrastructure to seriously challenge Hollywood in its weakest moment. And even if they had, it is possible

that these rival industries also did not have the range of product to satisfy global entertainment tastes and thereby replace Hollywood as the principal vendor of motion pictures. Therein lies the fundamental weakness of the argument that distribution alone is the key to Hollywood's dominance.

Since the fifties, the Majors have outsourced production and today act principally as financiers and distributors. "The studios are basically distributors, banks, and owners of intellectual copyrights." – Richard Fox, a Warner Brothers Vice President (Epstein 2005). The Majors have strategically chosen to become what Friedman & Furey (2000) term channel-centric companies. Channel strategy has without doubt been a critical element contributing to Hollywood's dominance, however distribution channels still need the right product to satisfy market demand and effective marketing campaigns are required to persuade audiences to see the Majors movies. As distributors, they are reliant on acquiring movie product that satisfies market demand and also on having the expertise in marketing communications to persuade global audiences to buy tickets to see their movies. So distribution alone cannot explain enduring dominance in the movie industry over time. Distribution is just one of the critical success factors in the Major studios' marketing mixes. And Hollywood's distribution policies are determined by the Majors' corporate and marketing strategies.

Lessons can also be learned from the decline of Pathe. It had the largest worldwide network of sales offices prior to the First World War and was still the dominant force in world cinema at that point, even though American firms were emerging as serious rivals through innovative new feature length films. Pathe made a serious strategic mistake in product design and development, when it remained committed to a core strategy of producing short films rather than the longer feature-length films. The higher costs involved in feature film production created much higher risk for a Major studio and Pathe made the decision to exit production and focus on film distribution (Abel 1994). This illustrates that channel dominance is *not the only factor* in achieving industry dominance.

Similarly, Britain's Rank Organisation had its own large-scale global distribution company British Empire Films during the 1940s and 1950s. It also acquired 25% of the Major Hollywood studio Universal-International which gave Rank channel access for its films to the American market. The key problem for Rank was that its large British studio that produced significant film output each year, failed to deliver films that appealed to mass audiences in the American market. These British films "traveled well" within the cultural channel of the nations of the former British Empire but failed to match the export performance of more popular Hollywood movies in other countries. (Falk Quentin 1987; Puttnam 1997). This is a case of a product-market mismatch and is a strategic marketing issue.

Another case of distribution not guaranteeing dominance is that of the mini-Major company Cannon Films that emerged during the video boom years in the eighties. Cannon was among the first-movers in financing movie production through pre-sales to pioneering video distribution companies that needed product. Cannon grew very rapidly to become a significant market force with its annual output far exceeding the Hollywood Majors during the early eighties. Cannon Films established its own costly worldwide network of sales offices to handle its international film and video distribution. In production, Cannon used a cost leadership strategy very similar to that of Pathe during the early days of silent films. Cannon produced a wide selection of low budget films in order to supply the rapidly emerging home video market with product at affordable prices. However, Cannon's films lacked major movie stars and none of its films achieved major financial success in theatrical release (Meyer, Behr & McAlevey 1986; Wasser 2001).

Cannon Films then attempted to compete directly with Hollywood by producing much larger budget films featuring well-known movie stars. Cannon however lacked the research and development capabilities of the Hollywood studios and most of its movies were commercial failures. Cannon's reputation for making cheap exploitation films did not enable it to stimulate demand from cinema exhibitors or to negotiate the most favourable terms with cinema programmers for film rentals. The ongoing lack of commercial success in theatrical release, combined with the escalating costs of production meant that Cannon Films reached a point where it was unable to service monthly interest payments on the massive bank loans it had with French bank Credit Lyonnais and the company went bankrupt. Credit Lyonnais, Europe's largest film bank and known within the industry as "the independent filmmakers bank" also suffered severe financial difficulty (Yule 1987). Like Rank before it, Cannon is another case of a well-financed film company with its own worldwide distribution network failing due to an inability to supply a regular flow of commercially attractive product for theatrical release.

This section shows that the key historical lesson is that *global distribution capabilities alone do not guarantee dominance*. Distribution relies on the commercial potential of the product and on the marketing expertise of the distributor to optimally exploit that commercial potential.

Explanation #18 Hollywood has used export cartels to dominate foreign markets

This explanation proposes that the U.S. Government has given Hollywood an unfair and ongoing competitive advantage in foreign markets under legislation initiated during the First World War to boost American exports. Some scholars note that the Majors have legally been allowed to operate as distribution cartels in foreign markets under the provisions of the Webb-Pomerene Act of 1917 passed by the United States Congress. This corporate behaviour involving cartels would be illegal within the U.S. market under anti-trust laws but it has enabled the Majors to secure their international distribution channels and dominate foreign markets (Guback 1984; Puttnam 1997; Seagrave 1997; Izod 1998; Kindem 2000).

Weaknesses of Explanation #18:

Anti-monopolies legislation usually applies within a nation's domestic market, so logically, what real barriers exist to stop other national film industries forming movie distribution cartels to compete with the Majors? Utton (1987) provides an example of the British government supporting cartel behaviour in industry "At the height of the inter-war Depression, the UK was not alone in officially sponsoring cartels in an attempt to stave off the worst effects of the economic crisis."

This discussion on Explanation #18 demonstrates that whilst the U.S. government may have aggressively assisted Hollywood to penetrate overseas markets by lobbying foreign governments, this course of action is also available to other governments in supporting their own film industries, so this theory can only be a contributing factor, *not a primary cause* of Hollywood's dominance.

Explanation #19: Strategic control of exhibition underpinned Hollywood's dominance

This explanation proposes that the Majors dominated in the Studio Era because they controlled the retail sector of the movie industry. Huettig (1944) argued that vertical integration enabled the Majors to achieve economic control of exhibition in America through ownership of the largest first and second run movie theatres and that this factor underpinned their economic domination of the film industry during the "Studio Era" from 1930-1948. With 93% of the Majors' total financial assets invested in their movie theatre real estate, they enjoyed significantly greater borrowing power to access production finance because theatres

were a cash flow business that could service regular bank loan repayments that could also be used as collateral to provide security to the banks for those loans.

“The copyrighted nature of film ownership and the time preference for new films (audiences appetite for new films) are the basis of the industry’s trade practices. So in building a market for new films to be shown in their own first run theatres, the Majors strengthen their own market” (Huettig 1944).

Weaknesses of Explanation #19:

Huettig’s argument is hard to refute if it is applied only to the Studio Era from 1930-48, however there are two fundamental weaknesses with this thesis as an enduring theory to explain Hollywood’s ongoing dominance over almost nine decades. Firstly, it *doesn’t account for the rise of the Major studios to a dominant position* within the film industry. Most Majors studios evolved “organically” to become major players within the industry over time. The historical evidence shows that the producer-distributor Famous Players-Paramount Pictures, under the leadership of Adolph Zukor, had already established itself as the dominant force towering over the American movie industry by 1914, producing significantly more movies than its rivals (see Table 4 below). *This was five years before* Paramount began acquiring movie theatres in 1919. It was after that move, that other Major studios followed Paramount’s example and developed their own chains of movie theatres.

Table 4 Annual feature film output of top 8 firms in U.S. market from 1914-1920

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Source data: AFI Catalog

It was Paramount’s market power as a distributor that triggered a competitive response from exhibitors who were unhappy with the business terms offered for the studio’s movies and as mentioned earlier, a group of exhibitors formed the First National theatre circuit as a buying combine to become independent of Paramount. Zukor (1953) stated that faced with an immediate loss of business on a major scale due to First National’s actions, he had no alternative but to vertically integrate and to enter the exhibition sector by buying and building theatres, as a defensive strategy to protect Paramount’s business interests. These historic events preceded the situation described by Huettig.

During the Studio Era, the business model underpinning the success of the Hollywood studios was a quite different paradigm than the contemporary model. Huettig (1944) notes that compared with the 93% of the Major studio assets invested in movie theatres, distribution only accounted for 1% and production the remaining 6%. Then, the strategic control of the key revenue-producing first and second run movie theatres in the American market was certainly central to the Major studios' business strategy. The theatres provided weekly cash flow for the corporation and theatre assets were used as collateral with financiers when borrowing to fund movie production. "By controlling picture palaces in all downtown areas across the United States, the major studios took three quarters of the average box office receipts" (Gomery 1999).

The second major weakness with Huettig's argument that economic control of the movie theatres could be central to Hollywood's dominance is that history has shown that the Majors were forced to sell-off their movie theatres in the 1950s, yet they have continued to dominate the movie industry for another half century. In 1948, the U.S. Supreme Court ruled that the Major studios were in violation of the Sherman Act anti-trust laws and were guilty of questionable business tactics designed to restrain trade and to limit competition. It ordered them to divest their theatre interests.

This section demonstrated that strategic control of theatres cannot explain Hollywood's enduring dominance because the Majors have not owned theatres since 1950 but continue to dominate the movie industry.

Explanation #20 Hollywood has consistently demonstrated superior expertise marketing its movies (marketing communications expertise)

This explanation proposes that Hollywood's legendary promotion and publicity machine have been a key factor in its ability to dominate the movie business. Hollywood has developed a marketing system that continually saturates the media with news and persuasive messages about the Majors studios new movies and is designed to entice audiences to attend movie theatres. Increasingly global marketing campaigns make it very difficult for low budget independent films to even get noticed if they can even secure a release in a very crowded market when up against the significant marketing power of the Hollywood studios (Danan 1995; Puttnam 1997; Schatz in Turner 2002; Seagrave 1997; Waterman and Jayakar 2000; Cowen 2002).

Weaknesses of Explanation #20:

Promotional expertise and marketing communications are only one element of a firm's marketing mix. Without quality product, effective distribution, appropriate pricing policy and effective strategic marketing management – large scale product promotion is unlikely to enable ongoing industry domination except in a monopoly market. There has to be production of appropriate product that matches market demands. And such demand in a dynamic consumer market where audience tastes can change dramatically over very short periods of time can be problematic in an industry like the movie business where the product development cycle occurs over a period of years.

Hollywood's enviable marketing expertise has arguably been a critical success factor but it cannot be used to explain the dominance of the Major studios over eighty years. Other industries like telecommunications, automobiles, aircraft and fashion in many countries outside America exhibit superior expertise in marketing, so logically why would other nations be unable to develop such marketing capabilities in their own film industries?

APPENDIX 7: HISTORICAL CONTEXT FOR MERGERS

There is agreement across a wide range of historical sources that Hollywood has dominated the movie industry since the end of the First World War (Huettig 1944; Hampton 1970; Sklar 1978; Stanley 1978; Balio 1985; Gomery 1986; Wasko 1994; Puttnam 1997).

However, membership of the longstanding Hollywood oligopoly comprising the eight Major film studios that have consistently dominated the movie business was not finally established until 1929 with the creation of RKO – the last member of the ‘Big Five’. Consequently, the period under study broadly corresponds to the silent film era from 1895 to 1929.

The early years of any new industry before dominant firms arise and market structures evolve are called the fragmentation stage of industry lifecycle (Baum & McGahan 2004). Cinema began in 1895 when the French brothers Lumiere exhibited the world’s first projected film images to an invited audience in Paris and French film companies, particularly Pathe, emerged as the world’s most prolific manufacturers of film equipment and motion pictures. In the United States during the first decade of the movie industry, Edison and Biograph were the largest domestic film companies and dominated the local market. By 1905, America had grown to become the world’s largest and wealthiest national film market due to the sudden proliferation of makeshift nickelodeon theatres showing increasingly popular short films (one and two reels) to multicultural audiences comprising the urban working class and waves of newly arrived immigrants from Europe (Sklar 1994).

In this pre-Hollywood era, American film studios did not become significant exporters until the early 1910s. The leading film companies in the world during the first two decades were European (Spehr in McCann 1987 p. 37) and as demand surged due to the nickelodeon boom (1905-1908), European exports flooded the U.S. market including increasingly longer (up to five reels) bigger budget narrative films. The largest French firm Pathe led the invasion (see Pathe case Appendix 8). It dominated world cinema in terms of its annual production output, global market share delivered by its worldwide sales and distribution network, its annual revenues and its profitability. Pathe’s closest rivals were French, Danish and Italian studios. Domestic competitor Gaumont was also a major film equipment manufacturer and prodigious film studio that exported its films. Prior to 1914, the second largest producer of films in the world was Danish studio - Nordisk (Puttnam 1998 p. 42-43). And Cines, a Rome-based studio, that operated a pan-European distribution network, opened a sales office in New York and was one of three Major Italian studios that emerged between 1903-1908 – the others were Ambrosio and Itala both based in Turin (Reinert in Kindem 2000 pp 223-224). By 1912, Japan had developed a studio system but was focused on its own domestic market and did not export its films (Desser in Kindem 2000 pp 11-13).

Britain and Germany were both primarily importers of films in the pre-Hollywood era, although Germany later emerged as a potentially serious national rival to American cinema (Puttnam 1997 p 107).

After the massive industry growth fuelled by the nickelodeon boom plateaued, and in response to the aggressive European penetration of the U.S. market, Thomas Edison’s attempt to legally monopolise the U.S. market through the establishment of the Motion Picture Trust Company (MPPC) from 1909-1915 was terminated for violating U.S. anti-trust laws.

However, the MPPC’s exclusive licensing arrangements and strong-arm tactics had triggered a competitive response that resulted in a changed power structure within the movie business. Rival independent studios led by Universal, Fox Film and Mutual Film refused to comply with MPPC demands and operated as unlicensed producers and exhibitors. Their example inspired American independents to increase their output of longer films featuring popular movie stars thus stimulating increased market demand. Large permanent cinemas and theatre

chains began to appear from around 1912-13, which coincided with the emergence of feature length movies of five reels or more. As European film output was curtailed by the onset of the First World War (1914-18), the previously fragmented American industry entered a period of economic shakeout - the second stage in industry lifecycle theory (Baum & McGahan 2004), as a number of Hollywood-based independent studios battled for industry supremacy resulting in a series of corporate mergers. The leading Hollywood film companies from 1914-1924 included Universal, Famous Players-Paramount, Triangle Films, World Film, First National, Metro Pictures and Goldwyn Pictures that later merged to become MGM. Some prospered, some failed.

By 1925, corporate mergers and acquisitions seemed to have facilitated the emergence of the 'Big Three' Hollywood studios comprising Universal, Famous Players-Paramount and Loews-MGM (Sperling-Warner & Millner 1994 p. 84). At the end of the decade, the Hollywood oligopoly had widened to become a 'Big Five' comprising Paramount, Loews-MGM, Fox Film, Warner Brothers and R.K.O., and a "Little Three" - Universal, Columbia and United Artists (Balio 1985; Gomery 1986; McCann 1987).

New technology in the form of talking pictures facilitated the emergence of three new Major studios in Hollywood. Talking pictures were introduced by Warner Brothers in 1927, an innovation that saved that studio from financial oblivion and propelled it into the ranks of the Major studios. Commercial success in patented sound technology also enriched Fox Film, the other movie studio innovator in the field of talking pictures. In 1929, Fox had grown to a size where it even launched what proved to be an unsuccessful takeover bid for rival Major studio - Loews-MGM. That same year, R.K.O. became an "instant Major studio" of size and scale through two mergers creating a vertically integrated movie producer-distributor-exhibitor. Its parent company R.C.A. intended that R.K.O. theatres would become a marketing channel for its new sound equipment in the new world of talking pictures. The silent era effectively concluded in 1929, the year of the stock market crash on Wall Street and the start of the Great Depression. By now, the corporate line-up within the Hollywood oligopoly of eight Majors was firmly established and the American film industry had almost completed a three year, nationwide program of wiring-up movie theatres for sound, laying the foundations for Hollywood's commercial prosperity during the "Studio Era" (1930-48) and the Majors' long dominance of world cinema.

Clearly, larger scale merger activity was evident during the silent era and two Major studios - Universal and RKO, owed their very existence to a corporate merger. What needs to be determined is whether the rise of the other dominant film companies of the silent era can be attributed mainly to corporate mergers, or did other factors such as marketing orientation and strategic marketing capabilities play a more significant role by delivering superior business performance? The latter will be examined in chapters six through eleven.

APPENDIX 8 PRE-HOLLYWOOD: PATHE'S RISE TO DOMINANCE 1895-1914

The leading movie industry trade paper *Variety* stated “*from 1900 to 1914 the French dominated the world market but lost it to America during the war years*” (Moskowitz 1956). This chapter will examine the case of Pathe, the French firm that emerged as the first the dominant film company in world cinema from 1906-1914, and determine the underlying causes of that dominance. This will enable a comparative historical analysis of factors attributing to Pathe's acquisition of dominance to the rise of the Hollywood studios in the concluding chapter of this thesis. The first section sets the context for Pathe's rise to dominance in the U.S. market.

To provide the reader with a business context for the early silent era of film, it is first necessary to describe the nature of the emerging film industry in Europe and America. Cinema was created in 1895 when the Lumiere brothers first exhibited moving pictures on a projector in Paris. As is typical of any industry lifecycle, the first decade from 1895-1904 was a period of industry fragmentation when manufacturers of film equipment (cameras and projectors) tried to find customers (exhibitors) to buy their equipment. The manufactures also produced very short black and white silent films on a variety of topics covering different aspects of everyday life. No formal distribution structures or permanent movie theaters existed at this time. Moving pictures were a novelty that amazed a fascinated the public and were exhibited at fairgrounds, amusement arcades, music halls / vaudeville and in cafes in Europe. As film equipment diffused around the world, producers in many countries emerged, but the volume of short film product was generated by the large equipment manufacturers, e.g. Edison, Biograph and Vitagraph in America and Pathe and Gaumont in France.

After formal distribution structures and permanent movie theaters began emerging between 1902 and 1906, Pathe became the largest film company in the world as it capitalised on the growth stage of the silent movie industry's lifecycle, particularly in the U.S. market. The rapidly expanding American economy created the world's largest cinema market from about 1905-1908. At this time, no box office statistics were recorded. In the absence of sales revenues, historians judgements of Pathe's market power and market share are based upon production output i.e. sales volume.

Jones (2001) notes that “*Levinthal & Myatt (1994) suggest using product volume to calculate market share, since revenue and profitability data are unavailable*” (Jones 2001 p. 939). During the early years of the expanding American market, films were sold by producers to film exchanges by the length of the film for a standard fee, so the companies producing the greatest output of films must logically have had the highest sales. Whilst multiple copies of some films were printed, it was the exception rather than the rule during this era. Sklar (1994) and Puttnam (1997) report cases of exhibitors illegally bicycling prints from one theatre to another between sessions. This indicates that popular film titles were in high demand with only a few copies available, or that they were too expensive or that some exhibitors were just dishonest. Overall however, total annual output of movies released into the market should logically be a reasonable proxy for total sales and therefore, a fair basis upon which to base market share calculations in the absence of reliable sales data.

To provide a context for the American market at this time, market share data based on sales volumes is provided in table 5 below. Column three lists data from Jones (2001) who calculated the market share of leading firms trading in the American market based on the total number of films that each studio released from 1895-1910. Each firm's total production output was then calculated as a percentage of total number of films released in the U.S. market during that same period. The problem with Jones's market share data is that it presents a distorted picture of the dominant movie companies in this period on two counts.

Table 5 Top Nine Movie Studios' Market Share in U.S. Market from 1895-1910

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Source: Jones (2001) based on AFI Catalog data

Source: Silver (2006) based on AFI Catalog data - Savada, Elias (Compiled) The American Film Institute Catalog of Motion Pictures Produced in the United States - Film Beginnings 1893-1910 The Scarecrow Press Inc., Metuchen, N.J., & London

Firstly, it fails to reflect changing patterns in market share that took place from 1905-08 during the nickelodeon boom when American studios simply could not produce enough film output to satisfy the sudden jump in local demand. Leading European firms increased exports to fill that gap in demand (see table 6 below). This study re-calculated market share for each firm on a year-by-year basis using original AFI catalog data, which revealed that American firms Edison and Biograph dominated the U.S. market from 1895 until 1906 when Pathe released almost as many films as both Edison and Biograph combined. From 1907-1910, Edison and Biograph were both overtaken in the U.S. market by a number of other firms (see table 5 below).

Table 6 Total film releases in U.S. market 1895-1905 and from 1906-1910

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

Source: AFI catalog

Secondly, Jones (2001) analysis was flawed because it was based on overall totals of firm output data. She totalled the number of films produced by each studio. Those firms with the largest number emerged as market leaders. Their total output was calculated as a percentage of the total number of films released in the U.S. market during the period, to provide a statistic for market share (see 5 column 3 and Table 5 above).

However, deeper analysis of the original AFI Catalog raw data reveals that Jones (2001) double or triple counted many films because film titles might appear under a major studio as

well as under one of its subsidiary production companies or strategic partners as well as under its distribution company. This double and triple counting distorted firm totals in Jones (2001) analysis and therefore distorted her final market share calculations for the period 1895-1910 (see examples in table 7 below).

Table 7 Examples of double listing of films within the AFI Catalog

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Source: AFI Catalog

This thesis drew upon the original raw data in the AFI Catalog which was exhaustively cross-checked each year from 1893-1920 for each film company and for each film produced to ensure that no films are double or triple counted as occurred in Jones study.

Jones (2001) used the Hirschmann-Herfindahl Index to calculate industry concentration based on AFI data and found “very low levels of concentration”. However, if the Table 5 data above is analysed using the four-firm and eight-firm concentration ratios, a different picture emerges. Table 8 below demonstrates that the four leading firms (Biograph, Edison, Lubin and Pathe) held a combined market share of 47% with the eight leading firms holding a combined share of 69% for the period 1893-1910.

A snapshot comparison with the four-firm concentration statistic for four Major studios holding the largest share of the US market in 2003 was by comparison 55% and the eight firm statistic for that same year was 89% (see Chapter 1 Table 1.4).

Considering that these are the first fifteen years of an emerging and unstructured new industry and that none of the American firms were vertically integrated, the four-firm combined market share of 47% for 1895-1910 compared with the combined share of the top four Major studios in Hollywood today of 55% share seems surprisingly high and indicative of relatively high levels of market power. The European firms Pathe and Gaumont were both vertically integrated and had opened international sales offices in the U.S. market during the nickelodeon boom.

Table 8 Industry Concentration Ratios 1895-1910

U.S. Market	1895-1910
Four-firm Concentration Ratio	47%
Eight-firm Concentration Ratio	66%

Formula used: Four Firm Ratio = combined market share of top four firms expressed as a percentage of the total industry based on market share data shown in Table 5.

French firms had an advantage of early access to capital required for growth

The French firms that emerged as leading studios Pathe, Gaumont, the Lumieres all enjoyed significant financial backing at their point of entry into the film industry. Only two American firms were also able to access significant capital – Edison and Biograph. Edison's film division, which was only a very small part of a much larger business empire that employed 3500 staff, manufactured 6,000 phonographs per week and 130,000 moulded phonograph records per day which were distributed through to retail customers across America through 150 jobbers and over 13,000 dealers. (Dyer & Martin 1910 pp 672-673). Edison's company was a major player in the electricity industry (Reich 1992 p. 305). Biograph became an 'instant' Major studio when it used the patents for its camera and projector as security for a start-up loan from the New York Security & Trust Company that provided \$200,000 in working capital. This enabled Biograph to rapidly expand its business manufacturing film equipment and begin producing films to supply with that equipment (Balio 1985 pp 11). Biograph targeted the highly competitive vaudeville market as a customer base for its equipment and exclusively contracted to supply the prestigious Keith vaudeville theatre circuit with a package comprising projector, technician and films for its coast-to-coast circuit of high class vaudeville theatres (Abel 1999 p. 3). Biograph's equipment had a superior reputation to Edison's cameras and projectors (Zukor 1953 pp 20). Other American studios like Lubin, Selig, Vitagraph grew organically from small businesses into major American studios (Fennett 1988).

In France, major film companies were Pathe, Gaumont, the Lumiere Brothers and Melies. The Lumieres were self-financed, coming from a prosperous bourgeois family and Georges Melies (Star films) who inherited a stake in the successful family shoe business and then owned and operated a popular magic theatre in Paris that enabled him to self-finance his film activities (Abel 1994 pp 10-14). Leon Gaumont owned a photography shop in Paris and when he entered the moving picture industry he was backed by a team of investors led by Guastav Eiffel. They floated the company in 1905 and raised 2.5 million francs in capital (Kindem 2000 pp 195).

Pathe began with a successful business and had two separate revenues streams

Charles Pathe had an immediate advantage because his new firm had two revenue streams. He was already running a successful gramophone manufacturing and sales business prior to forming Pathe Freres with his brother and creating a film division. In the first few years, gramophone sales actually underwrote the Pathe's embryonic film activities and provided 90% of its cashflow while Pathe developed new manufacturing plant with a film processing laboratory and a movie studio complex at Vincennes outside Paris. By 1906, "*66% of company revenues came from film*" (Puttnam 1997 pp 26).

Pathe found a "business angel" with significant business skills and experience

Claude Grivolas was a successful industrialist and part-time magician who had become fascinated with film and wanted to invest in its future. After initial overtures to invest in Melies were rejected, Grivolas developed a relationship with Pathe Freres through a precision tool factory that he owned B & C (Bunzli & Continsouza), which became a sub-contractor to Pathe, manufacturing its cameras and projectors under a Pathe trademark. Grivolas witnessed Pathe's success at selling gramophones and then went into partnership with Pathe Freres. Grivolas merged B&C into Pathes Freres and it became the equipment manufacturing arm and continued to be managed by its founding partners Bunzli & Continsouza under Grivolas supervision (Anonymous 2007).

Pathe secured significant capital much earlier than its competitors

Grivolas used his business contacts to organise the public float of Pathe Freres. The public listing produced one million francs in capital transforming Pathe Freres from a small business like his competitors into a corporation of size and scale that could implement its plans for systematic growth expansion. Next, Grivolas and Pathe sought equity finance to fund Pathe Freres growth plans.

Hay & Vickers (1987) indicated that corporate mergers were one of five routes by which firm's acquire dominance. Here the historical evidence shows that Pathe did indeed achieve its initial leap in size and scale from a small shop selling gramophones to a corporation with a manufacturing operation and the ability to pursue significant finance through a merger. To understand the basis upon which French investors at that time might have made their decision whether or not to finance a start-up venture in a new industry, it is necessary to refer to key decision making criteria used by venture capitalists who face similar scenarios. Venture capitalists reviewing a business plan for a new business have five key evaluation criteria: market attractiveness, product differentiation, ability to cash-out, credible management capabilities and barriers to entry (Golis 1998 pp. 139-155).

Movies were a new industry with seemingly high market potential. Market entry costs were low. People could buy or hire a camera and make a short film for very low outlay.

In terms of *product differentiation*, Eastman's Kodak still cameras already were popular and diffusing widely so the ability to make revolutionary moving pictures would surely attract lots of customers willing to pay for a camera and a projector to show to friends, family and paying audiences (Coe 2004).

In terms of *market attractiveness*, the above scenario surely augured well for Pathe with its intention to manufacture and sell film equipment. The involvement in the industry of Edison in America, and the success and wide diffusion of his original kinetoscopes – a coin operated, moving picture peep-show device that preceded film projectors and diffused worldwide in only 18 months, was already a well-known business fact. And that less than two years after the Lumieres first demonstrated their projector, Georges Melies was already making and showing his films in his high profile theatre in the entertainment sector of Paris and had audiences willing to pay for admission.

Whilst no one knew how the new industry would evolve, the investors possibly looked at the potential that the film industry held and its market attractiveness in a similar way that investors in the late 1990's must have seen the Internet. They could "smell" the possibilities and wanted to invest early to ensure that they enjoyed first-mover advantage. Markets are driven by fear and greed. No one wanted to miss out on a good speculative opportunity. If the business succeeded then original investors would have *the ability to cash-out* and sell their shares as the stock price rose.

Any concerns would have been further reduced by the credibility and *capabilities of the management team*. Claude Grivolas was to be the managing director bringing recognised management skills, experience and a successful track record to the company (Abel 1994 p. 14). The visionary Charles Pathe was named director of the new film division having previously run his successful gramophone business with his brother Emile Pathe who was named director of the new company's gramophone division. The manufacturing division would be run by its founding partners Bunzli and Continsouza who had built a successful business and had already worked under Grivolas supervision (Puttnam 1998 p. 27).

Barriers to entry would have been a concern because they were non-existent, however if the new company was appropriately financed, it would gain the first-mover advantage in an

emerging industry. It would then be able to influence the trajectory and development of industry dynamics and thus with experience and growth be able to formulate institutional barriers to new entrants. The key was to move early.

It is logical to assume, that since high profile financier Jean Neyret, French bank Credit Lyonnais and other institutional investors that backed the new joint-stock company were convinced by Grivolas and Pathe that the film industry held significant business promise and that Pathe Freres could become a significant player, or they would not have invested. The logical conclusion must therefore be that Pathe and Grivolas succeeded in marketing the company to the financial sector.

Pathe had a vision, strategic marketing orientation and a quality-based strategy

The theoretical framework developed in chapter three established that firms are likely to possess a marketing orientation, to act with strategic intent, develop an effective competitive strategy based on either quality, cost advantage or market segmentation (focus) and would be likely to possess superior strategic marketing management capabilities to their rivals. This theory can now be tested by evaluating the causes of Pathe's rise to a position of market dominance of world cinema.

When Pathe became a joint-stock public company in 1897 in France it was re-named the *General Company of Cinematographs, Gramophones and Films*. The name of the public company clearly signalled that the corporate vision for Pathe was to be an equipment manufacturer and a film company. From this point onwards, the historical evidence demonstrates that Pathe clearly operated with a strategic intent to develop a vertically integrated global business that would dominate the world film market.

Grivolas ran the company as the first Managing Director, Emile Pathe ran the profitable phonograph division and Ferdinand Zecca was hired to run the film studio. This allowed the visionary Pathe, with his background in retail sales, to focus on developing the film division and working out ways to market the firm and its products. Pathe pre-empted his major European rival Gaumont by eight years in terms of establishing a business of sufficient critical mass that it could trade on an international scale leading to dominance in world markets. This was achieved by access to significant investment capital within one year of the company's formation (Puttnam 1997 p. 29).

Porter (1984) outlines three basic competitive strategies – quality (differentiation), cost-leadership and focus (segmentation). Pathe's competitive strategy was based on quality. The firm mass-manufactured high quality cameras and projectors (Zukor 1953 p 20) which diffused widely around the world. The Pathe Rooster trademark was also widely recognised by cinema audiences on every continent (Abel 1994 p. 49). The historical evidence shows that the firm strategically marketed its corporate image and the Rooster trademark, and positioned Pathe as a quality brand through its marketing communications (Abel 1999 p. 17). From that point onwards, Pathe's strategic marketing capabilities underwrote its success and rise to dominance in world markets. Pathe established a sustainable competitive advantage through scale economies offered by its manufacturing business and the vast international distribution infrastructure that it created with a network of sales offices stretched across the world.

None of the firm's competitors operated on a scale of that magnitude. Consequently Pathe's dominance in world markets was estimated by different historians and trade journals to range between 50-70% at various different times (Cawell & Smith 1972; Puttnam 1997 p. 43; Hayward 2000 p. 196; Segrave 1997 p 3; Abel 1999 pp. 48; 57).

The evidence shows that Pathe read the market more successfully than its rivals. When American competitors were cutting back production in 1904 after a period of declining box office, Pathe geared up to meet the coming explosion in demand in both the US market and also in its home market in France (see table 9 below based on AFI catalog data).

Table 9 Production output of the major film companies 1903-1908

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Source: AFI Catalog data

The Pathe film studio complex in Vincennes produced a wide variety of high quality films. Production staff were organised into directors units shooting in parallel at one of the three Pathe studios. They produced one film per week from 1903 and one film per day from 1906 (Abel 1994 pp 20-22). The company also laid plans to establish Pathe-associate production companies in the largest export markets to produce local films for local audiences (Abel 1999 pp 90-91).

At its peak, Pathe operated 31 sales offices throughout the United States (Bakker 2003 p. 28) and an international network of 41 sales offices from New York to Bombay (Segrave 1997 p. 3). Pathe began its American distribution operation by establishing sales offices in New York from 1904 and in Chicago from 1906 to take advantage of the burgeoning demand in America. The company's different genres of film including comedies, dramas, westerns, fairy tales, serials and newsreels ideally suited the kind of variety needed by nickelodeon owners to program 30-60 minute shows (Abel 1999 pp 28-34).

In the home French market, Pathe re-orientated its marketing strategy by opening the Omnia-Pathe chain of luxury cinemas – the first luxury cinemas in the world (Kindem 2000 p 196) and Pathe planned to produce films based on classic French literature to exploit an emerging middle class market segment. Pathe enjoyed first mover advantage over Gaumont and other rival French firms.

In America, Edison had monopolised the early kinetoscope market during its 18 month existence. After the technology was super ceded by film projectors, Edison tried unsuccessfully to control the U.S. market by engaging his rivals in a decade long series of patent infringement lawsuits that drained the financial resources of all concerned (Musser 1991 p. 12).

Analysis of AFI data in table 5 indicates that Biograph was the dominant firm overall in the U.S. market from 1895-1910 based on its market share for that whole period. However, the firm only held market leadership from 1895-1905 until Pathe surpassed it in 1906 and holding onto its market leadership in the U.S. through 1910 (see table 9 above).

Biograph and Edison both employed a cost-leadership strategy. Biograph's quality of equipment was superior to Edison and its marketing in the first decade was more effective because it contractually tied up its distribution channels through the prestigious Keith vaudeville theatre chain (Abel 1999 p. 3). Biograph and Edison were both well-financed

from the start, while other American film companies that manufactured film equipment and produced short silent films were all self-financed and had to grow organically. By 1905, only Lubin and Selig emerged as potentially serious rivals to Edison, Biograph and Pathe in the U.S. market (see table 9).

Huettig (1944) notes that the early industry was dominated by firms primarily interested in the sale and lease of equipment (Huettig 1944 pp 10). Kindem (2000) states that “*Edison and Biograph profited more from equipment sales than from films.*” As their core business was film equipment manufacture, Biograph, Edison and Lubin were product-oriented rather than market-driven companies. Consequently all three lost significant market share in film production by 1907 because they failed to identify and target the new high-growth nickelodeon segment that Pathe, Gaumont and other European firms exploited so successfully to their competitive advantage.

Pathe shaped the environment to its competitive advantage

Abel (1994) argues that 1908 was a turning point year for Pathe and makes a convincing case that the firm began a fundamental shift in strategic focus away from production to distribution and exhibition from 1908-1911. However, the historical evidence indicates that whilst this strategic shift became noticeable in 1908, that it actually began two years earlier in 1906 (Table 9). This evidence will demonstrate that Pathe was a marketing orientated firm that strategically monitored and shaped the business environment and strategically managed its marketing to create competitive advantage.

Abel (1994) notes that in early 1905 a French court had ruled that cinema closely resembled legitimate theatre (which was controlled by the Government and had no censorship restrictions). Cinema on the other hand was classified as a popular amusement and fell under the control of local municipal officials who had the right to censor films and did. Jones (2001) argues the critical importance for new industries to establish institutional legitimacy, in order to facilitate access to necessary resources needed for industry survival and growth. This low cultural status therefore hindered French cinema’s struggle for legitimacy in as the emerging industry.

Pathe realised that failure to elevate the status of cinema would likely forever condemn it to film exhibition at French fairgrounds and thereby miss opportunities to diffuse it more widely to the burgeoning middle classes that were emerging in France as the nation underwent rapid industrialisation. Good fortune favoured the film industry when the French government mandated a week-end for workers in July 1906. This would create leisure time for working people and Pathe saw that the middle classes with increasing disposable income would require additional leisure time facilities (Puttnam 1997 p 36) but France lacked a critical mass of permanent cinemas capable of satisfying that demand.

Over the previous two years, Pathe had seen that the sudden explosion of demand for his films in the American market which had coincided with the establishment of film exchanges in 1902 and permanent theatres in the form of the nickelodeon from 1904. The rapid diffusion of permanent cinemas facilitated audience demand for more films but the ability of nickelodeons to access a consistent supply of new product hinged critically on the distribution role of the film exchanges. “*Power would accrue to anyone who could supply a consistently high output of quality product*” (Puttnam 1997 pp 36) and this is what distinguished Pathe from his rivals in America during the nickelodeon boom (Abel 1999).

The expanding exhibition market in French fairgrounds combined with Pathe’s significant export success in the US market during this nickelodeon frenzy delivered two years of escalating revenues and corporate profits. Pathe’s channel dominance of fairground exhibition in France shut out his local competitors and the firm’s strategy to develop a

network of international sales offices in Europe and America enabled the rapid diffusion of its films. 66% of Pathe's revenues were now from its film division (Abel 1994 pp 20-23).

For Pathe, the financial break-even point on story films was the sale of twelve film prints, but on average the company was actually selling in excess of 30 prints per film (Abel 1999 pp 23). This demonstrated the critical importance of controlling distribution and signalled its enormous potential to further enhance company profits. It was Pathe's distribution strategy involving development of a wide network of sales offices from 1904-06 across Europe in Moscow, Brussels, Berlin, Vienna, St Petersburg, Amsterdam, Barcelona, Milan, London and initially in America's two largest cities – New York and Chicago that provided his company with a sustainable competitive advantage. Pathe's competitors lacked the financial resources, the capability, the necessary marketing orientation or perhaps the strategic will to duplicate Pathe's network at this time.

In 1906, with the exception of Edison and Biograph, American firms were generally undercapitalised and could not or would not meet surge in demand from the nickelodeon boom in their home market. After meetings with Thomas Edison, Adolph Zukor wrote that Edison just did not believe in the commercial potential of the new movie industry and believed that his studio should make films based on American literary works (Zukor 1953 p. 10). Based on this evidence, it can be concluded that Edison Manufacturing was not market orientated and simply did not detect the sudden explosive growth of the nickelodeons that catered for the urban working classes and waves of new immigrants, and presumably, to whom American literary works meant very little or nothing at all. In addition, the financial resources of the American studios were also being drained by Edison's lengthy litigation battles against them for patent infringement.

In France, Pathe's closest challenger, Gaumont had only just become a public company in 1905 (eight years after Pathe) and whilst it could now call upon 2.5 million francs in capital, it was also not a market orientated firm. Prior to entering the film industry in 1896 as a film equipment manufacturer, Leon Gaumont came from a technical background and although he had previously owned a photography shop that was a retail outlet for his workshop (<http://www.victorian-cinema.net/gaumont.htm>). His secretary, Alice Guy had in the early years made some short promotional films to help sell Gaumont's cameras and projectors, but the firm did not formally enter film production until 1903.

It was in this market environment, that Pathe developed a market segmentation strategy that would re-position the cinema and enable it to tap latent demand in the French market. He opened the Omnia-Pathe cinema as the forerunner of a chain of luxury cinemas, specifically targeting the growing French middle class and their increased leisure time (Kindem 2000 p. 196). *"In order to expand the market base beyond the clientele of the fairs and to attract a large urban white-collar and bourgeois audience on a more consistent basis, in November 1906, Pathe Freres in association with a new Benoit-Levy company, embarked on a long-range project (my underlining) of constructing a circuit of permanent cinemas throughout France. The first in Paris, the 300 seat Omnia-Pathe opened on December 15, 1906. Within weeks, other Pathe cinemas began springing up across the capital and as far away as Lyon, Marseille, Bordeaux and Toulouse"* (Abel 1994 pp 30).

With film budgets rising due to the production of increasingly longer story films to satisfy growing audience demand for better quality films, Pathe knew from his own experience that even in an expanding market, film distribution was a much more predictable business with far less risk than film production (Puttnam 1997 p. 36). Consequently he took the decision to continue to expand his distribution network of sales offices overseas; to formalise the non-existent French distribution sector through establishment of a regional distribution structure and to construct the Omnia-Pathe luxury cinema circuit to capture the French middle class as a new market segment.

To spread his risk and diminish his French-based studios reliance on revenues from film production, he began to establish Pathe-affiliated film production companies in London, New York, Rome, Moscow and Brussels that would each make films tailored specifically for those home markets and would feed his global distribution network. He made plans to distribute films from other producers and over time from 1908-1911 he took on the distribution of Melies films, Film d'Art and other film companies.

This strategy to re-orientate his company towards an increasing focus on distribution and exhibition and away from a major reliance on film production at his Paris studio, deliberately and strategically exploited favourable environmental conditions in France, and would offer protection for Pathe, if unfavourable conditions eventuated in the increasingly important US export market. In contemporary business terminology, Pathe began to out-source film production to affiliated companies overseas backed by local investors and to focus his core business on film distribution. The national circuit he planned, comprising 200 cinemas by 1911 would guarantee an exhibition outlet for Pathe films and other studios whose films it contracted to distribute in the growing French market. This out-sourcing strategy through a series of strategic alliances is similar in terms of a business model to the channel-focused strategy employed by the Hollywood Majors today.

Pathe was a marketing orientated firm, his competitors were not

Market orientated firms have strong market sensing capabilities; strong product development capabilities, they develop appropriate pricing strategies, powerful distribution channels and effective communications strategies to generate sales growth. They also display a proactive orientation towards shaping the external advantage to their competitive advantage. (Day 1994; Vorhies and Harker 2000)

Another example of Pathe's external marketing orientation and effective strategic marketing management capabilities was the establishment and choice of location of its two sales office in America. New York and Chicago were the two largest cities and were experiencing the most rapid growth in urban population. The choice of those two cities, as key locations, enabled Pathe to effectively sense and monitor the changing dynamic in the American market at an early stage as the nickelodeon boom took off. This enabled the Pathe to target this emerging high-growth segment at a time when its major U.S. rivals Edison and Biograph continued to focus primarily on the high yielding vaudeville and music hall segment of the market for their equipment sales and short film sales at the standard price of 15 cents per foot. Pathe realised that nickelodeons as start-up businesses, with heavy initial outgoings, would respond more positively to firms offering a value package that included quality projectors and high quality films at affordable prices. Pathe entered the U.S. market undercutting rival American firms by offering its films for sale at a more affordable 12 cents per foot (Csida & Csida 1978 pp 132-134; Abel 1994 p 23). Pathe can be seen to be using penetration pricing to facilitate the rapid diffusion of its films in the expanding U.S. market.

The evidence presented demonstrates that Pathe was a market-orientated firm. It was externally focused, pro-actively sensing change in the business environment and it developed appropriate strategies in response, in order to exploit those market opportunities and reduce the likely impact of potential threats. Pathe's competitive strategy was based on pre-emption (Aaker 1998 pp. 196-199).

Pathe's superior market sensing capabilities

In terms of *market sensing*, Pathe's worldwide network of sales offices provided a channel for market intelligence on changing market conditions in each country to be fed back to

“head office”. With cinema programs changing once or twice per week, the sales offices would have needed to be in regular contact with exhibitors that they serviced in order to meet weekly programming their needs and different markets required different kinds of films (see chapter 11). Evidence of the sales network operating in a market-sensing capacity can be seen in Pathe’s decision to expand the number of sales offices in Russia in less than two years after entering that market from the initial base in Moscow, to St Peterburg and then to Odessa in order to provide adequate market coverage. By 1908, Pathe’s entry into the Russian market was already yielding outstanding results, with the Russian market already grown to 50% the size of Pathe’s revenues from the enormous US market (Abel 1994).

Abel (1999) reports that during a trip to the U.S. by Charles Pathe: “*Despite the company’s record-breaking business that fall (1907), the New York and Chicago offices remained uneasy because of the persistent unsettled conditions created by the proliferating nickelodeons and rental exchanges.*” Here again is evidence of a market-focused company.

Market sensing is also evident in Pathe’s later decision to change firm strategy and to establish affiliate production companies in the biggest export markets. Their mission was to produce local films to satisfy local market tastes (Abel 1999 p 173). This indicates that Pathe was well aware of differences in audience tastes in various markets (see Abel 1999 pp 90-91;156).

Additional marketing intelligence was provided to Pathe after it established the weekly trade paper *The Views and Film Index*. The journalist writing that paper, obviously needed to be externally focused and observing industry trends and developments to be able to write a regular trade newspaper that would sell. Editorial staff provided another market-sensing channel for Pathe.

Abel (1999) states that *The Motion Picture Weekly* (MPW) reported in July 1911 that Pathe was “*the first (film company) to get in touch with the exhibitor and study his requirements.*” Whilst this journal is not accessible to the author and no further evidence can be found to support this claim, MPW was a high profile industry trade paper and this does indicate that Pathe undertook some form of market research and relationship marketing with the exhibition sector (Abel 1999 pp 177).

Pathe also travelled widely to keep up to date with developments in different countries (Abel 1999 pp 89). In late 1913, the *New York Times* reported that Charles Pathe embarked on a fact-finding mission to study the American film market first-hand “*to investigate the motion picture industry here and to suggest improvement. I have recently travelled much and have studied the motion picture industry all over the world and I am satisfied with conditions everywhere except in the United States. I do not know what is wrong here, but the conditions of the business, the standing of the theatres as palaces of entertainment, and the exhibition of the pictures seem to be faulty. I shall investigate everything thoroughly before I suggest remedies but when I leave I hope to have done something that will be helpful to motion pictures in this country*” (Anonymous 1913).

The historical evidence discussed above supports the contention that Pathe excelled in the implementation of a primitive but effective marketing research / marketing information system, one of the six key marketing capabilities exhibited by market-driven firms that continually achieve superior business performance to their rivals (Vorhies & Harker 2000).

Whilst there is no evidence of Pathe or any of the pioneering film companies conducting formal studies of consumer behaviour, Pathe was obviously well served by a pragmatic, if somewhat primitive marketing information system. Today this would be called marketing intelligence gathering and would be a major part of any major corporation’s marketing research portfolio.

Pathe's superior new product development capabilities.

By 1898 the public was tiring of the “endless diet of scenics and topicals” - short 3-5 minute films made on almost any day-to-day subject that early film producers had supplied to exhibitors (Puttnam 1997 pp 31).

Pathe hired Ferdinand Zecca to head its film studio and he proved to be an innovative producer who made hundreds of popular films for the company. That year he made the six-part *History of a Crime* (1900) that Bousquet (2004) described as “*stylishly innovative in its use of superimposition*” and introduced movie audiences to the serial as a genre. Under Zecca, in 1901 Pathe began producing elaborate feerie (fairy tale) films for which French cinema became famous and also social dramas like *Les victimes de l'acoholism* (1902). The popularity of the French feerie films and comedies helped to fuel demand for story-based films. Over the years, Pathe mass-produced a wide variety of films across a range of different genres including dramas, comedies, westerns and epic films like the enormously successful *Passion Play* (1907). Pathe popular newsreel was introduced later. The studio's breadth of productions was designed to match the programming needs of the nickelodeons in America that wanted a regular supply of a wide variety of short films (Abel 1999 pp 10).

Pathe was the first film studio to hand-colour films using a stencilling process which in later years was automated. Coloured films were very popular with audiences particularly in America (Abel 1999 pp 40-47). The firm also invented the concept of inter-title cards that appeared at the bottom of silent films enabling the audience to read the dialogue and scene descriptions. These inter-title cards were an effective innovation that helped Pathe sell the films in export markets where the script could be translated at low cost into the local language to help improve audience comprehension of the film's story. And in later years, Pathe would also produce many serials including the big hit *Perils of Pauline* (Abel 1999).

The evidence presented in this section indicates that a *quality production strategy based on innovation* was the corner stone of Pathe's studio strategy and his manufacturing operation had the scale to mass produce these films to satisfy audiences around the world.

Further evidence of Pathe adhering to a quality-based strategy and possessing a marketing orientation can be seen in the following examples. From 1906, Pathe established affiliated studios in the largest overseas markets (America, Russia, Britain and Italy) that produced local films to entertain native audiences indicating that Pathe understood the benefits of market segmentation and that different audiences had different tastes in entertainment. Pathe also innovated in the home French market with a segmentation strategy targeting affluent audiences through the development of the Omnia-Pathe luxury cinema circuit. It also established SCGAL as a boutique film studio with the mission to produce film adaptations of classic French literary works to entertain appreciative audiences with differentiated product from the mass-produced films designed for the general market. This range of historical evidence demonstrates that Pathe was highly innovative and excelled in new product development, one of the six key marketing capabilities of a market-driven firm (Vorhies & Harker 2000).

Pathe's superior distribution capabilities

The firm's market power was facilitated by development of its global distribution network at a time when competitors could not or would not compete. Pathe's films were popular with audiences and exhibitors domestically in the French market and internationally because of the quality and range and diversity (film genres) of the product. The historical evidence cited

in this chapter supports the contention that Pathe excelled in the implementation of effective distribution strategies, one of the six key marketing capabilities commonly found in market-driven companies that achieve superior business performance (Vorhies & Harker 2000).

Pathe's superior pricing capabilities

In 1904, Pathe rapidly gained market share in the booming American market using a market penetration pricing strategy designed to undercut Edison and other local film companies. Diffusion of Pathe films was rapid among the nickelodeons. And in 1907, the firm switched from outright sales of films to a fixed-fee rental system in which newer, longer films rented for higher prices than older, shorter films and Pathe negotiated an agreed fixed percentage of box office takings for the newer films (Abel 1994 p 33). This is a form of premium pricing and optimised Pathe's financial returns, as well as relieving the financial burden on exhibitors of the need to regularly buy new films even if they had a short shelf life. It enabled exhibitors to change their programming more frequently at a time when consumer demand was increasing dramatically. It also helped to extend the shelf-life of Pathe's films, because upon return they could be re-rented to other exhibitors. All parties won under this new arrangement. The historical evidence cited in this section supports the contention that Pathe excelled in the implementation of effective pricing strategies, another of the six key marketing capabilities of superior performing firms (Vorhies & Harker 2000).

Pathe's superior promotional / communications capabilities

In terms of promotional capabilities, the Pathe organisation employed a range of communication strategies to promote its corporate image and to persuade target segments to buy its products. Pathe employed brand advertising in the film trade press to promote the firm's corporate image to the exhibition sector and to movie audiences. The Rooster trademark became synonymous with quality (Abel 1999 pp 14-15 and pp 44). Pathe's international sales network was its primary strength for the global diffusion of its cameras, projectors and for its films proving the firm with an intensive coverage of all key markets .

Abel (1999) provides historical evidence that Pathe implemented well-orchestrated advertising and publicity campaigns to promote its corporate image in the United States and to launch its art-house production affiliate SCGAL in France. These campaigns involved use of integrated marketing communications in the national press on Sundays, advertising in national magazines, the use of posters and promotional booklets for its films and the implementation of publicity campaigns (Abel 1999 pp 177-179).

Co-owner of Pathe's new Omnia Cinema, lawyer Edmond Benoit Levy wrote an editorial in a leading cine journal *Phono-Cine-Gazette* arguing that film should be elevated from its low fairground status to an art form (Puttnam 1998 pp 54-55). Benoit-Levy sought to gain legitimacy for the new industry and have it reclassified to the same status as legitimate theatre. This would help to contain local government induced censorship and would not do any harm either to Pathe and Benoit-Levy's new luxury cinema circuit. It took a five-year campaign of political lobbying but cinema achieved legitimacy when the French President attended the gala opening of the 1911 film season at an opulent Pathe theatre. This indicates a sophisticated use of strategic public relations designed to change the perceptions of key stakeholders and influence them to support a particular cause. Abel (1999) notes that Pathe was the first film company to use posters as a promotional tool to create awareness of its films as forthcoming attractions. The one-sheet poster has since become one of the primary marketing tools in the film industry. These historical examples provided support the contention that Pathe excelled in the implementation of effective promotions / communications strategies, one of the six key marketing capabilities displayed by market-driven firms (Vorhies & Harker 2000).

Pathe's superior strategic marketing management capabilities

Pathe's initial strategy of pre-emption succeeded until 1908. It began when Pathe became a joint stock company and embarked on a rapid expansion program to build an industrial empire consisting of the mass manufacturing of cameras, projectors, phonographs and films, supported by a network of overseas sales offices through which to diffuse its products (equipment and films) worldwide. This gave Pathe first-mover market advantage when its competitors simply did not have the capacity to challenge. Pathe identified the changing market conditions in America and France as early as 1906, before its American rivals and also strategically re-orientated his firm to shift focus from a primary emphasis film production as its core business to distribution. This fundamentally changed his business model and required new strategies for the marketing mix.

Pathe also created overseas-based affiliates to produce locally made films to satisfy audiences in those countries. It also created differentiated film product (SCAGL literary adaptations, newsreels and coloured films), it shifted from selling products direct to exhibitors to a rental policy and it further developed the firm's international distribution network and aggressively promoted the corporate brand. Pathe's strategy of creating film factories to print film stock in overseas markets with highest demand provided the firm with scale efficiencies through reduced costs in raw materials, transportation and import duty. This in turn enabled the firm to price films competitively in those major markets (Abel 1999 pp 88). Another example of the firm's strategic marketing management occurred in 1907 when its New York manager Berst, expressed concern about the level of piracy of Pathe prints by local exhibitors duping (counterfeiting) re-selling and sharing. Pathe responded with a counter-strategy that packaged an entire block of films made available to exhibitors on a weekly basis rather than allowing them to selectively choose what they wanted (Abel 1999 pp 89). This was the beginning of block-booking, a business practice that Hollywood later adopted. The evidence presented above confirms that Pathe possessed superior strategic marketing management capabilities – the last of the six key marketing capabilities exhibited by market-driven firms that achieve superior market performance (Vorhies & Harker 2000).

Chapter summary

These examples provide historical evidence from different time periods in the early silent film era that support the contention that Pathe was an externally focused and market-driven firm that established an early form of a market intelligence gathering system enabling its management to make effective strategic decisions and to manage its marketing mix accordingly. The analysis and discussion in this chapter, strongly supports the contention that Pathe was a firm that acted with a clear strategic intent, operated to a competitive strategy based on quality and continuing innovation, possessed a clear marketing orientation and developed superior strategic marketing management capabilities to its rivals and that this combination of capabilities can account for Pathe's rise to a position of market dominance in the early movie industry.

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APPENDIX 9: MERGERS AND PRE-HOLLYWOOD DOMINANCE 1895-1914

What role did corporate mergers play in the acquisition of dominance by the leading movie companies during the pre-Hollywood era of silent film from 1895-1914?

Two tables appear below that provide historic data relating to corporate mergers and the financial backing of the leading film companies during this part of the silent era. Analysis of these tables yields different patterns. Table 10 below *demonstrates that in the pre-Hollywood era from 1895-1914 that the dominant film companies were not a product of corporate mergers*. However analysis of data contained within Table 11 that follows covering the period 1915-1929 indicates that *mergers did play a contributing role in the emergence of four of the eight Major studios* within the Hollywood oligopoly to a position of market dominance.

Table 10 below lists the largest American film companies alongside the major European giants and notes any merger activity, corporate acquisitions or joint venture in which they were involved that might have facilitated any significant growth in size or scale of these companies. Alternatively, their origins as a partnership or family company are also noted, which could indicate that they grew organically over time to become major studios. Where data is available, this table also indicates the nature of their financial backing and their status within the industry over this time period.

Analysis of table 10 shows that *only Pathe was involved in any form of corporate merger throughout the period*. This was an initial merger with the Bunzli & Continsouza precision tool company that became the manufacturing arm of the Pathe film empire. It was part of an internal reorganisation of the major investor's business portfolio and not a merger undertaken for competitive reasons to eliminate a rival or to increase market share. The merger was initiated by Pathe's wealthy financial backer Claude Grivolas who also owned B&C, to rationalise his own business interests and the corporate structure of the new firm and enable the company to list publicly on the French stock exchange (Puttnam 1997).

Leading European firms - Pathe, Gaumont and Nordisk all became public companies early in their existence and therefore gained early access to considerable capital needed for expansion of their business activities at a time when other competitor studios remained small businesses with very limited resources. The Italian film studio Cines arranged a line of credit and other loans from the Bank of Rome and the first commercially successful French producer Georges Melies was self-financed through his family business interests.

Among the American Majors of the pre-Hollywood era, Edison's film division was a small part of the inventor's much larger business empire - he founded General Electric (www.ge.com). Edison's great film rival in America was Biograph, which became an instant Major when it secured large bank loans against its equipment patents at the time of its formation.

The other studios that evolved into U.S. Majors – Lubin, Selig, Essanay, Kalem and Vitagraph were all self-financed as the American film industry at this time did not have the legitimacy to enable emerging film studios to access significant capital from Corporate America (Jones 2000).

The only competitive “merger” in this era, intended to eliminate rival film studios, occurred in the American market, when Edison brought to an end a decade-long series of legal actions against his biggest competitors for patent infringement and instead persuaded those rival film equipment manufacturers to jointly pool their equipment patents with him through the formation of a Trust company in 1909 - the MPPC in order to dominate the industry. *Whilst technically this was not a merger of the leading film companies, it was a joint venture*

company and the MPPC could practically be deemed to be a “merger of common interests”. Its distribution subsidiary – the General Film Company formed in 1910, created the first national distribution network in the U.S. market and did provide MPPC members with a distribution monopoly and an operation of significant size and scale that simply dwarfed its much smaller competitors.

Similarly, two short-lived film distribution companies V-L-S-E (Vitagraph-Lubin-Selig-Essanay) and K-E-S-E (Kalem-Edison-Selig-Essanay) listed at the end of Table 10 were desperate last ditch attempts by member companies of the MPPC, to create a distribution company through which they could market feature length films. This occurred after they realised that the MPPC owned General Film Company’s rigid policy of distributing only short films had caused them to miss the initial dramatic growth phase of the feature film market and this was undermining their business viability in a rapidly changing market. Both of these companies failed within one year. It was too late. V-L-S-E was absorbed by Vitagraph which became a producer-distributor and was renamed Greater Vitagraph and was years later acquired by Warner Brothers. Lubin retired. Kalem and Edison from the MPPC Trust formed K-E-S-E with Selig and Essanay that were previously been part of V-L-S-E.

The logical conclusion that can be drawn from analysis of table 10 is that *in the pre-Hollywood era, corporate mergers were not a critical success factor in the growth of the dominant film companies* prior to 1914. In fact, quite the reverse is true. The only significant “merger of interests” that was undertaken – the MPPC, failed within six years of its formation. Although its dissolution, was ordered by the federal courts under the Sherman and Clayton anti-trust laws, the MPPC was already a waning force in a dynamic and evolving market hungry for feature length films. The MPPC misread the market dynamic and its unwavering commitment to short films (two reels) undermined its market viability.

Table 10 World’s leading film companies of the pre-Hollywood era 1895-1914

Year founded	Film company	Country	Merger, acquisition partnership or joint venture	Companies involved in merger	Financial backing	Industry status
1894	Edison Film Black Maria was the world’s first movie studio	U.S.	-	-	Edison founded General Electric (GE) Dyer & Martin 1910 pp 672-673	Major American studio Ceased film production 1919
1895-	Gaumont	France	-	-	1905 company float raised 2.5 million francs Kindem 2000 pp 195 Banque Suisse Garcon 1994 p. 16-17	Became market challenger to Pathe
1896	Biograph	U.S.	partnership	-	\$200,000 bank loan secured against camera patents from N.Y. Security & Trust Co. Balio 1985 p 11	Major American studio Ceased film production 1916-17
1896	Lubin	U.S.	-	-	Self financed optical and film company Fernett 1988 pp 130-136	Major U.S. studio. Ceased film production 1916

1896	Pathe Freres	France	Initial merger between Pathe Film and a tool manufacturer	1896 merged with B7C tool factory owned by Grivolas	1897 company float raised 1 million francs Puttnam 1998 pp 27	Expanded rapidly to dominate the early film industry. 1922 exited feature production.
1897	Melies (Star Films)	France	-	-	Self-financed by shoe family business & theatre Abel 1994 pp 10-14	The first French exporter acquired by Vitagraph 1913.
1897	Vitagraph (Renamed Greater Vitagraph in 1916)	U.S.	Partnership Acquired VLSE in 1916 to become a producer-distributor	-	Self-financed \$1000-6000 start up capital Fernett 1988 pp 243	Major U.S. independent sold to Warner in 1925
1898	Selig Polyscope	U.S.	-	-	Self-financed studio Fernett 1988 pp 207-213	Major studio Ceased film production 1910-12
1906-	Nordisk	Denmark	-	-	Self financed 1911 Public company	World's 2nd largest film exporter Still trading
1906	Cines	Italy	-	-	Guaranteed loans from Bank of Rome	Italy's biggest exporter
1907	Essanay	U.S.	partnership	-	Slide 1998 pp 67	Ceased production 1918
1907	Kalem	U.S.	Partnership including Kleine	-	Self-financed	Ceased production 1916
1907	George Kleine	U.S.	-	-	Self-financed optical company	Sold out to MPPC/GFC in 1910
1909	MPPC & General Film Company (GFC)	U.S.	Joint venture through creation of a Trust that pooled film equipment patents	Edison Biograph Lubin Selig Essanay Kalem Vitagraph Kleine Pathe Melies	Edison Biograph Lubin Selig Essanay Kalem Vitagraph Kleine Pathe Melies	1915 MPPC forced to dissolve under U.S. anti-trust laws in 1915
1915	V-L-S-E	U.S.	JV Distribution company for feature films	Vitagraph Lubin Selig Essanay	Vitagraph Lubin Selig Essanay	Failed – 1916 Absorbed by Vitagraph. Lubin retired.
1916	K-E-S-E	U.S.	JV Distribution company for feature films	Kalem Edison Selig Essanay	Kalem Edison joined Selig Essanay (ex-VLSE) to form KESE	Failed -1916

Sources: various – listed with the table

Other factors contributing to Pathe's market dominance

What other factors or business conditions might have contributed to the rise of the dominant firms in the movie industry prior to 1914?

The leading French film companies had an advantage of early access to capital required for growth. Pathe, Gaumont, the Lumieres and Melies all enjoyed significant financial backing at their point of entry into the film industry. By comparison, only two of the early major American Majors also enjoyed access to significant capital. Thomas Edison's company *General Electric* was the largest player in the burgeoning electricity industry (Reich 1992 pp 305). His film division, a division of the Edison Manufacturing Company, was a only small part of a larger business enterprise that employed 3500 staff, manufactured 6,000 phonographs per week and 130,000 moulded phonograph records per day which were distributed through to retail customers across America through 150 jobbers and over 13,000 dealers (Dyer & Martin 1910 pp 672-673).

Edison's major American competitor in film was Biograph, which became an "instant" Major studio when it used the patents for its camera and projector as security for a start-up loan from the New York Security & Trust Company that provided \$200,000 in working capital. This enabled Biograph to rapidly expand its business manufacturing film equipment and begin producing films to supply with that equipment (Balio 1985 pp 11). The other American studios - Lubin, Selig, Vitagraph grew organically from small businesses into major American studios (Fennett 1988; Slide 1998).

In France, the Lumiere Brothers were self-financed, coming from a prosperous bourgeois family and Georges Melies (Star Films) inherited a stake in a successful family shoe business and owned and operated a popular magic theatre in Paris that enabled him to self-finance his film productions (Abel 1994 pp 10-14). Pathe raised one million francs in an equity float as early as 1897 (Pathe 1970 pp 36-52). Leon Gaumont owned a photography shop in Paris and when he entered the moving picture industry in 1895 and was backed by a team of investors led by Guastav Eiffel. They floated the company in 1905 and raised 2.5 million francs in capital (Kindem 2000 pp 195; Garcon 1994 pp 15-18) a decade after Pathe's public listing. The early Italian studios Cines, Ambrosia and Itala were backed by noble families and / or established loan arrangements with local banks. Danish film studio Nordisk became a public company in 1911.

Pathe did merge in order to float on the French stock exchange

The case analysis of Pathe conducted in Chapter 5 revealed that the firm began with two revenue streams – existing gramophone sales from Pathe's Parisian shop and revenue from film equipment and motion picture sales. The latter quickly became the major source of revenue (Puttnam 1997 pp 26). This case analysis also revealed that Pathe was backed by an "angel investor" - Claude Grivolas, who merged his manufacturing company - Bunzli & Continousza with the fledgling film company to provide it with a film equipment manufacturing division. This made the new firm more attractive to investors when Grivolas organised a public listing on the Parisian stock exchange to attract enough working capital for the new enterprise to become a first mover in global distribution of film equipment and motion pictures.

Thus, the logical conclusion that can be drawn from analysis of table 12.2 above is that in the pre-Hollywood era, corporate mergers *were not a critical success factor in the growth of the dominant film companies prior to 1914*. In fact, quite the reverse is true. The only "merger of interests" that was undertaken – the MPPC, failed within six years of its formation. Although its dissolution was ordered by the federal courts under anti-trust laws, the MPPC was already a waning force in a dynamic and evolving market hungry for feature length films. The MPPC misread the market dynamic and its unwavering commitment to short films (two reelers) undermined its own market viability.

Table 11 American market share of leading companies in 1910

Film Company	Number of films released	Market share
Motion Picture Distribution & Sales Company (Laemmle led independents)	760	17%
MPPC / General Film Company - Lubin, Biograph, Selig, Vitagraph, , Essanay, Kalem, Kleine, Pathe and Gaumont (through Kleine)	1836 combined total - see individual companies below	41%
- Pathe	369	8%
- Kleine	293	6.5%
- Gaumont (via Kleine)	192	4%
- Vitagraph	170	3.8%
- Edison	153	3.4%
- Essanay	142	3%
- Selig	129	2.9%
- Lubin	121	2.7%
- Biograph	118	2.6%
- Kalem	107	2.4%
- Melies (via Pathe)	42	1%
Total Films released in U.S. Market 1910	4461	100%

Source: AFI Catalog data

THE LOSERS – LARGE FILM COMPANIES THAT FAILED

MPPC – the Monopoly that failed

The MPPC was a joint venture company that attempted to impose a monopoly on the American industry but failed within six years despite legally owning the patents for film equipment in the US market and actively pursuing patent-infringing independents through the courts. The MPPC eventually fell victim to political change and was legally dissolved after the new Wilson administration in Washington pursued a “trust-busting” policy and the U.S. courts found the MPPC and its distribution arm – the General Film Company guilty of anti-competitive behaviour and in breach of the Sherman and Clayton anti-trust acts.

Analysis will show later in this chapter that by the time this occurred, the General Film Company and the MPPC had already lost its market power because it had failed to adapt to changing market conditions. It's demise was caused by two key factors - an inflexible business strategy (its rigid policy to distribute only short films in a changing market) and business practices were anti-competitive and deemed illegal.

Unlicensed independents organised formidable opposition to the MPPC and implemented a more effective competitive strategy. The independents increased their production output of short films, set up rival national distribution companies – Universal and Mutual, and were more attuned to changing market tastes than the MPPC / General Film Company, by committing to increasingly popular longer feature films and developing the movie star system. The rise of the feature film and development of the movie star system were great attractions for entertainment-hungry audiences as longer features replaced short films as the dominant product form in world cinema in the 1911-1914 period. They were innovative and market-driven companies whose products satisfied the evolving needs and desires of movie audiences both in the US market and from 1909 onwards increasingly overseas as well.

The MPPC and its distribution arm the General Film Company failed to respond to meet the growing public demand for feature films and its member companies and were not initially prepared to pay movie stars the necessary salaries to retain them. Consequently the leading creative talent formerly with the MPPC film companies departed and were signed by

independent rivals. Four of the MPPC companies formed their own feature film distribution company V-L-S-E and began to make feature length films. A similarly unsuccessful attempt was made through K-E-S-E one year later.

Mutual Film – a loser despite significant Wall Street backing

Mutual Film was formed in 1912 and became the main independent rival to Universal. It was a distribution combine modelled on the MPPC's subsidiary General Film Company – the first nationwide film distributor in the United States. Prior to that, films were sold to distributors on a states rights basis i.e. exclusive rights to market the film in a specified territory (Donahue 1988). Harry Aitken was the driving force behind Mutual and in a period of burgeoning market demand and a theatre building boom, Aitken was able to gain Wall Street backing through stock brokers Kuhn, Loeb in an equity float that provided \$2.5 million in working capital – massive amount at that time (Bakker 2003 pp 43). This was the first large-scale capital-raising in the American movie industry. Mutual Film arranged to distribute the output of twelve independent film studios (Kozarski 1990 pp 66-68), over half of the American companies that had been involved with the old Sales Company. Mutual also arranged to distribute movies from two French Majors Gaumont and Éclair, both of which had been excluded from the MPPC.

Although no mergers were involved, Mutual Film became an “instant Major with \$2.5 million capitalisation and an immediate critical mass in terms of size and scale of its business operation, it failed within three years when Aitken was forced out by the banks in 1915. He left to form Triangle Films in partnership with America's three leading producers – D.W. Griffith, Mack Sennett and Thomas Ince to distribute their films. The company continued declining until it ceased trading in 1919 (Slide 1998 pp137).

World Film– a loser despite significant Wall Street backing

No merger was involved in the establishment or growth of World Film which began operations in 1915 as a Major studio-distributor backed by a \$3 million capital raising on Wall Street. Supplied with movie product from two well regarded independent studios, World Film established its own distribution network of sales exchanges and its production output from 1915-16 placed it only marginally behind the top three Hollywood studios. However within two years, World Film was in deep financial crisis and forced to sell studio facilities to Famous Players-Lasky in 1917. A forced merger two years later failed to save the company and Republic acquired its film exchanges in 1919 (Slide 1998 pp 235).

Triangle – a loser despite significant Wall Street backing

Like World Film, Triangle Pictures was one of two major new film studios created in 1915 that enjoyed significant Wall Street backing (Koszarsky 1990 pp 64-66). Conceived by Harry Aitken who had formed and then left Mutual Film, Triangle secured \$ 5 million in equity capital raised by Wall Street brokers Kuhn Loeb (Lahue 1971 pp 21; 48-49). It intended to create a vertically integrated film company that would become a Major player in Hollywood. Triangle Films contracted well known Broadway stage stars to appear in its movies. Triangle Distribution established a national network of 22 film exchanges and Aitken intended to exclusively contract 600 strategically located first run movie theatres across America to exhibit Triangle films. Triangle was a Major film company with substantial backing. No merger was involved in its formation or growth, its market capitalisation ensured that in its early days it could implement its proposed business strategy. In 1916-17, Triangle was the market leader in terms of annual production output however, by 1919 the company had gone bankrupt.

First National – failed despite its size and scale

First National Theatres created a powerful booking combine with the goal to reduce Paramount's market power by blocking access to many of its all-important first run theatres. Its subsidiary movie studio, First National Pictures was formed to provide a steady flow of high quality movies to First National Theatres and replace Paramount's product on their screens. First National traded from 1917-1925 and its formation triggered an aggressive response from Paramount that resulted in Zukor's decision to vertically integrate into theatrical exhibition to secure market leadership (Zukor 1953).

First National grew rapidly from its 26 initial members in 1917. By 1919, it had 190 first run theatres and in 1920 that number rose to 639 theatres in total of which 224 were first run theatres (see Table 12 below). By controlling a large percentage of the first run houses and hundreds of smaller affiliated theatres, First National gained the greatest purchasing power in the movie industry and it turned the tables on Zukor by being able to block Paramount's access to some of the best theatres (Huetting 1944 pp 33-34).

Table 12 Rapid growth of First National

Company	1914	1915	1916	1917	1918	1919	1920	Total
First National Films production output				3	12	21	28	64
First National theatres				26		190 first runs 40 others 366 affiliates	224 first runs 49 others 366 affiliates	639

DECLINE OF THE EUROPEAN MAJORS

The European Majors of the early silent all declined in market power after the First World War. From 1910-1914 competition between France and Hollywood escalated (Puttnam 1997 pp 75). Pathe's market power in America had been undermined when it joined the MPPC. Internationally however, it remained the dominant film company until the start of the First World War. During the war years, hostilities on the European continent halted European production and national markets on that continent stagnated and Pathe was no longer able to match the emerging Hollywood studios volume of supply to American theaters, and it lost the South American markets (Bakker 2003). In addition, the growing Russian market closed after the Bolsheviks took power in 1917 and banned capitalist movies.

Nordisk

Danish company Nordisk, second only to Pathe in its heyday, was vertically integrated public company that owned cinemas in Northern Europe. It was not involved in any merger activity. Nordisk became a victim of the Second World War when it was taken over by the Nazi-backed German studio Ufa during the Second World War (Puttnam 1997). Nordisk exists today as an independent studio.

Gaumont

Gaumont – Pathe's great French rival was a public company that operated as a producer-distributor-exhibitor but withdrew from film production after Hollywood dominance of the movie industry was established. Gaumont still exists and trades today as a cinema company. Corporate mergers were not involved in Gaumont's initial rise to become a leading film company on a global scale in the early silent era.

APPENDIX 10: NEW PRODUCT DEVELOPMENT IN LEADING FILM PRODUCER NATIONS

Britain

The British industry was established on a commercial basis and its largest companies Rank, Associated British Pictures and Gaumont British were, like the Hollywood Majors, vertically integrated film combines that operated large film studios, distribution companies and cinemas in their home market. They created their own stars and film genres and enjoyed domestic success with their films but were unable to compete on a level playing field with Hollywood in foreign markets: “*While the British film market has been since the 1920s one of the largest and best organized in the world, it is still nothing like as large or as profitable as the American market. One of the major problems for British producers has been to win over audiences attuned to the attractions of well-made Hollywood films. Either British films had to be made in the Hollywood style – but budgets could rarely match the Hollywood norm – or films had to be more modestly budgeted and built around recognizably indigenous cultural traditions and performers already well-established extra-cinematic audiences*” (Higson p. 236-237).

The Rank Organization dominated the British industry from the 1940s-1960s and its best known productions included David Lean’s *Great Expectations* (1946); *Genevieve* (1953); *Romeo and Juliet* (1954); *A Tale of Two Cities* (1958); the *Doctor in the House* series and the *Carry On* series. These films performed well at the British box office but none were international hits and they demonstrate Higson’s observation above that British studios developed low budget films culturally targeting the domestic market rather than international audiences. In the late 1940s, Universal declined to distribute 150 of Rank’s films in the U.S. market despite the British company owning 25% equity in the Hollywood studio which substantiates that British films did not export well beyond the British Empire (Segrave 1997 p.146).

Most ‘British’ blockbusters have been either partially financed and/or distributed and marketed by the Majors e.g. *The Private Life of Henry VIII* (Columbia - distribution); *Lawrence of Arabia* (Columbia – American producer and distribution), *A Man For All Seasons* (Columbia – American producer-director and distribution); *James Bond series* (Eon Films but financed and distributed by United Artists then MGM-UA); *Gandhi* (Goldcrest Films and Columbia distribution) *Bridget Jones’s Diary* and *Notting Hill* (Working Title – owned 50% by Universal which handled distribution).

Higson’s observation above, is revealing because it indicates the overall development strategy of British producers - to make big pictures in association with Hollywood as Working Title now does - which ensures that a rigorous system of script development will be adhered to in order to secure Major studio finance and distribution, or alternatively to develop little films for the domestic U.K. market that don’t go through the same rigor in the development process.

Working Title’s Co-Chairman - producer Tim Bevan said in an interview: “*I think one of the problems with a lot of British films is the day they get the green light is the day when the development stops, and it tends to be at Working Title that if we have managed to get a film green lit, that is the day that the development process starts. We realise that we’ve got this film green lit, and that in ten weeks or twenty weeks we are actually going to go out and shoot it and there is never a perfect script at that point. One of the things Michael Kuhn (Polygram) taught me, was something called quality control that we attach – the development process doesn’t actually end until the last day of the dub. We are in post-production on Johnny English and Ned Kelly and there are still writers at work on both pictures. We spend millions of pounds, literally. It is the most important area. And we are*

not afraid to pull something if it is not working. We put five million into Thunderbirds before deciding it was too much of a risk. That may sound a lot but you have to bear in mind a film will cost a minimum 25 million pounds to market and release so better to get out sooner if its not working” (Sawyer 2002).

In stark contrast one of the two highest profile British producer-distributors of the 1980s was Palace Films run by producer Nik Powell and director Stephen Frears. Its best-known films were *Letters to Brezhnev* (1985) and *Absolute Beginners* (1986). The company failed in the early 1990s because its movies were box office failures which can be directly attributed to weaknesses in the company’s new product development process. *“To take risks on new talent was admirable, but the way Palace developed and prepared its scripts for production was the subject of some debate both inside and outside the company. As one senior employee admitted: ‘Palace didn’t develop their scripts enough. The consequence was that some of its projects went into production with flaws that remained all too present in the final film.’ The company’s determination to move forwards and make films happen was also sometimes its weakness. Woolley and Powell make much of the fact that Palace had a very high conversion rate for selected scripts to finished films. Over a ten-year period, just three projects were abandoned by Palace, while sums of between 100,000 and 300,000 pounds were spent on nearly all films at the development and pre-production stage. Powell warned against the dangers of over-development, when a script is re-written so many times that it loses its initial strength and appeal”* (Finney 1996 p.124).

Stephen Frears epitomised the post-war European filmmaking philosophy that reviled Hollywood’s market-driven approach to script development: *it could be argued that a film that achieved a large audience is a fluke. It is difficult to construct economic logic around an accident. He did concede that to make a film based on market research or with a specific audience in mind might work. However, as a film maker, he came from a generation that was trained in different values”* (Ross & d’Amico 1996).

The second high profile British studio of the 1980s was Goldcrest - the most successful British producer-distributor since the Rank Organization. It developed and produced worldwide box office hits like *Chariots of Fire* (1981), *Gandhi* (1982); *Local Hero* (1983), *The Killing Fields* (1984); *Room With a View* (1985) and *The Mission* (1986). Founder Jake Eberts - a Canadian investment banker and British producer David Puttnam, created a studio that from 1981-1987 grew from a small independent into a major international studio winning 19 Oscars and grossing hundreds of millions of dollars prior to a spectacular financial collapse. Goldcrest’s approach to script development was summarised by Eberts: *“the qualities I look for in a script are first that it should be different, second – I like to be able, having read the script, to express the essence of the drama in a couple of lines. Third, it must have relevance to the interests of a sizeable audience”* (Finney 1990 p. 99). Ebert’s comments reflect Goldcrest’s market-orientated approach to film development. Its screenplays underwent comprehensive revisions and three of its films won Academy awards for best screenplay.

Working Title, founded by Tim Bevan but now owned by Universal, has become the most successful British studio in the last decade because it adopted a Hollywood approach to script development. The studio began life as a small independent in 1984 making low budget films and later became part of Polygram – a European Major, that emerged in the 1990s but was taken over by Universal. Commenting on the new product development process used by Working Title – Bevan said: *“We run quite a disciplined process and if it is something that we are starting from scratch – be it an adaptation of a book, or an original idea – we would work for many weeks on cracking the structure of what the script is going to be and setting out a map so that we know vaguely what to expect. But that is the process, then the writer goes and does a first draft and then we go through the process again, and again”* (Sawyer 2002).

A big British hit was *Four Weddings and a Funeral* (1994), also produced by Working Title. Mark Shivas, Executive Producer, BBC Films observed that unlike most British films, this script also underwent a long and arduous development process: “*Richard Curtis had written five drafts of the script (Four Weddings and a Funeral) before he gave it to the producer, Duncan Kenworthy. He did one more after Kenworthy’s comments. He did two more big rewrites, one after director Mike Newell came on board. He did another one when Channel Four came on board. Then the film was delayed for six months and he did a long re-write of one two minute scene because he had nothing better to do. Then another draft when the budget was cut from 3.5 million to 3.2 million. A further one when the budget went from 3.2 to 2.7 million. He took another hack when people didn’t laugh at the 15% that was meant to be funny but did laugh at the 20% that wasn’t supposed to be amusing. He did another draft during rehearsals, and he figured that was seventeen drafts of the script. And he didn’t resent the re-writing because the script got better every time*” (Ross & d’Amico 1996).

Table 13 below shows the ten most successful British-produced films in the U.K., U.S. and world box office charts. 9/10 were distributed by a Hollywood Major or one their mini-Major subsidiaries.

Table 13 Top 10 British films of all-time

Film	All time rank #	British Box office in Pounds	U.S. Box office US \$	Total World Box Office US \$
Casino Royale (2006) Eon Films MGM-UA/Columbia Film budget \$102 million	1	52 million pounds	\$164 million released by Sony / MGM-UA	\$563 million
The Full Monty (1997) Redwave & Channel Four Film budget 3.5 million	1	52 million	\$45 million released by Fox	\$256 million
Bridget Jones’s Diary (2001) Working Title Film budget \$26 million	2	42 million	\$71 million released by Miramax (owned by Disney)	\$281 million
Love Actually (2003) Working Title Film budget 30 million pounds \$45 million	3	36 million	\$59 million released by Universal	\$247 million
Die Another Day (2002) Eon Films Film budget \$142 million	4	36 million	\$160 million released by MGM-UA	\$431 million
Notting Hill (1999) Working Title Film budget \$42 million	5	31 million	\$116 million released by Universal	\$374 million
Chicken Run (2000) Aardman Film budget \$42 million	6	29 million	\$106 million released by DreamWorks	\$227 million

The World is Not Enough (1999) Eon Films Film budget \$135 million	7	28 million	\$126 million	\$361 million
Four Weddings and a Funeral (1994) Working Title Film budget \$ 4.5 million	8	27 million	\$52 million released by Gramercy	\$257 million
Shakespeare in Love (1998) Bedford Falls / Miramax Film budget \$26 million	9	20 million	\$100 million	\$279 million
Calendar Girls (2003) Harbour Pictures	10	20 million	\$31 million released by Buena Vista (Disney)	\$93 million

Sources: www.boxofficemojo.com www.the-numbers.com www.imdb.com

France

Considering it was a French firm - Pathe, that first dominated world cinema by producing popular films and creating a mass global market for film entertainment (see chapter 5), it is ironic that Pathe's successors have either abandoned or rejected a mission to entertain audiences and instead became artisans. That artistic orientation determined French filmmakers' approach to new product development and ultimately their commercial success in world markets.

By the mid-20th century, the French film industry operated within a totally different production paradigm to the model adopted by Pathe in the early days of silent films. The roots of the concept of film as art rather than commerce can be traced back to Edmond Benoit-Levy's 1906 editorial in the *Photo Cine Gazette* calling for cinema to be recognised as an art form. However his primary motivation was likely to have been his own commercial interests as co-owner of the newly opened luxurious Omnia-Pathe cinema chain. French cinema at that time was under the jurisdiction of local government, and an elevation in its status to an art form, would result in the transfer of cinema to the cultural domain of the national government, freeing it from conservative local government censorship. Echoing Benoit-Levy's original editorial, an Alexandre Astruc 1948 essay proposing that the director was the author of the film reflected "*a 19th century romantic ideal of art as an expression of individual personality and was a call to arms in Europe – film became a form of cultural expression rather than an industry dependent like any other on the right blend of capital and labour*" (Puttnam 1998 pp 54-55; 196).

The 'New Wave' European filmmakers that emerged during the 1950s, just as the Old Hollywood American studio system was collapsing, primarily viewed film as art rather than commerce. Leading French producer Jean Luc Goddard epitomised their philosophy when he later stated in 1993: "*Films are made for one or maybe two people*". Puttnam argues that the New Wave, that saw "*the individual artist struggling to express himself in the face of oppressive circumstances*" should be considered within the political context of times when the Franco-socialist movement agitated on the streets of Paris with workers strikes and student riots and "*politically motivated film industry leaders like Godard, rallied the French film industry to take up the struggle against the commercial imperialism of Hollywood. They remained implacably hostile to the entire conception of film as a profit making activity*" (Puttnam 1997 pp 291; 294-295).

Puttnam (1998) argued that it is that artisanal orientation that has held back Hollywood's rivals in both domestic and international markets: "*The concept of the director as king has*

become firmly entrenched among serious filmmakers and critics right across Europe. It left a legacy that eventually proved every bit as dangerous artistically as it was damaging commercially. The cult of the director, taken to its extreme by Goddard and his acolytes, only served to accentuate the increasing self-absorption of many European directors. Despite all the evidence to the contrary, the more insular and self-regarding the movies, the more likely they were to be greeted by a few influential critics as evidence that art had triumphed over the robber barons of capitalism. The critics fed the vanity of the directors every bit as much as the directors played to the critics. The real tragedy was that by and large, the audiences simply left them to it, going off in their thousands to see Jaws and Star Wars. Perhaps because so many directors started their lives as critics, a symbiotic relationship developed between the culture of criticism and that of filmmaking throughout much of Europe ” (Puttnam 1998 pp. 237-238).

The French experience was reflected throughout Europe. Leading German theater director Max Reinhardt was asked in 1932 whether he thought cinema could evolve an art form of its own. He responded: *“Yes but I think the pictures must go their own way and work out their own art. They can do it if they get poets to join the making of films and do not concentrate wholly on the commercial side. That is the danger of cinema – thinking all the time in terms of business only”* (Fawcett 1932 p. 68).

Table 14 below shows the twenty most successful French films of all-time at the French box office. Where data is available it also shows their box office performance in the American and world markets. This table shows that none of France’s most popular films broke the \$100 million box office barrier in U.S. box office earnings which is generally considered to be the lower threshold of a blockbuster movie. One of the top ten in France - *Amelie* grossed \$ 140 million worldwide, which is a strong international performance for a \$10 million budget film. The biggest French made international hit was *The Fifth Element* starring Hollywood superstar Bruce Willis that grossed \$263 million worldwide (all-time ranking # 202 at www.boxofficemojo.com) but failed to achieve the \$100 million blockbuster threshold in the U.S. market and did not rate a place in the all-time top ten films in its home market in France. This table indicates that French movies since the silent era, have not achieved great export success.

Table 14 All-time French hit films - French box office and French admissions

Film	All time French Tickets sold rank #	All time French Box office Rank #	French admissions (tickets sold)	French box office	US Box Office	Total World Box office
La Grande Vadrouille (1966)	1		17.26 million tickets			
Asterix et Obelix: Mission Cleopatra (2002)	2	1	14.25 million tickets	\$75 million	\$3.1 million	
Les Visiteurs (1993) Film budget \$ 7 million	3		13.72 million tickets		\$659,000	\$98 million
Asterix et Obelix Contre Cesar (1999)	4	2	8.92 million tickets	\$59 million	\$1.5 million	\$99 million <i>includes French box office</i>
Couloirs du temps: Les Visitors II (1998) Film Budget \$20 million	5	3	8 million tickets	\$53.89 million		
Le Petit Monde de Don Camillo (1952)	6		12.89 million			
Le Corniaud (1965)	7		11.73 million			
Trois Hommes et Un Couffin (1985)	8		10.25 million			

Les Miserables (1958)	9	9.96 million			
La Guerre des Boutons (1962)	10	9.87 million			
Le Diner Des Cons (1998)	4	9.2 million tickets	\$53.15 million	\$4 million	
Film Budget 82 million francs					
Le Grand Bleu (1988)		9.19 million		\$3 million	
L'Ours (1988)		9.13 million			
The 5th Element (1997)		7.4 million tickets	\$? million	\$63.5 million	\$263 million
Film budget \$95 million					
Distributed by Sony					
Les Choristes (2004)	5	7.2 million tickets	\$48.76 million	\$3.6 million	
Film budget \$5.5 million					
Amelie (2001)	6	8.62 million tickets	\$44.85 million	\$33 million	\$140 million
Film Budget \$10 million					
Les Trois Freres (1995)	7	6.19 million tickets	\$44.46 million		
La Verite si je Mens 2 (2001)	8	7.8 million tickets sold	\$40.91 million		
Les Anges Gardiens (1995)	9	5.5 million tickets	\$40.54 million		
Brice de Nice (2005)	10		\$31 million		

Sources: Powdrie & Reader (2000) p. 183; www.boxofficemojo.com www.imdb.com

Italy

An artisanal orientation also permeated Italian film production from the early silent days. During the first two decades of the silent film era: *“Italian cinema privileged an artistic production that would appeal to a general public over a commercial production solely geared toward pure entertainment. More interested in the cultural appeal of the final product than in the economic result, as was the case of the American production system, Italian producers seemed to consider the film industry a sort of artisan-like adventure”* (Degli-Esposito Reinert in Kindem 2000 p. 224).

Even in the mid-1990s, inadequate development of film scripts still persisted in Italy, resulting from the predominantly artistic orientation of its filmmakers as indicated by film director Gianni Amelio who emphasised: *“There are no rules. In Italy there is not a tradition or the practice of making short films. So a young would-be filmmaker usually cannot show any examples of his work. What he can show is two pages – a treatment of a would-be film. A producer can react in two ways. He can be intelligent and recognise the value of the idea. Then he tells the young director to find someone with more experience to work with together to write the script. Usually, and this is the less intelligent way, the producer says ‘Go ahead’ and the young director says ‘I will do it my way’. The effect is to create an overblown ego in the director. Either the young filmmaker is a genius and produces a masterpiece. Or he has made his first – and last – movie. This example, asserted Amelio, illustrates his personal thesis that there are strong rules if the industry is strong. If the industrial model is weak, as is the case at the present time in Italy, there are no rules. Anything can happen. It depends on the intelligence of the individuals”* (Ross & d’Amico 1996).

Table 15 below shows Italy’s top ten Italian films of all time in the U.S. market. Only the number one film *Life is Beautiful* that won an academy award for best actor could be considered to have performed reasonably well in America but it did perform extremely well in international markets. America is the world’s richest film market and has a large segment of population from an Italian heritage, so this table and the fact that *Life is Beautiful* is the

only Italian film that ranks in the worldwide all-time box office hits chart (www.boxofficemojo.com) indicate that Italian films do not achieve large revenues from exports.

Table 15 Top 10 Italian Films

Italian title	Stars	U.S. Box Office	Worldwide box office
La Vita e Bella <i>Life is Beautiful</i> (1997)	Roberto Begnini	\$57 million	\$229 million (worldwide)
La Dolce Vita (1961)	Marcelo Mastroianni Anita Ekberg	\$19.5 million	
Il Postino (1994)	Phillippe Noiret	\$12.7 million	\$31 million
Cinema Paradiso (1990)	Philippe Noiret	\$11.9 million	
The Good, the Bad and the Ugly (1967)	Clint Eastwood	\$6.1 million	
Once Upon a Time in the West (1969)	Henry Fonda	\$5.3 million	
For a Few Dollars More (1967)	Clint Eastwood	\$4.3 million	
A Fistful of Dollars (1967)	Clint Eastwood	\$3.5 million	
Mediterraneo (1992)		\$4 million	
Pinocchio (2002)	Roberto Begnini	\$3.6 million	
Sources: www.boxofficemojo.com www.imdb.com			

India

The Indian film industry has throughout its long history operated on a commercial basis without any government subsidisation, however it is famous for “*its unorganised, haphazard movie making style*” (Zee News 2006). In the 1920s it developed its own studio system, stars and genres including its own tradition of blockbuster movies. Whilst the Indian industry today is the world’s largest cinema-going market and produces more films than any other nation, in reality it is composed of 20 different culturally-based cinemas, differentiated by language, the biggest six cinemas are Hindi (Bollywood), Tamil (Kollywood), Telugu (Tollywood), Kannada (Sandalwood), Bengali and Malayalam (da Cunha 2005). India went through three distinct stages of growth from a cottage industry (1913-1924), a studio era (mid-1920s – mid-1940s) and after that “*there has been a complete reliance upon the star at the box office, abundant finance yet much instability*”. The six distinct Indian cinemas have resulted in a fragmented territorially-based distribution system rather than a national structure (Subramanyam 2000 p. 39; 43; 47).

Consequently, producers make films primarily for their own cultural cinema’s consumption and deal directly with the major cinema chains in their home territory. Indian film exports are consumed mainly a large Indian diaspora living abroad and also by close Asian neighbours. A 2006 study of the Indian film industry observed: “*the lack of necessary budgets for script development and market research manifests itself in the relative non-profitability of Bollywood cinema, despite its growing revenues every year. Bollywood needs to concentrate on intelligent selection of scripts while factoring-in audience preferences and market trends as well as a feasibility analysis of target audience preferences before embarking on a project*” (Zee News 2006).

Whilst India has developed a buoyant and highly successful commercial film industry, it has done so without any rigorous process for script development which has resulted in films that appeal to a large culturally-based but uneducated population in the different Indian cinemas but have limited export potential. Table 16 below shows the top ten Indian films of all-time at the Indian box office. None of them became a hit in the U.S. market and none rank in the worldwide top 300 films of all time. Despite being the world’s largest film producer with the largest cinema going audience, India has never produced an international blockbuster.

Table 16 Top 10 Indian Films at Indian Box Office

Film	All time rank #	Indian Box office RS	U.S. Box office US \$	Total World Box Office US \$
Gadar (2001) Film Budget 185 million RS	1	650 million RS		
Hum Apake Hai Kaun (1994) Film budget 45 million rupees	2	600 million RS	\$2.5 million	
Dilwale Dulhaniya La Jayenge (1995) Film budget 40 million RS	3	500 million RS	\$1.6 million	
Raja Hindustani (1996)	4	450 million RS		
Kuch Kuch Hota Hai (1998)	5	425 million RS	\$2.1 million	
Khahi Khushi Kabhi Gham (2001)	6	380.5 million RS	\$2.7 million	
Kaho Na Pyaar Hai (2000) Film Budget 140 million RS	7	350 million RS	\$1.5 million	
Karan Arjun (1995)	8	320 million RS		
Border (1997) Film budget 110 million RS	9	300 million		
Lagaan (2001) Film budget 250 million RS	10	300 million	\$835,000	
Monsoon Wedding (2001) Film Budget 7 million RS	1		\$13.8 million	
Hum Saath Saath Hain (1999)	5		\$ 2 million	
Taal (1999) Film budget 40 million RS	3		\$1.98 million	
Mohabbatein (2000)	4		\$1.5 million	
Hum Dil De Chuke Sanam (1999)	5		\$1.2 million	

Source: Ash (2003) p. 50 www.the-numbers.com www.imdb.com

Japan

Like India, Japan also has a long history of operating a commercially successful domestically-focused film industry and like Old Hollywood, the Japanese Majors were vertically integrated producer-distributor-exhibitors. A series of mergers between early Japanese film studios led to the emergence of a film studio oligopoly similar to the Hollywood Majors: “by 1912, Japan had the forerunner of a major studio system even before Hollywood did” (Desser p. 11). After the First World War, “Many Japanese, with a continuing interest in world events and world culture, saw the emerging dominance of Hollywood and chose not to compete in the international marketplace, but rather to make Japanese films, the artistic equal of America’s. Directors were sent abroad to train, and Hollywood production methods were adopted. Schochiku studios, still among the major studios today (with Toho), was determined from the start to make only the finest quality western-style movies. By the late 1920s, the industry had coalesced into a handful of studios that began to develop movie stars, along with skilled directors who could work with these stars to find suitable vehicles and formulas that audiences would accept with astonishing regularity. It is this studio-star-genre system that Japan shares most profoundly with

Hollywood, which is in fact, one of the primary reasons for the Japanese cinema's commercial clout with the domestic audience as well as its lasting artistry" (Desser pp 12-13).

The 1920s -1930s were a boom period for the Japanese industry, the success of which was built on the Hollywood-style studio-star-genre system: *"In general, it is fair to say that the 1930s in Japanese cinema represent a true golden age in terms of sheer quality alongside impressive quantity. A rich tapestry of films and filmmakers appeared. Japanese films ran the gamut from nihilistic samurai films to gentle human comedies, from the depth of melodramatic intensity to raucous comic slapstick, from frothy musicals to portents of the coming war"* (Desser p.15-16).

Heavy bombing of Tokyo and Osaka during World War Two, devastated the Japanese industry and after re-construction from 1946-1952, a New-Wave of stars and directors emerged like Kurosawa who gained new recognition for Japanese cinema at international film festivals. *"While artistic qualities and international distribution of Japanese cinema did not disappear in the 1960s, the audience did. From 1960-1965, movie production halved, as did attendances. By the early 1960s, middle-class audiences, especially women, abandoned the theaters for the home television set. The distribution of films to television and later, home video allowed the studios to continue to be financially healthy despite the lack of film production"* (Desser pp 18-19). In 1955, Japanese films accounted for 69% of all films released in the home market and a market share of 66% based on annual film rentals. By 2005, those statistics for the number of Japanese films released had slipped to only 49% and the share of annual box office for those films was only 41% which represents a relatively strong home market performance against Hollywood, compared to other nations (MPPAJ 2005).

Cinema attendance declined from 868 million in 1955 to only 144 million in 1999. These declining audience trends indicate that the domestic film industry in Japan, like America and Europe, suffered from the introduction of television and other new product-substitutes, but has been unable to develop films for domestic consumption that will outdraw imported Hollywood product. Whilst the author has been unable to locate any information on how the Japanese studios develop their movies, these statistics signal problems with the new product development process and the Japanese industry may be missing opportunities to develop films that may provide export revenues. Table 17 below shows the top ten grossing Japanese movies in a list of the worldwide top 300 movies of all-time. It is worth noting that seven were Anime films, four of which – the *Pokemon* movies – were based on a best-selling computer game that provided existing brand awareness with children around the world. *Gedo Senki* was also pre-sold because it was adapted from the best selling *Earthsea* science fantasy novel by Ursula LeGuin.

Table 17 Top 10 Japanese Films of All-time

This table is not available online. Please consult the hardcopy thesis available from the QUT Library

This table is not available online.
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available from the QUT Library

Source: www.the-numbers.com

Australia

A recent study of film development practices in the Australian film industry found that local producers and distributors believed that screenwriting skills were poor and that script development was under-resourced and spread across too many projects. It found a lack of connectivity with the market (audiences) because no form of initial concept testing was undertaken and it found that the Australian industry lacked a tradition of script editing. The study also found that the green-lighting of a local film to proceed into production was primarily a financial function based on producers in need of cashflow gaining sufficient pre-sales and film agency funding to begin shooting the film, rather than being driven by market considerations. A consequence of the absence of an effective new product development process, according to distributors, was under-developed scripts. It concluded that the Australian film industry primarily had an artistic orientation rather than a marketing orientation and that consequently the product produced by the industry was out-of-synch with the expectations of the mass audience of young adults that regularly consume American movies as a primary form of entertainment (Rossitter 2003 pp 101-102; 189-192).

A small number of Australian films have achieved global box office success and rank in the all-time top 300 movies list (www.boxofficemojo.com) but in each case, a Major Hollywood studio was involved with the production as financier, and /or co-producer, and distributor - *The Matrix* series and *Happy Feet* were co-produced by Village Roadshow and Warner Brothers and other partners; *Babe* was produced by Kennedy-Miller and Universal; *Crocodile Dundee* films were a Paul Hogan production in liaison with Paramount Pictures. Table 18 below shows the top ten Australian films at the Australian box office and how they performed in the U.S. and global market. Eight of these films were made in conjunction with or released by Major Hollywood studios or their mini-Major subsidiary companies. Two were low budget films but featured actors that would go onto become A-list stars in Hollywood - Guy Pearce in *Priscilla* and Toni Collette in *Muriel's Wedding*.

Table 18		Top 10 Australian Films		
Film	All time rank #	Australian Box office \$ AUD	U.S. Box office US \$	Total World Box Office US \$
Crocodile Dundee	1	47.7 million	\$174 million	\$328 million
Film budget \$ 5 million			released by Paramount	
Babe	2	36.7 million	\$63 million	\$246 million
Film budget \$30 million			released by Universal	
Moulin Rouge	3	27.7 million	\$57 million	\$177 million
Film budget \$53 million			Released by Fox	

Crocodile Dundee II	4	24.9 million	\$109 million <i>released by Paramount</i>	\$239 million
Strictly Ballroom	5	21.7 million	\$11 million <i>released by Miramax</i>	
Film budget \$3 million				
The Dish	6	17.9 million	\$ 2 million <i>released by Warner Bros.</i>	
The Man From Snowy River	7	17.2 million	\$20 million <i>released by Fox</i>	
Priscilla, Queen of the Desert	8	16.4 million	\$11 million	
Muriels Wedding	9	15.7 million	\$15 million	\$57 million
Film budget \$3 million				
Young Einstein	10	13.3 million	\$11 million <i>released by Warner Bros</i>	

sources: www.afc.gov.au/GTP/mrboxaust.html www.the-numbers.com www.imdb.com

This section showed that despite an occasional hit movie in world markets, studios in France, Italy and Australia have predominantly adopted an artisanal orientation to film making and that a rigorous new product development process is not widely used in these countries. Italy and France both had one film in that list. Australia had several and in each case a Major studio was involved in the production and distribution of those movies, so the scripts were subjected to the normal Hollywood development process.

This section also showed that the British, Japanese and Indian film industries operated fully commercial film industries that were market-focused but in each case, and despite the considerable box office success of some of their movies in their home markets, these industries also lacked a rigorous new product development process. India has no films placed in the all-time worldwide top 300 box office list, Japan had a few anime films make the list and while some British films achieved significant box office success in international markets and placed in the All-time Top 300 list, in each case a Hollywood Major or an American mini-Major was involved in distribution of those films – e.g. the *James Bond* series (MGM-UA); *Notting Hill* and *Bridget Jones's Diary* (Universal); *Chicken Run* (Dreamworks); *The Full Monty* and *Borat* (Fox); *Bean* (Gramercy). Table 19 below shows the top ten hit movies at the box office in four countries with domestically produced product shown in bold typeface and lists their ranking in the worldwide all-time top 300 movies list for comparative purposes. It emphasises Hollywood's commercial dominance. Table 19 below shows the box office performance of the most successful foreign-language films in North America, the world's wealthiest cinema market. Only two films achieved the \$100 million threshold to qualify as blockbusters and one of them was a Hollywood movie – *The Passion of the Christ*. The other was distributed by a Major studio – *Crouching Tiger, Hidden Dragon*.

Table 19 Top all-time foreign films in the U.S. market

FOREIGN LANGUAGE FILMS BOX OFFICE IN NORTH AMERICA

Film	Country	Distributor	Gross (\$ million)
<i>The Passion of the Christ</i>	USA	New Market	370.7
<i>Crouching Tiger, Hidden Dragon</i>	China	Sony	130.0
<i>Chocolat</i>	France/UK	Miramax	76.0
<i>Life is Beautiful</i>	Italy	Miramax	58.5
<i>Jet Li's Hero</i>	China/HK	Miramax	55.2
<i>Apocalypse</i>	USA	Buena Vista	42.6
<i>Jet Li's Fearless</i>	China	Focus/Rogue	24.6
<i>Il Postino</i>	Italy	Miramax/Alliance	21.8
<i>Like Water For Chocolate</i>	Mexico	Miramax	21.7
<i>I am Curious Yellow</i>	Sweden	Grove Press	20.2

La Dolce Vita	Italy	Astor	19.5
<i>Amelie</i>	France	Miramax	18.6
La Cage Aux Folles	France	UA	17.7
<i>The Motorcycle Diaries</i>	Argentina	Focus	16.2
Z	France	Cinema 5	15.8
<i>Monsoon Wedding</i>	India	USA Films	15.3
<i>Y Tu Mama Tambien</i>	Spain	IFC	15.0
A Man and a Woman	France	Allied Artists	14.3
Cinema Paradiso	Italy	Miramax	12.0
Das Boot	Germany	Triumph (Columbia)	11.6
Emmanuelle	France	Columbia	11.5
<i>House of Flying Daggers</i>	China	Sony	11.0
Swimming Pool	France	Focus (Universal)	10.7
8 ½	Italy	Embassy	10.4
My Life as a Dog	Sweden	Skouras / Vivafilm	10.1
Elvira Madigan	Sweden	Cinema 5	10.1
<i>Spirited Away</i>	Japan	Buena Vista	10.0
Story of O	France	Allied Artists	10.0
Shall we Dance	Japan	Miramax	9.7
Yesterday, Today & Tomorrow	Italy	Embassy	9.3
<i>Run Lola Run</i>	Germany	Sony	9.2
Marriage Italian Style	Italy	Embassy	9.1
Dear John	Sweden	Sigma	8.8
Cousin, Cousine	France	Libra	8.6
Cyrano de Bergerac	France	Orion Classics	8.0
Belle de Jour	France	AA/Miramax	8.0
Women on the Verge	Spain	Orion Classics	7.5
<i>Les Boys II</i>	Canada	Lionsgate	7.5
Fanny and Alexander	Sweden	Embassy	7.4
Ran	Japan	Orion Classics	7.3
Eat Drink Man Woman	HK	Goldwyn	7.3
Two Women	Italy	Embassy	7.2
The Wedding Banquet	HK	Goldwyn	6.9
Pan's Labyrinth	Mexico	Picture House	6.8
<i>Maria Full of Grace</i>	Colombia	New Line	6.7
<i>Volver</i>	Spain	Sony Classics	6.7
<i>Mambo Italiano</i>	Canada	Goldwyn	6.6
Diva	France	UAC	6.5
Les Triplettes De Belville	France	Sony	6.3
Swept Away	Italy	Cinema 5	6.0
Garden of the Finzi-Continis	Italy	Cinema 5	6.0
Belle Epoque	Spain	Sony Classics	6.0
Mediterraneo	Italy	Miramax	5.8
La Cage Aux Folles II	France	UA	5.8
Kolya	Czech	Miramax	5.8
King of Hearts	France/Italy	UA/Lopert	5.7
Indochine	France	Sony Classics	5.7
Europa Europa	Germ/Fr/Pol	Orion Classics	5.6
Jean de Florette	France	Orion Classics	5.5
Au Revoirs les Enfants	France	Orion Classics	5.3
Farewell My Concubine	China/HK	Miramax	5.2
Madame Rosa	France	Atlantic	5.2
Babette's Feast	Denmark	Orion Classics	5.2
Curse of the Golden Flower	China	Sony	5.2
<i>City of God</i>	Brazil	Miramax	5.0
<i>El Crimen de Padre</i>	Mexico	Goldwyn	5.0
La Femme Nikita	France/Italy	Goldwyn	5.0
Wings of Desire	Germ/Fr	Orion Classics	4.9
Italian For Beginners	Denmark	Miramax	4.9
Les Boys	Canada	CFP	4.8
Decline of the American Empire	Canada	Cpix/Malo	4.7
Manon de Spring	France	Orion Classics	4.7
Antonia's Line	Netherlands	First Look/CFP	4.2
Tie Me Up! Tie Me Down!	Spain	Miramax	4.1

Source:- Before 1998 - *The Variety Insider* 1999. A Perigree Book. Berkley Publishing. New York p. 61-62;
from 1999-2006 www.the-numbers.com

Table 20 below shows that Hollywood movies accounted for 92% of the Top 300 worldwide box office hits, Britain placed second 15 movies (5%). Australia ranked third with 4 movies in the all time top 300 list. Japan was fourth with 2 anime movies in the top 300 list and Italy, France and China each had 1 movie in the top 300. No other countries produced a global blockbuster movie.

Table 20 Worldwide Top 300 movies of all time by producer nation

Country	No. movies in worldwide Top 300 of all-time	Worldwide box office \$ millions
USA	#1 Titanic (Fox / Paramount)	\$1,845 million
276 movies in top 300 (92%)	#2 Lord of the Rings: #3 (New Line / Time-Warner)	\$1,118 million
	#3 Pirates of the Caribbean #2 (Buena Vista – Disney)	\$1,065 million
	#4 Harry Potter #1 (Warner Brothers)	\$ 976 million
	#5 Lord of the Rings: #2 (New Line / Time-Warner)	\$ 926 million
	#6 Star Wars # 4 Episode 1 (Lucas / Fox)	\$ 924 million
	#7 Shrek 2 (Dreamworks)	\$ 920 million
	#8 Jurassic Park #1 (Spielberg / Universal)	\$ 914 million
	#9 Harry Potter #4 (Warner Brothers)	\$ 892 million
	#10 Harry Potter # 3 (Warner Brothers)	\$ 876 million
	+ 266 other movies	
UK	# 300 Sleepy Hollow (Paramount)	\$ 206 million
	#35 Casino Royale (James Bond / Sony-MGM-UA)	\$ 552 million
	#73 Die Another Day (James Bond / MGM-UA)	\$ 432 million
	#100 Notting Hill (Working Title / Universal)	\$ 363 million
	#107 The World is Not Enough (James Bond/MGM-UA)	\$ 361 million
	#116 GoldenEye (James Bond / MGM-UA)	\$ 352 million
	#133 Tomorrow Never Dies (James Bond / MGM-UA)	\$ 333 million
	#183 Bridget Jones's Diary (Working Title / Universal)	\$ 281 million
	#204 Bridget Jones:Edge of Reason (Working Title/Univ)	\$ 261 million
	#208 The Fully Monty (Redwave/ Channel Four / Fox)	\$ 261 million
	#223 Four Weddings and a Funeral (Working Title/Univ)	\$ 245 million
	#227 Love Actually (Working Title / Universal)	\$ 244 million
	#233 Borat (Sacha Baron Cohen alias Ali G / Fox)	\$ 241 million
	#237 Bean (adapted TV series) (Working Title/Universal)	\$ 237 million
	#256 Chicken Run (Aardman / Dreamworks)	\$ 224 million
France	#292 Moonraker (James Bond / MGM-UA)	\$ 210 million
	#202 The Fifth Element (stars Bruce Willis / Sony)	\$ 263 million
1 film in top 300		
Italy	# 252 Life is Beautiful (Oscar for best actor / Miramax)	\$ 229 million
1 film in top 300		
Australia	#129 Happy Feet (Village Roadshow/ Warner Brothers)	\$ 340 million
	#140 Crocodile Dundee (Paul Hogan / Paramount)	\$ 328 million
	#212 Babe (George Miller / Universal)	\$ 254 million
	#234 Crocodile Dundee II (Paul Hogan / Paramount)	\$ 239 million
4 films in top 300		
Japan	#187 Spirited Away (Anime movie / Buena Vista)	\$ 274 million
	#249 Howl's Moving Castle (Anime movie / Buena Vista)	\$ 230 million
2 anime films in top 300		
China	# 283 Crouching Tiger Hidden Dragon (Sony)	\$ 213 million
1 film in top 300		
India	Unranked: - Kahbi Alvida Na Kehan (2006) Biggest grossing Indian film	US \$10.1million
	overseas	INR
	http://www.boxofficeindia.com/overseas.htm	44.5 million
No films in top 300	http://www.boxofficeindia.com/overseas.htm	
	www.boxofficeindia.com/overseas.htm	

Table 21 below shows the 2 top films of all-time in their own home markets and how they performed internationally. It highlights the large differential in film budgets (quality) between independently financed and distributed films and when a Major Hollywood studio becomes involved as a co-producer and / or as a distributor.

Table 21 Comparative film budgets for two best performing films

Country	Top Two films at domestic box office	Producers	Distributor(s)	Film Production Budget \$ U.S.	Global box office \$ U.S.
USA	Titanic	Lightstorm-Fox-Paramount	Fox (U.S.) / Paramount (worldwide)	\$200 million	\$1.8 Billion
	Lord of the Rings #3	Wing Nut/Zaentz/New Line	New Line / Warner / other minor distributors (Time-Warner owns New Line)	\$94 million	\$1.12 Billion
UK	Casino Royale	Eon Films MGM-UA / Columbia	Sony/MGM-UA	\$102 million	\$563 million
France	The Full Monty (1997)	Redwave / Channel Four	Fox Searchlight	\$3.5 million	\$256 million
	The Fifth Element	Gaumont	Sony/Columbia, Fox, Buena Vista, Pathe	\$95 million	\$263 million
	Amelie	Claude Ossard / Union Generale	Various distributors worldwide	\$10 million	\$140 million
Italy	Life is Beautiful	Cecchi Gori + Melampo	Various distributors	?	\$229 million
Australia	La Dolce Vita	Riama – Pathe - Gray	Various Distributors	?	est \$25 million
	Crocodile Dundee	Rimfire	Paramount	\$5 million	\$328 million
Japan	Babe	Kennedy Miller / Universal	Universal	\$30 million	\$246 million
	Spirited Away (anime)	Dentsu Nippon TV Ghibli	Buena Vista (Disney)	\$19 million	\$274 million
	Monoke Hime (anime)	Dentsu Nippon TV Ghibli	Various distributors e.g. Miramax (U.S.)	\$20 million	\$150 million
India	Gadar	Zee	No global theatrical release	\$4 million	Video only
	Hum Apake Hain Kaun	Rajshri	No global theatrical release	\$1 million	Video only

Sources: www.imdb.com www.the-numbers.com

APPENDIX 11: DELETED

Appendix 12: Feature film output of leading producer nations by decade

	1914 1929	1930- 1939	1940- 1949	1950- 1959	1960- 1969	1970- 1979	1980- 1989	1990- 1999
USA as % of world	13879 = 49%	5009 = 26%	4074 = 29%	2949 = 12%	1538 = 5%	1731 = 5%	2569 = 7%	6688 = 23%
India	782	1851	1932	2709	3233	4979	7895	15787
Japan	3179	3963 2 yrs data missing	1394	3753	4506	3369	3162	7408
Italy	734	264	689	1343	2271	2040	1147	2985
France	446* incomplete data	1295	663	1162	1402	1907	1568	4087
Germany	4176	1378	564	993				
Britain	1253	1289	530	980				
USSR/Russia	793	593				1412	1496	3288
China		428 2 yrs data missing					1280	2369
Mexico			657					
Hong Kong				2309	2210	1363	1301	3469
Turkey					1678	2046		
Philippines						1657	1446	3348
South Korea					1501	1342		
Pakistan							838	2022
Top 4 nations	22479 = 79%	12201 = 64%	8083 = 58%	11720 = 49%	13013 = 42%	4481 = 13%	15194 = 42%	23184 = 81%
Top 8 nations	25185 = 87%	15806 = 83%	10503 = 75%	16198 = 68%	19132 = 62%	10368 = 30%	20717 = 57%	27900 = 98%
Rest of the world	2481	3173 = 17%	3459 = 25%	7755 = 32%	11570 = 38%	20334 = 59%	15313 = 43%	590 = 2%
World film output per decade	28409	18,985	13,962	23,953	30702	34410	36,030	28,490

Source data: Robertson (2001) p. 16-17 - French and Japanese complete production data not available 1921-1926.

APPENDIX 13 International distribution arrangements for larger firms - 1894-1914

U.S. firms film distribution in Europe	European firms film distribution in U.S. market
1894 Maguire & Baucus London agent for Edison 1903 Edison sells equipment through its phonograph company in London 1906 Vitagraph opens London office 1909 Agent in Berlin for Lubin 1909 Vitagraph agents in six European capitals 1909 Markt – London agent for Lubin & Selig 1909 Essanay London office 1909 Markt office in Berlin (Lubin & Selig)	1902 Melies Star Films (France) NY office 1904 Pathe (France) NY branch 1904 Cines (Italy) NY office 1904 Miles Brothers US agent for European firms 1904 Kleine US agent for Urban (Britain) 1904 Williams, Brown & Earle agent for Hepworth (Britain) 1905 Pathe Chicago branch 1908 Williamson (Australia) NY office 1908 Great Northern (Britain) NY office 1908 Lux (France) American branch 1908 Raleigh (Britain) 1993 Film Import agent for Raleigh & Robert (Britain)
1910 Agent in Britain/France for IMP films 1910 IMP office in Berlin 1910 British agent for Kalem 1910 Selig has agents in 4 European capitals 1910 Berlin agent for Essanay 1910 Gaumont - London agent for Thanhouser 1910 Markt opens Milan office (Lubin & Selig) 1910 Agent in London/Paris for Champion 1910 Market agent in Europe for Kalem	1910 Éclair (France) NY office 1910 Sales Company agent for French/Italian firms
1911 Selig now selling direct in London 1911 Kalem has London & Berlin branches 1911 Essanay Berlin branch	
1912 Selig branches in London, Berlin & St Petersburg and an agent in Budapest 1912 Essanay branches London & Barcelona 1912 Lubin branches London & Berlin 1912 Romanian agent for Vitagraph	1912 Kleine agent for Cines (Italy) & Eclipse (France) 1912 Ambrosia (Italy) forms US subsidiary
1913 Spanish agent for Warner Brothers 1913 Selig branches in Paris & Budapest 1913 Famous Players office in London 1913 Universal branches Berlin & Copenhagen	1913 Vivaphone agent for Hepworth 1913 NY agents for smaller Europeans
1914 N.B. Pathe operated 41 foreign branches	1914 Pathe operated 31 sales offices in the U.S. market

Raw data source: Kristin Thompson pp 194 - 212

APPENDIX 14 Scale of Major Studio Distribution Networks vs Mini-Majors & Independent distributors

Era	Hollywood Studio	North American branches	Foreign sales offices / branches / agents Sub-distributors	No. of U.S. branch staff	Annual Cost of branch offices	Source
1903	Edison		1			Thompson 1985 p. 194-212
1904-1907	Pathe (France)	2	6 in France 10 in Europe + sales offices worldwide			Abel 1994 p. 23 Bakker 2003 p. 28
1906	Vitagraph		1			Thompson 1985 p. 194-212
1909	Pathe	31	41			Segrave 1997 p. 3
1909-1915	Motion Picture Patents Co. MPPC (The Trust)	General Film Co. national distribution network				
1910	The Sales Co.	Forerunner of Universal	Agents overseas			
1911	Essanay		2			Thompson 1985 p. 194-212
1912	Lubin		2			Thompson 1985 p. 194-212
1912	Kalem		4			Thompson 1985 p. 194-212
1912	Selig		4			Thompson 1985 p. 194-212
1913	Universal		3			Thompson 1985 p. 194-212
1913-1915	Famous Players		1 in London Used foreign agents			Thompson 1985 p. 194-212
1914	Gaumont		10 worldwide			Garcon 1994 p. 27
1914	Fox Film	12	No foreign sales offices used agents			International Motion Picture Almanac 1960 pp 462
1915	Fox Film		2			Thompson 1985 p. p. 204
1918	Universal		20			Segrave 1997 p. 11
1918	Fox Film		20			Segrave 1997 p. 11
1916-1920	Famous Players-Lasky (Paramount)	Paramount had national network in the U.S. 6 Canada (FP)	Famous-Players Lasky 40			'Paramount's foreign offices' Film Daily Yearbook 1921 p. 265
1919					US \$520,000 -750,000 Cost of national network	Bakker 2003 p. 29
1920-1922	Paramount, Fox, Universal & U.A.	Opened sales offices in Paris				Nowell-Smith 1997 p. 118
1925	Warner Brothers	26	20			Izod 1988 p. 73
1926					US \$ 2 million Cost of national network	Bakker 2003 p. 29
1927	Loews-MGM		75			Loew in Kennedy 1927 p. 289
1927	Paramount	47	115	207		Kent in Kennedy 1927 p. 204-206
1934	Loews-MGM Paramount 20th Century Fox Warner Brothers Universal United Artists Columbia RKO Monogram Pics.	32 41 + 6 Canada 30 + 6 Canada 33 + 6 Canada 33 + 6 Canada 26 + 6 Canada 31 + 1 Canada 26 + 6 Canada 31	117 96 107 69 65 + 6 agents 41 + 19 subs no data no data			International Motion Picture Almanac 1934 pp 835-863
1937	Paramount	44		194		Fortune Magazine Mar. 1937 pp 87-96
1940	Loews-MGM Paramount 20th Century Fox Warner Brothers Universal	32 + 1 Canada 37 + 6 Canada 31 + 6 Canada 31 + 6 Canada 33	116 94 101 75 46 + 6 agents			International Motion Picture Almanac 1940 pp 668-770

	United Artists	25 + 6 Canada	72 + 19 subs + 16 agents			
	Columbia	31 + 1 Canada	61 + 24 agents			
	RKO	32 + 6 Canada	61 + 3 agents			
	Monogram	30 + 1 Canada	1			
	Republic	34 + 6 Canada	1			
1948	Loews-MGM	32	89			International Motion Picture
	Paramount	32 + 6 Canada	104			Almanac 1948-49 pp 424-499
	20th Century Fox	31 + 6 Canada	78 + 6 agents			
	Warner Brothers	31 + 6 Canada	105			
	Universal	32	42			
	United Artists	25 + 6 Canada	85 + 20 subs			
	Columbia	31	88			
	RKO	32 + 6 Canada	50			
	Monogram	31	9			
	Republic	32 + 1 Canada	11 subsids + 33 franchises			
	Eagle Lion	8	7 + 1 agent			
	Film Classics	26				
	Selznick	5				
1949	Universal	37	50	131		Alin 1949
1950	Loews-MGM	32	116			International Motion Picture
	Paramount	34 + 6 Canada	48			Almanac 1950-51 pp 364- 419
	20th Century Fox	31 + 6 Canada	75 + 4 reps			
	Warner Brothers	31 + 6 Canada	107 + 1 agent			
	Universal	32 + 1 Canada	36 + 8 agents			
	United Artists	26 + 5 Canada	71 + 14 subs			
	Columbia	31	26			
	RKO	32 + 6 Canada	106			
	Monogram	31	9			
	Republic	32	11 subsids + 11 franchises			
	Eagle Lion	28	no data			
	Selznick	1	5			
1950s	Warner Brothers & all of the Majors	Approx. 32 U.S. branches & 6 in Canada				Donahue 1987 p. 132
1950s	MGM United Artists		101 66 + 44 sub -distrib			Donahue 1987 p. 148
1953	United Artists		90		\$15 m.	Balio 1987 p. 91
1954	Buena Vista	15 branches				Izod 1988 p. 162-163
1960	MGM	33	113			International Motion Picture
	Paramount	33 + 6 Canada	96			Almanac 1960 pp 402-481
	20th Century Fox	32 + 6 Canada	135			
	Warner Brothers	32 + 6 Canada	107 + 4 agents			
	Universal	31 + 1 Canada	30 + 1 agent			<i>Note (IMP Almanac 1960 p. 469): United Artists acquired Eagle Lion Classics after Robert Krim (ex- Eagle Lion) and Robert Benjamin (ex-Rank) took control of United Artists</i>
	United Artists	26 + 6 Canada	87 + 16 subs			
	Columbia	41	31			
	Allied Artists	31	14 branches + 2 reps			
1960s	Warner Brothers	30 branches in U.S. & Canada				Fellman in Squire 2004 p. 364
1970	MGM	33 + 6 Canada	47			International Motion Picture
	Paramount	29 + 6 Canada	94			Almanac 1970 pp 478-552
	20th Century Fox	32 + 6 Canada	120			
	Warner Brothers	31 + 6 Canada	85			
	Universal	30 + 1 Canada	43			
	United Artists	31 + 6 Canada	88 + 8 subs			
	Columbia	31	37			
	Allied Artists	32	13 branches + 2 reps			
	AVCO Embassy	15				
	Cinerama	17	4			
1969- 1972	All Major studios	Reduced to 20- 26 U.S. branches				Donahue 1987 p. 132
						Cause: computerisation
1970s	Paramount	27				Conant in Balio 1985 p. 552
1973	MGM withdrew from distribution	Sold its 7 U.S. domestic branches	Sold its 37 foreign offices			Conant in Balio 1985 p. 552
1973	CIC (Paramount &		88 branches+			Conant in Balio 1985 p. 552-553

	Universal)		distributes Disney & MGM			Myers in Squire 1983 p. 125
1975	Mini-Majors like National General; Cinerama; AVCO- Embassy A.I.P.	10-15 16 28				Lazarus & Gillette in Bleum 1975 p. 186 Donahue 1987 p. 223-226
1975	Emerging indie distributors like Cannon; Cinemation & UM	5-6 branches				Lazarus & Gillette in Bleum 1975 p. 186
1977	20 th Century Fox	26				Conant in Balio 1985 p. 561
1980	MGM Paramount 20th Century Fox Warner Brothers Universal United Artists Columbia CIC (Joint venture by Universal & Paramount) AVCO Embassy	United Artists 20 + 6 Canada 24 + 4 Canada 18 + 5 Canada 22 28 + 6 Canada 17 + 1 Canada 32 0 19	CIC CIC 104 65 CIC 62 34 13 branches + 41 no data			International Motion Picture Almanac 1980 pp 447-493
1983	20 th Century Fox	31	Closing foreign branches			Myers in Squire 1983 p. 276
1983	All Major studios	Reduced to 13- 26 branches				Donahue 1987 p. 133 Cause: Theatre chains
1987	unspecified	20			\$25m- \$30m	Balio 1987 p. 88
1989	New World	10				Donahue 1987 p. 223-226
1995	Columbia-Tristar 20 th Century Fox U.I.P. (MGM-UA, Universal, Paramount) Warner Brothers Buena Vista Int. (Disney)		38 + 2 agents 25 + 10 agents 34 + 4 agents 34 + 6 agents 16 + 2 agents			Amdur & Johnson 1995 pp. 257- 280
2004	Warner Brothers	4 major offices and 2 satellites				Fellman in Squire 2004 p. 364-365

Sources: Varies and listed within the table above.

APPENDIX 15: Total Number of Major Studio Releases in U.S. market from 1920-1999

Studio	1920-1929	1930-1939	1940-1949	1950-1959	1960-1969	1970-1979	1980-1989	1990-1999
MGM MGM from 1924-1985 From 1985 MGM & UA merged	266	456 (+71%)	350 (-23%)	324 (-7%)	241 (-30%)	104.5 (-130%)	MGM-UA 204 (+96%)	MGM-UA 123 (-40%)
Paramount From 1990 includes Paramount Classics	705	604 (-14%)	312 (-48%)	212 (-32%)	217 (-1%)	175.5 (-19%)	166 (-5%)	184 (-11%)
Fox From 1990 includes Fox Searchlight	545	523 (-4%)	388 (-26%)	360 (-7%)	250 (-113%)	160 (-36%)	167 (+4%)	190 (+14%)
Warner Brothers 1920-29 as First National / Warner From 1990 includes New Line/Fine Line	648	576 (-11%)	275 (-52%)	245 (-11%)	182 (-26%)	162 (-11%)	218 (+35%)	WB 308 (+41%) NL 223
RKO Studio created in 1929	35	443 (+1165%)	388 (-12%)	-	-	-	-	-
United Artists (UA) MGM-UA after 1985	102	174 (+70%)	210 (+21%)	406 (+93%)	243 (-42%)	218 (-10%)	See MGM-UA	See MGM-UA
Universal	492	364 (-26%)	469 (+29%)	333 (-29%)	218 (-37%)	149.5 (-37%)	195 (-11%)	184 (-6%)
Columbia From 1990 Sony- Columbia-Tristar	102	425 (+316%)	534 (+26%)	455 (-15%)	252 (-44%)	199.5 (-21%)	244 (+23%)	348 (+43%)
Disney / Buena Vista From 1990 includes Miramax-Dimension	-	1	14 (+1400%)	28 (+100%)	52 (+86%)	47 (-10%)	76 (+62%)	BV 282 (+271%) M - 294
Major Studio Output	2895	3566 (+23%)	2884 (-19%)	2386 (-17%)	1655 (-31%)	1216 (+27%)	1270 (+4%)	2136 (+68%)

Source data: Finler (1988 pp 286-287) *Variety* (various years); Maltin (1984)

APPENDIX 16 Promotional channel milestones in American marketing

1793	First circus advert on back page of <i>Dunlap's American Daily Advertiser</i> in March 1793.
1800s-1900s	<i>"Circuses pretty much invented display advertising, outdoor advertising and the whole concept of publicity. They created a rollicking, anything-goes style that has influenced American advertising to the present day. For years circus advertising provided virtually the only visual relief in newspaper pages."</i> (Zotti 1983 <i>Advertising Age</i>).
1841	First U.S. advertising agency opened in Philadelphia
1858	Burlington Railroad publicity campaign heralds growing business awareness of publicity
1861	About 20 advertising agencies operating in New York
1864	Newspapers begin selling advertising space.
1867	Ad agency Lord & Taylor are first to use double column advertising in newspapers
1860s	Advertising begins appearing in national magazines
1870	Lydia's pink pills spends \$1 million on advertising annually
1870	5,000 + newspapers in the U.S.
1885	2 nd class mail reduced to 1 cent facilitates growth in magazine subscriptions
1880s	<i>"By the 1880s nearly all the elements that were to characterise circus promotion throughout the 50 years of the industry's golden age until the Depression – were in place"</i> - advance men travelled ahead to get publicity, banner men, bill posters, lithographers created cards for placement in shop windows, program men recruited kids to distribute heralds (handbills) and couriers (newspaper or magazine flyers). <i>"Circuses supplied press books helpfully filled with ready-to-run feature stories and photos"</i> and <i>"advance crews would plaster a town with paper – circuses helped invent outdoor advertising"</i> – <i>"the circus came to town for only one day, they couldn't wait around for people to decide to come. They had to generate a lot of interest immediately."</i> (Zotti 1983 <i>Advertising Age</i>).
1890	J. Walter Thompson annual advertising billings reach \$1 million
1890	<i>"After 1890 the dominant notion was that companies could attract consumers shifting from the older concept of an ad as an announcement to hypothesising about the psychologies of consumers"</i> (Staiger 1990 p. 5)
1894	Oldest outdoor advertising company in U.S. founded
1895	Print media circulation data available to clients from ad agencies (Staiger 1990 p. 5)
1899	J. Walter Thompson (JWT) opens London office
1900	George Michaelis opens the Publicity Bureau in Boston <i>'to gather factual information about clients for distribution to newspapers'</i> (Baskin, Aronoff & Lattimore 1997 p. 32).
1905	Fatty Arbuckle first popular entertainer to appear in cigarette ads
1908	Airplane advertising used to promote a Broadway play
1910	U.S. annual advertising expenditure reaches \$600 million
1912	New electric bulletin board in Times Square
1910s	Massive increase in retailing reflecting increasing mass production.
1910s	Millions of dollars spent on advertising & P.R. to stimulate consumer purchases in U.S.
1910s	"Modern market research" begins and ads become increasingly target specific
1920	First commercial radio broadcast in the U.S. (Csida & Csida 1978 p. 216)
1926	"RCA launched the first extensive radio network (NBC) " in 20 cities with an estimated audience of 2 million people (Csida & Csida 1978 p. 223)
1928	General Electric began experimental TV broadcasts
1930s	Radio networks boomed through the Depression (Csida & Csida 1978 p. 246)
1939	NBC - First commercial TV broadcast at N.Y. World's Fair (Csida & Csida 1978 p. 235)
1992	Internet de-regulated providing a new channel for business & consumers communication

Sources: Zotti (1983) "Circus advertising: the greatest hype on Earth" in *Advertising Age*, December 12, 1983 page M-11.
Hartman (2006) "The emergence of advertising in America 1850-1920" *The John W. Hartman Center Sales, Advertising & Marketing History* accessed online at: <http://scriptorium.lib.duke.edu/ea/timeline.html> Csida & Csida (1978) "American Entertainment" Billboard Books.. Baskin, Aronoff & Lattimore 1997 p. 32

APPENDIX 17 DELETED

APPENDIX 18 DELETED

APPENDIX 19 Snapshots of Hollywood marketing costs in U.S. market 1927-1955

Year	Advertising expenditure in U.S. market on advertising	Media channels and expenditure	Sources
1927	\$67 million		<i>Film Daily Year Book 1928</i> 'Motion Pictures' p. 3
1937	\$77 million	Newspapers & magazines = \$63 million Outdoor = \$ 8 million Accessories & Direct mail = \$ 6 million Number of ads placed in U.S. media = 16,000	<i>Film Daily Year Book 1938</i> 'Statistics' p. 37
1939	\$110 million	Newspaper & magazines = \$ 66 million; Outdoor = \$ 8 million; Accessories & direct mail = \$ 6 million.	<i>Film Daily Year Book 1940</i> 'Industry Statistics' p. 37
1945	\$ 63 million	Newspapers = \$52 million, magazines = \$ 4 million, accessories & direct mail = \$4.5 million, radio = \$ 1 million; Outdoor = \$ 1.5 million.	<i>Film Daily Year Book 1946</i> 'Industry Statistics' p. 43
1948	\$ 55.5 million	Newspapers = \$ 40.5 million, magazines = \$ 2.3 million, accessories & direct mail = \$ 0.6 million, radio = \$ 11.5 million; Outdoor = \$ 0.1 million. Major studio breakdown of expenditure Fan magazines = \$ 0.85 million National magazines = \$ 3.8 million; Trade papers = \$ 1.6 million; News papers = \$ 1 million; Radio = \$0.84 million; Still photos (giveaways) = \$ 0.81 million; Press books = \$ 1 million; Co-op advs = \$ 10.2 million (New York showcase = houses = \$4.25 million; LA showcase houses = \$1.13 million; Other co-ops \$ 4.88 million).	<i>Film Daily Year Book 1949</i> 'Motion Picture Industry Statistics' p. 65
1949	\$ 66 million	Newspapers = \$50 million, magazines = \$ 3 million, accessories & direct mail = \$1.25 million, radio = \$ 11.5 million; Outdoor = \$ 0.5 million.	<i>Film Daily Year Book 1950</i> 'Motion Picture Industry Statistics' p. 71
1950	\$ 66.75 million	Newspapers = \$50 million, magazines = \$ 3 million, accessories & direct mail = \$1.25 million, radio/TV = \$ 12 million; Outdoor = \$ 0.5 million.	<i>Film Daily Year Book 1951</i> 'Industry Statistics' p. 83
1952	\$ 71.1 million	Newspapers = \$50 million, magazines & newspaper sections = \$ 4.37 million, accessories & direct mail = \$1.25 million, radio/TV = \$ 15 million; Outdoor = \$ 0.5 million.	<i>Film Daily Year Book 1953</i> 'Industry Statistics' p. 119
1955	\$ 69.5 million	Newspapers = \$50 million, magazines & newspaper sections = \$ 2.6 million, accessories & direct mail = \$1.25 million, radio/TV = \$ 15.1 million; Outdoor = \$ 0.5 million.	<i>Film Daily Year Book 1956</i> 'Industry Statistics' p. 119

APPENDIX 20 Pathe's corporate ads DELETED

Source: Abel 1999 p. 134-135

APPENDIX 21 DELETED

APPENDIX 22 Creative message analysis – dominant visual elements in studio ads and posters

Decade	Movies	Studio	Press Ads	Poster	Tagline positioning the movie
1915	Birth of a Nation	Epoch (D.W. Griffith)	N/A	Title + image	
1920s	Ben Hur	MGM	N/A	Title + image	The inspired love of the Prince of Hur for the gentle lovely Esther!
1920s	Beau Geste	Paramount	Title	N/A	Hard lives, quick deaths, undying love!
1920s	All Quiet on the Western Front	Universal	Image + title	Image and title	
1920s	Dr Jekyll & Mr Hyde	Paramount	Star	N/A	
1920s	Broadway Melody	MGM	Title	Title	All-talking, all-dancing, all-singing
1920s	Don Juan	Warner	Star	Star	
1920s	The General	UA	Star	Star	Love, locomotives and laughs!
1920s	The Jazz Singer	Warner	Star	Star	Warner Brothers supreme triumph!
1920s	Robin Hood	Warner	Star	Star	
1920s	7 th Heaven	Fox	Title	Title	
1920s	The Shiek	Paramount	Title	Image + Title	
1920s	Son of the Shiek	UA	Star	Star	
1920s	Wings	Paramount	Title	Title	An epic of the air.
1930s	Angels with Dirty Faces	Warner	Title + stars	Title + stars	A Big Time Cast in a Big City Drama Destined to be the Biggest Hit in Years!
1930s	Lost Horizon	Columbia	Star + title	Star + title	
1930s	Destry Rides Again	Universal	Title + stars	Title + stars	
1930s	The Dawn Patrol	Warner	Title + star	Star	They roared through the dawn with death on their wings !
1930s	Dodge City	Warner	Title + star	Star	It's Errol Flynn In His Greatest Role
1930s	Camille	MGM	Stars	Stars	
1930s	Goodbye Mr Chips	MGM	Title + star	Star + title	
1930s	Grand Hotel	Paramount	Title + stars	Stars + title	
1930s	It Happened One Night	Columbia	Stars	Stars	Two great lovers of the screen in the grandest of romantic comedies
1930s	The Good Earth	MGM	Title	Title	China . . . Land of unrest . . . tomorrow they may Starve !
1930s	Gone With the Wind	MGM	Title + Image of romance	Image of romance + Title	
1930s	Jezebel	Warner	Star	Star	
1940s	Mrs Miniver	MGM	Stars	Stars	In her arms he felt a quiet peace no terror could disturb
1940s	Mildred Pierce	Fox	Title + star	Star + title	
1940s	My Darling Clementine	Fox	Title	Title	The Roaring West At Its Reckless Best!
1940s	My Little Chickadee!	Universal	Stars	Stars + title	
1940s	The Razor's Edge	Title	Stars and title		Hunger - no love, woman or wealth could satisfy
1940s	Rebecca	Fox	Title	Title	The most glamorous woman of all time.
1940s	Sergeant York	Warner	Star + title	Title + image	America's greatest modern hero
1940s	Song of Bernadette	Fox	Image	Image	
1940s	The Snake Pit	Fox	Title	Title	Married and in love with a man she know or want!
1940s	Treasure of Sierre Madre	Warner	Stars	Stars	The nearer they get to the treasure, the further

					they get from the law!
1940s	Barefoot Contessa	UA	Stars	Stars + title	A girl with many ideas and a man for each!
1940s	12 O'Clock High	Fox	Star + title	Image + title	
1940s	Going My Way	Paramount	Star	Title + image	Sing, Bing!
1940s	Sante Fe Trail	Warner	Title + western genre	Title + stars	America's pioneer heroes come to life
1940s	Casablanca	Warner	Stars	Stars + title	Mysterious city of sin and intrigue!
1950s	From Here to Eternity	Columbia	Title	Title + stars	The boldest book of our time, honestly, fearlessly on screen!
1950s	Father of the Bride	MGM	Title	Title + stars	You're invited to a hilarious wedding!
1950s	A Farewell to Arms	Fox	Title	Title	Hemingway's immortal love story!
1950s	The Caine Mutiny	Columbia	Title + stars	Stars + title	
1950s	Bus Stop	Fox	Star	Star	The coming of age of Bo Decker and the girl who made him a man!
1950s	The Bridge on the River Kwai	Columbia	Title	Title + stars	
1950s	Green Mansions	MGM	Star	Star	Rima, the untouched girl of the virgin forest meets her first man
1950s	Ben-Hur	MGM	Title	Title	A Tale of the Christ
1950s	Cinderella	Disney	Title	Title	
1950s	Gigi	MGM	Title	Title	Thank heaven for Gigi
1950s	The Greatest Show on Earth	Paramount	Title	Title	The Heartbeat Story of Circus People, Filmed with the Cooperation of Ringling Bros. - Barnum and Bailey Circus!
1950s	High Noon	UA	Star + title + western genre	Title	The story of a man who was too proud to run
1950s	The Ten Commandments	Paramount	Title + stars	Title + stars	
1960s	Psycho	Universal	Title	Title	No One ... BUT NO ONE ... Will Be Admitted To The Theatre After The Start Of Each Performance Of Alfred Hitchcock's Psycho
1960s	Breakfast at Tiffany's	Paramount	Star + title	Star + title	She's funny, she's sad, she's extraordinary, she's glittering
1960s	Dr Zhivago	MGM	Romantic image + title	Romantic image + title	
1960s	Birdman of Alcatraz	UA	Star + title	Title	Now the world will know the story of the most defiant man alive!
1960s	My Fair Lady	Warner	Title	Title	The most lovely motion picture event of all!
1960s	Lawrence of Arabia	Columbia	Title	Title	From the creators of "The Bridge on the River Kwai."
1960s	West Side Story	UA	Title	Title	The most acclaimed motion picture of our time!
1960s	Cleopatra	Fox	Stars	Stars	
1960s	Dr Strangelove	Columbia	Title	Title	The hot-line suspense comedy
1960s	Sound of Music	Fox	Title + image	Image + title	The happiest sound in all the world!
1960s	In the Heat of the Night	UA	Stars + title	Title	
1960s	Bonnie and Clyde	Stars + title	Stars + title		They're young, they're in love and the kill people.
1960s	Funny Girl	Columbia	Star	Star	The Streisand magic.
1970s	Airport	Universal	Stars + title	Stars + title	The #1 novel of the year - now a motion picture!

1970s	Cabaret	UA	Star	Image + title	Life is a cabaret
1970s	The Godfather	Paramount	Image + title	Title + image	
1970s	American Graffiti	Universal	Title	Title	Where were you in '62?
1970s	The Exorcist	Warner	Title	Image + title	
1970s	The Way We Were	Columbia	Stars	Stars	Streisand and Redford together!
1970s	Jaws	Universal	Title + image	Image + title	Amity Island had everything. Clear skies. Gentle surf. Warm water. People flocked there every summer. It was the perfect feeding ground.
1970s	Paper Moon	Paramount	Image + title	Image + title	As P.T. Barnum put it, "There's a sucker born every minute."
1970s	Heaven Can Wait	Paramount	Image + title	Title + image	
1970s	Deliverance	Warner	Image + title	Image + title	Four men ride a wild river. A weekend turns into a nightmare
1970s	Chinatown	Paramount	Title	Image + title	
1970s	Love Story	Paramount	Stars + title	Title	Love means never having to say you're sorry
1970s	King Kong	Paramount	Image	Image	The most exciting original motion picture event of all time.
1970s	Close Encounters of the Third Kind	Columbia	Title	Image and title	Close Encounter of the First Kind - Sighting of a UFO. Close Encounter of the Second Kind - Physical Evidence. Close Encounter of the Third Kind - Contact.
1970s	Dirty Harry	Warner	Star	Star	You don't assign him to murder cases, You just turn him loose
1970s	A Clockwork Orange	Warner	Title	Title	Being the adventures of a young man whose principal interests are rape, ultra-violence and Beethoven.
1970s	All the President's Men	Warner	Stars	Stars	The most devastating detective story of the century!
1980s	Raiders of the Lost Arks	Paramount	Image + title	Image + title	If adventure has a name it must be Indiana Jones
1980s	Reds	Paramount	Image + title	Image + title	Not since Gone With The Wind has there been a great romantic epic like it!
1980s	Out of Africa	Universal	Stars	Stars	Based on a true story.
1980s	Beverly Hills Cop	Paramount	Image + title	Image + title	
1980s	Top Gun	Paramount	Image + title	Image + title	Up there with the best of the best
1980s	Moonstruck	MGM	Image + title	Image + title	
1980s	Rain Man	MGM-U.A.	Stars	Stars	
1980s	Back to the Future	Universal	Image + title	Image + title	
1980s	Three Men and a Baby	Buena Vista / Disney	Image + title	Image + title	They changed her diapers. She changed their lives.
1980s	Ghostbusters	Columbia	Image + title	Image + title	They're here to save the world
1990s	Tombstone	Buena Vista	Image + Title	Image + Title	Justice is coming.
1990s	Schindler's List	Universal	Image + Title	Image + title	
1990s	The Lion King	Disney	Image + title	Image + title	
1990s	Mission Impossible	Paramount	Image + title	Image + title	
1990s	Home Alone	Fox	Image + title	Image + title	A family comedy without the family
1990s	Ghost	Paramount	Image + title	Image + title	You will believe
1990s	Pretty Woman	Buena Vista / Disney	Image + title	Image + title	She walked off the street, into his life and stole his heart

1990s	Independence Day	Fox	Image + title	Image + title	The question of whether we are alone in the Universe has been answered.
1990s	Titanic	Fox	Stars + Image	Stars + Image	Nothing on Earth could come between them
1990s	Godzilla	Sony-Columbia	Image + title	Image + title	Size does matter!
1990s	Men in Black	Sony-Columbia	Image + title	Image + title	Protecting the Earth from the scum of the universe
2000s	Gladiator	Universal	Image + title	Image + title	What we do in life echoes in eternity
2000s	Crouching Tiger Hidden Dragon	Sony-Columbia	Image + title	Image + title	
2000s	A Beautiful Mind	Universal	Image + title	Image + title	He Saw The World In A Way No One Could Have Imagined
2000s	Chicago	Miramax (owned by Disney)	Image + title	Image + title	If you can't be famous, be infamous.
2000s	Pearl Harbour	Buena Vista	Image + title	Image + title	
2000s	Lord of the Rings	New Line (owned by Warner Bros).	Image + title	Image + title	The legend comes to life
2000s	Finding Nemo	Pixar/Disney	Image + title	Image + title	There are 3.7 trillion fish in the ocean, they're looking for one
2000s	Million Dollar Baby	Warner	Image + title	Image + title	

Key: Title = movie brand is the most prominent creative element; Star-driven = movie star is the key selling point; Image = large dominant image (e.g. the shark in Jaws).

APPENDIX 23 Summary table of content analysis of dominant visual element in ads / posters

	Stars-driven Press ads	Stars-driven posters	Movie title dominates press ads	Movie title dominates posters	Image dominates press ads	Image dominates posters
1920s	6	5	5	4	1	1
1930s	4	8	8	2	0	1
1940s	9	6	5	6	1	2
1950s	3	3	10	10	0	0
1960s	6	3	6	7	0	1
1970s	6	4	5	5	5	7

APPENDIX 24 DELETED

APPENDIX 25: Examples of Hollywood posters 1950s-1970s

1950s posters show a stronger emphasis on the movie title.

The Greatest Show on Earth (1952 poster)

http://www.impawards.com/1952/greatest_show_on_earth.html

Love is a Many Splendoured Thing (1954 poster)

<http://thetwilightzone.xs4all.nl/dpg/Html/posterL/LoveIsAManySplendoredThing.html>

The Ten Commandments (1956 poster/ re-release)

<http://carteles.metropoliglobal.com/paginas/pgrande.php?id=174768&caso=2>

Gigi (1958 poster)

<http://www.carteles.metropoliglobal.com/paginas/pgrande.php?id=167744&caso=2>

Ben Hur (1959 poster)

http://www.impawards.com/1959/ben_hur.html

1960s posters - stars feature more prominently and more cluttered designs

The Magnificent Seven (1960 poster)

http://www.impawards.com/1960/magnificent_seven.html

The Guns of Navarone (1961 poster)

<http://thetwilightzone.xs4all.nl/dpg/Html/posterG/GunsOfNavarone.html>

Judgement at Nuremberg (1961 poster)

http://www.impawards.com/1961/judgement_at_nuremberg.html

Birdman of Alcatraz (1961 poster)

<http://thetwilightzone.xs4all.nl/dpg/Html/posterB/BirdmanOfAlcatraz.html>

Cleopatra (1963 poster)

<http://carteles.metropoliglobal.com/paginas/pgrande.php?id=108429&caso=2>

Midnight Cowboy (1969 poster)

http://www.impawards.com/1969/midnight_cowboy.html

1970s poster designs become simpler, movies and stars heavily branded

M*A*S*H (1970 poster)

<http://www.impawards.com/1970/mash.html>

Love Story (1970 poster)

http://www.impawards.com/1970/love_story.html

The Last Detail (1973 poster)

http://www.impawards.com/1973/last_detail.html

The Exorcist (1973 poster)

<http://www.impawards.com/1973/exorcist.html>

The Godfather II (1974 poster)

http://www.impawards.com/1974/godfather_part_ii.html

Jaws (1975 poster)

<http://www.impawards.com/1975/jaws.html>

King Kong (1976 poster)

http://www.impawards.com/1976/king_kong.html

All the President's Men (1976 poster)

http://www.impawards.com/1976/all_the_presidents_men.html

APPENDIX 26: Analysis of Major Hollywood studio press advertising

Era	Brand image strategy	Design style and elements	Differentiation / USP
1920s <i>Movie ads reviewed appear in Noah 1980 pp 11-28.</i>	Star-driven (i.e. branding the stars)	<p>Movie star billing dominates ads.</p> <p>Strong imagery, busy but simplistic art-deco style. Hand-drawn pen and ink sketches, similar to sheet music covers. Most tried to visually convey a story-line.</p> <p>Limited use of copy-lines</p> <p>Prominent movie-title designs due to use of stylised fonts.</p> <p>Some use of headlines</p>	<p>Movie stars</p> <p>Film genres low key</p>
1930s <i>Movie ads reviewed appear in Noah 1980 pp 31-79.</i>	Star-driven	<p>Photos replace sketches. No more art deco style.</p> <p>Heavy use of close-up photos of movie stars.</p> <p>Greater creativity in ad design and use of fonts. More clutter than 1920s ads.</p> <p>Movie titles more prominent than in 1920s. Stylised movie-titles - many were custom-designed and use of a wider range of fonts.</p> <p>Hyperbolic advertising headlines introduced.</p> <p>A bit more hype in the copy lines. Less story information – possibly because many stars were already typecast e.g. Clark Gable = drama and romance, Errol Flynn = action and adventure.</p>	Stars and film genres
1940s <i>Movie ads reviewed appear in Noah 1980 p. 81-141.</i>	Star-driven	<p>Bigger, bolder but less clutter than 1930s ads. Stylishly a little more sophisticated but similar conceptual designs.</p> <p>Cleaner branding, movie titles becoming more prominent in size.</p> <p>Distinctive stylised film title designs (title treatments).</p> <p>Wide use of star photos. Close up head-shots of stars.</p> <p>Limited use of copy-lines.</p> <p>Genres more clearly differentiated.</p>	Stars and film genres
1950s <i>Movie ads reviewed appear in Noah 1980 pp 143- 231.</i>	<p>Stronger movie branding - stars given less prominence.</p> <p>Each movie had to be individually marketed after block booking was banned in 1948.</p>	<p>Increasingly sophisticated designs.</p> <p>Hyperbolic headlines.</p> <p>Limited use of copy-lines.</p> <p>Movie titles dominate the ads. Custom-developed font-design, use of contrast and/or placement within the ad immediately draws the eye to the title of the movie.</p> <p>Less clutter, cleaner style, more ads floating on white background.</p> <p>The movie is the focus of the ads.</p>	More emphasis on film genres.

		<p>Star billing not as prominent as past decades. Not all highlight stars.</p> <p>Wide use of star photos. Close up head-shots of movie stars.</p> <p>Ads note use of Technicolor, Cinemascope, Vista-Vision, 3-D etc.</p>	
<p>1960s</p> <p>Movie ads reviewed appear in Noah 1980 p. 223-321.</p>	<p>Stronger movie branding - stars given less prominence.</p>	<p>More cluttered, busy designs using multiple visual elements.</p> <p>Ad designs “frame” the movie title.</p> <p>Not all ads highlight movie stars.</p> <p>Design styles “fit” the psychedelic 1960s. A wide range of different fonts used.</p> <p>Some hand drawn sketches.</p> <p>Photos of movie scenes used to visually try to tell the story.</p> <p>Limited use of copy-lines. More hyperbole. Taglines and storylines more prominent.</p> <p>Use of critics quotes noticeable.</p>	<p>Film genres.</p>
<p>1970s</p> <p>Movie ads reviewed appear in Noah 1980 pp 323-382.</p>	<p>Stronger movie branding – one clear & consistent image consistent with ‘High Concept’ theory (Wyatt 1994) e.g. Close Encounters, Jaws, Godfather, Paper Moon, Love Story, MASH.</p> <p>Some strong movie branding – some strong star branding e.g. Clint Eatswood, Robert Redford.</p>	<p>A mix of classy stylish ads and the older theatrical style with cluttered elements as a new form of press advertising emerges.</p> <p>More sophisticated look of the ads. Stylish images and design and better finish to ads due to use of improved technology.</p> <p>Heavier emphasis on branding and distinctively positioning the movie as ‘high concept’ branding strategy is used increasingly in Hollywood.</p> <p>Cluttered design – collages of movie scenes and star photos – using visual elements more creatively to impart the story.</p> <p>Ads note use of Dolby sound</p>	<p>Film genres.</p> <p>Occasional focus on big name movie stars</p> <p>Occasional focus on big name directors</p>
1980s	General focus on movie as brand rather than stars	<p>Less clutter</p> <p>Use of critics quotes and awards or nominations</p>	Film genres
1990s	Strong movie branding and strong star branding on blockbuster movies	<p>Less clutter – stylish clean imagery</p> <p>Increasing use of critics quotes and any awards or nominations</p>	Movie as brand + Star Power – big name actors and directors and producers and film genre
2000s	Strong movie branding and strong star branding on blockbuster movies	<p>Simple, stylish clean imagery</p> <p>Extensive use of critics quotes and any awards or nominations</p>	Movie as brand + Star Power – big name actors and directors and producers

Sources of newspaper ads: New York Times 1939/40; Noah 1980; Vance (1981); Brisbane Courier Mail (2000-2006).

APPENDIX 27: Contemporary in-company communications at the Major studios

	About Us	Corporate Governance	Investor Relations	News	Jobs	Management	Businesses
Time-Warner (Warner Brothers)	X	X	X	X	X	X	X
Viacom www.viacom.com Paramount Pictures http://www.paramount.com/index.php	X	X	X	X	X		
Walt Disney http://corporate.disney.go.com/index.html		X	X	X	X		
Sony Pictures (Columbia, MGM-UA) http://www.sonypictures.com/corp/corporatefact.html	X	X			X	X	X
NBC-Universal http://www.nbcuni.com/	X	X	X	X	X	X	X
News Corporation 20 th Century Fox http://www.newscorp.com/operations/index.html	X	X	X	X	X	X	X

APPENDIX 28 UNIVERSAL WEEKLY AND PARAMOUNT'S PUBLIX OPINION

Example of Universal Weekly magazine can be seen at:

http://movieposters.ha.com/common/view_item.php?Sale_No=667&Lot_No=29168

Example of Publix Opinion can be accessed via:

http://cinematreasures.org/news/15321_0_1_0_C/

APPENDIX 29 Examples of special media events designed by Hollywood to facilitate favourable coverage

Year	Studio	Type of media event	Details	Source
1915	Universal	Press junket	Universal City opens after a one-week cross-country train trip from New York to Los Angeles carrying Universal executives, stars and journalists. <i>“The press, given the experience of a lifetime were expected to express its gratitude in print”</i> .	Dick 1997 p. 39
1933	Warner Bros.	Premiere of <i>42nd Street</i>	Competing with FDR’s inauguration, <i>“Ruby Keeler, Dick Powell and other stars travelled on a Superchief from L.A. to Washington. General Electric paid for the entire junket in return for free publicity. Powell sang from the back of the train, the chorus girls would trundle off at every stop to a local department store to demonstrate the latest G.E. appliances”</i>	Sennett 1998 p. 101
1939	M.G.M.	Premiere of <i>Gone With The Wind</i>	Entire cast of GWTW sent to Atlanta, Georgia for the world premiere. Live radio and TV coverage.	Bridges 1989 pp 212-229. Sennett 1998 p. 100
1942	Hollywood studios	<i>Victory Caravan</i> Hollywood support for the war effort.	May 1942 – Union Station, Washington D.C. – <i>“The largest contingent of stars ever assembled”</i> travelled on the <i>Victory Caravan</i> across America doing free shows to sell war bonds.	Sennett 1998 p. 98
1943	RKO	Star tour	Jane Russell sent to San Francisco to promote ‘The Outlaw’ (RKO 1943).	
1944	Fox	World premiere and star tour	Clark Gable, Tyrone Power, Joan Fontaine and Gene Tierney sent by Fox to Wahoo, Nebraska for premiere of <i>Wilson</i> .	Sennett 1998 p. 101
1946	Paramount	Star tour	Lizabeth Scott attends London premiere of <i>The Strange Love of Martha Ivers</i> .	
1947	Columbia	World premiere and star tour	James Stewart and Frank Capra attend world premiere of <i>It’s a Wonderful Life</i> in Beaumont, Texas.	Sennett 1998 p. 101
1954	Fox	Ballyhoo wagon promoting	6,000 mile cross-country ‘ballyhoo wagon’ for <i>The Egyptian</i> comprising props, sets, live animals, dozens of extras in full costume.	Sennett 1998 p. 103
1985	Paramount	Director and star tour	Peter Weir and Harrison Ford visit Australia for premiere of <i>Witness</i>	O’Brien 1985
1998	Buena Vista (Disney)	World premiere	World premiere of space disaster movie <i>Armageddon</i> at Cape Canaveral was a multi-million dollar publicity event.	Hayes & Bing 2004 p. 113
2001	Fox + Fine Line (Time-Warner)	Celebrity screenings	<i>“Celebrity hosted screenings have become especially popular. Jack Nicholson introduced a showing of “Before Night Falls” in Los Angeles aimed at raising Javier Bardem’s profile”</i>	Hayes 2001
2002	Fox	Star tour	Tom Cruise and Steven Spielberg undertake tour of 6 U.S. cities and London	Bloom 2002
2002	Columbia-Tristar	Star tour	Will Smith sent on 15 country tour for launch of <i>Men in Black II</i>	Bloom 2002
2003	MGM	London press junket	Large cohort of U.S. film journalists flown to London for set visit and star interviews for <i>Legally Blonde 2</i> .	Hayes & Bing 2004 pp 195-197
2003	New Line (Time-Warner)	New Zealand press junket	Large cohort of U.S. film journalists flown to New Zealand for set visit and star interviews for <i>Lord of the Rings</i> .	Hayes & Bing 2004 pp 195-197

APPENDIX 30 A sample of famous Hollywood publicity stunts from 1909-2004

Year	Studio	Movie/Star	Publicity stunt	Source
1909	IMP (forerunner of Universal)	Biograph Girl (Florence Lawrence)	Staged a hoax starting rumour Lawrence had been killed prior to announcing she had signed with IMP Films	Puttnam 1998 p. 49
1932	MGM	<i>Tarzan the Ape-man</i>	Press agent Harry Reichenbach sent a lion tamer and pet lion into New York's Belleclaire Hotel in disguise as a pianist with his concert grand piano contained in a box. They ordered 15 pounds of raw steaks from room service and the waiters fled when they saw the lion.	Dietz 1974 p. 113.
1939	MGM	<i>Gone With The Wind</i>	<p>Producer David Selznick conducted a two year highly publicised search to cast lead female role of Scarlett O'Hara.</p> <p>MGM sent whole cast to Atlanta for world premiere. An estimated 1 million people crowded into the city on the day of the premiere to see the stars in the motorcade.</p>	<p>Bridges 1989</p> <p>Sennett 1998 p. 100.</p> <p>Dietz 1974 p. 259.</p>
1939	Warner Bros.	<i>Dodge City</i>	<i>"The studio assembled a parade to march down the main street of Dodge City, Kansas with 40 marching bands and hundreds of horses. Fifty specially decorated airplanes escorted the train of stars as it arrived from Hollywood, while make believe masked gunmen alarmingly provided with rounds of blank ammunition, rode down from the surrounding cow towns firing away. A crowd of over 10,000."</i>	Sennett 1998 p. 16
1947	Universal	<i>The Egg and I</i>	Press agent Jim Moran sat on an ostrich egg for three weeks to publicise the movie.	Sennett 1998 p. 117
1948	Fox	<i>The Luck of the Irish</i>	<i>"Leo Guild planted a four leaf clover in a crack in the sidewalk in front of the Strand, New York for the premiere and had it 'accidentally' discovered six times each day"</i>	Sennett 1998 p. 117
1950	Paramount	<i>The Greatest Show on Earth</i>	<i>"A publicity man devoted to his trade dearly loves the 'gimmick'. But most of the hard work is hard plugging from the moment a picture is conceived. Cecil De Mille's The Greatest Show on Earth – our head of publicity and advertising Jerry Pickman set the drums rolling more than two years before its release. De Mille was agreeable to Pickman's</i>	Zukor 1953 pp 294-295

			suggestion that the stars actually perform with the circus during the 1951 season.”	
1949	Paramount	<i>Samson and Delilah</i>	Man was paid to walk two lions down Main Street, New Orleans for the opening of the movie – “The picture made the front pages of all the papers in New Orleans. It was on air on all the radio stations”	Sennett 1998 p. 114
1952	Universal	<i>The World In His Arms</i>	Star Ann Blyth was sent to Anchorage, Alaska for the world premiere under the midnight sun.	Sennett 1998 p. 79
1956	Paramount	<i>The Ten Commandments</i>	Granite replicas of the Ten Commandments were set up across America at court houses and sponsored by the Fraternal Order of Eagles, as part of the movie publicity campaign. “Some of the monument dedications were timed to tie in with the release of the film. In one town, Dunseith, N.D., actor Heston appeared personally for the ceremony. In Milwaukee, a Ten Commandments monument was unveiled the same week the film debuted, with actor Yul Brynner - Pharaoh in the movie - on hand for the festivities.”	The Commandment Mystery by Allan Sloan <i>Newsweek</i> July 11, 2006 http://www.msnbc.msn.com/id/8443757/site/newsweek/ Boston, Rob (2001) <i>The Ten Commandments: A sequel. Church & State.</i> July / Aug. 2001. http://www.findarticles.com/p/articles/mi_qa3944/is_200107/ai_n8999836
1959	Columbia	<i>The Mouse That Roared</i>	Moran opened a fake embassy in Washington for the Duchy of Grand Fenwick and appeared as the ambassador with his own security guards and a rented Mercedes.	Sennett 1998 p. 117
1960	Universal	<i>Psycho</i>	Universal contractually committed theatres to agree that no patron would be admitted after the start of the movie.	O'Brien 1985 p. 120 This special “Psycho” publicity stunt poster can be viewed at: http://www.filmsite.org/posterpages/p_psyc2.html

1974	Universal	<i>Earthquake</i>	Filmed in Surround sound, low frequency vibrations made theatres shake like a tremor “ <i>adding a new dimension to audience participation</i> ”.	Sackett 1990 p. 238
1975	Universal	<i>Jaws</i>	Universal’s publicity department “hyped every shark sighting up and down the Atlantic and Pacific coasts. Shark hysteria reached an all-time high”.	Sackett 1990 p. 240-241
1985	Paramount	<i>Clue</i>	The movie had three different endings running in different theatres to try to stimulate repeat viewing.	http://www.cinematical.com/2006/10/10/ten-movie-publicity-stunts-borat-isnt-alone/
2002	Fox	<i>28 Days Later</i>	Actors dressed as infected people from the movie roamed the streets of London to promote the premiere.	http://www.cinematical.com/2006/10/10/ten-movie-publicity-stunts-borat-isnt-alone/
2004	Buena Vista (Disney)	<i>The Village</i>	An unauthorised documentary about the writer-director broadcast on the Sci Fi channel was a hoax actually made by the studio and designed to stimulate desire to see the movie.	http://www.cinematical.com/2006/10/10/ten-movie-publicity-stunts-borat-isnt-alone/
2004	Fox	<i>I Robot</i>	Will Smith attended three separate premieres of the movie in one day.	http://www.cinematical.com/2006/10/10/ten-movie-publicity-stunts-borat-isnt-alone/
2006	Fox	<i>Borat</i>	Actor Sasha Cohen dressed as Borat attempted to gain entry to the White House.	Sullivan (2006) http://www.rottentomatoes.com/news/comments/?entryid=365925
2006	Paramount	<i>Jackass Number Two</i>	Steve O urinated on the red carpet at the premiere to attract attention to the movie.	http://www.cinematical.com/2006/10/10/ten-movie-publicity-stunts-borat-isnt-alone/
2006	Sony (Columbia Tristar)	<i>The Da Vinci Code</i>	Many rumours about the authenticity of a lawsuit brought against author Dan Brown by authors of the Holy Blood Holy Grail.	http://www.msnbc.msn.com/id/12202180/

APPENDIX 31: Hollywood uses controversy to attract publicity

Year	Studio	Movie/Star	Publicity controversy	Source
1932	MGM	<i>Freaks</i>	Offensive content including a castration scene that was cut.	Can a fully grown woman truly love a midget? www.imdb.com http://www.ew.com/ew/article/commentary/0.6115.1202623_1123361211_0_00.html
1933	Paramount	<i>She Done Him Wrong</i>	Protests by Legion of Decency about Mae West's sexual innuendo.	
1943	Universal	<i>The Outlaw</i>	Controversial sex theme and ads featuring Jane Russell in a special bra that emphasised her breasts. Prompted a U.S. Congressional hearing.	Position tagline: SENSATION Too startling to describe! The picture that couldn't be stopped! www.imdb.com
1947	Fox	<i>Gentlemen's Agreement</i>	Expose of anti-semitism among the establishment	Positioning tagline: www.imdb.com
1953	Columbia	<i>From Here to Eternity</i>	Infidelity and the symbol kiss in the surf between Burt Lancaster and Deborah Kerr	Positioning tagline: The boldest book of our time... Honestly, fearlessly on the screen! www.imdb.com
1956	Warner	<i>Baby Doll</i>	Seduction theme involving young woman	Positioning tagline: 19 years old and married but not really! www.imdb.com
1962	MGM	<i>Lolita</i>	Paedophile theme	Positioning tagline: How did they ever make a movie of Lolita? www.imdb.com
1967	Warner	<i>Bonnie and Clyde</i>	Slow motion, gory bullet-ridden death scene	Positioning tagline: They're young, they're in love and they kill people! www.imdb.com
1969	Warner	<i>The Wild Bunch</i>	Excessively violent and gory western shortly after the end of the Hays Code.	Positioning tagline: They came too late and stayed too long. www.imdb.com
1969	U.A.	<i>Midnight Cowboy</i>	First X rated movie to win Best Film Oscar. Story of a young male stud who turns to homosexual prostitution.	Positioning: Male prostitute in New York – see poster at: http://www.impawards.com/1969/midnight_cowboy.html
1970	Fox	<i>M*A*S*H</i>	First use of the F word on-screen. Also nudity and drug use.	Positioning tagline : M*A*S*H gives a D*A*M*N www.imdb.com and the two fingered V sign poster. http://www.impawards.com/1970/mash.html
1971	Warner	<i>A Clockwork Orange</i>	X rated for pornographic violence.	http://www.ew.com/ew/article/commentary/0.6115.1202628_1123361211_0_00.html
1972	U.A.	<i>Last Tango in Paris</i>	X rated obscene sexual content.	http://www.ew.com/ew/article/commentary/0.6115.1202628_1123361211_0_00.html
1979	Paramount	<i>The Warriors</i>	Movie condemned for glorifying violence.	These are the armies of the night. They are 100,000 strong. They outnumber the cops five to one. They could run New York City. Tonight they're all out to get the Warriors. www.imdb.com
1979	Universal	<i>The Deer Hunter</i>	Racist content about Viet Cong showing unproven POW atrocities e.g. enforced Russian roulette scene.	Positioning tagline: One of the most important powerful films of all time! www.imdb.com
1988	Universal	<i>The Last Temptation of</i>	Heretical religious content proposing Jesus	The last temptation of Christ. http://www.ew.com/ew/article/commentary/0.6115.1202628_1123361211_0_00.html

		<i>Christ</i>	had sex with Mary Magdalene	ary/0.6115.1202628 1123361211 0 .00.html
1992	Columbia-Tristar	<i>Basic Instinct</i>	Sharon Stone's leg crossing scene	Positioning tagline: Flesh seduces. Passion kills. www.imdb.com
1994	Warner	<i>Natural Born Killers</i>	Excessive violence and content glorifying a murder spree.	Positioning tagline: In the media circus of life, they were the main attraction. www.imdb.com
2006	Sony (Columbia Tristar)	<i>The Da Vinci Code</i>	Controversy over content undermining Christianity	Positioning tagline: Seek the truth. www.imdb.com

APPENDIX 32 A sample of Hollywood's radio publicity channels 1930-1950.

Year	Studio	Radio show	Description	Sources and radio samples online
1930's - 1950's	Paramount	Lux Radio Theatre	"The most successful longest-running radio drama series in history". 20 year run. Paramount – hosted originally by Paramount's Cecil B. De Mille.	Radio Hall of Fame – Lux Radio Theatre broadcast link http://www.radiohof.org/adventuredrama/luxradio.html http://www.otrsite.com/logs/log11008.htm
1937-1946	MGM	Leo is on the Air	"Early recordings were short 15-minute promotions of upcoming MGM films"	http://www.otreat.com/leoontheair.htm
1938-1939	MGM	Good News Show	An MGM production sponsored by Maxwell House. The show's goal was to promote MGM's movies and its stars. Backstage at the movies segment broadcast from star dressing rooms and studio boardrooms.	Eyman 2005 p. 247 http://www.podcastpickle.com/casts/11846/#
1933-1938		The Baker's Broadcast (aka Seein Stars in Hollywood)		http://www.bookrags.com/The_Adventures_of_Ozzie_and_Harriet
1941		Hollywood News Girl	Host: Lydia Pinkham 1940s NBC Saturdays 1.15pm 1941	http://www.karloff.com/radio.html
1930s-1940s		Hollywood on the Air (aka Hollywood on Parade)	NBC celebrity interviews from the Coconut Grove and Hollywood hotel.	http://www.hollywoodmuseum.com/whowear/whowear_history.html
1939-1946		Hedda Hopper Show	Initially on CBS then ABC -15 minutes per week sponsored by Sunkist	http://en.wikipedia.org/wiki/Hedda_Hopper Jerry Haendiges Vintage Radio Logs (2006) http://www.otrsite.com/logs/logh1018.htm
1943-1948		Breakfast in Hollywood	Morning radio show sponsored by Kelloggs and Procter & Gamble with daily guests stars – similar format to Good Morning Australia.	http://scoop.diamondgalleries.com/scoop_article.asp?ai=7323&si=126 http://www.originaloldradio.com/breakfast_in_hollywood.html http://www.otreat.com/breakfastinhollywood.htm
1946-1947		This is Hollywood	Hedda Hopper -15 minute show CBS then NBC	Jerry Haendiges Vintage Radio Logs (2006) http://www.otrsite.com/logs/logh1018.htm

APPENDIX 33 Hollywood exploited TV as a promotional channel - Studio branded programs on American network TV

Year	Studio	TV show	Description	Sources
1951-1957	-	<i>Lux Video Theatre</i>	TV version of Lux radio theatre on NBC TV network. Sponsored by Lever Brothers.	Terrace 1980 p. 278
1954-1958	Disney	<i>Disneyland</i>	Weekly TV show on ABC cross-promoting Disney characters and movies	Terrace 1980 p. 488
1955-1956	MGM	<i>MGM Parade</i>	Weekly show on ABC. "A behind the scenes look at Hollywood featuring tours, interviews and guests from the MGM Culver City lot and film sequences from MGM films". "Segments included interviews with stars and excerpts from past and current MGM films"	Terrace 1980 p. 300-301 Brooks & Marsh 2003 p. 714
1955-1957	Fox	<i>20th Century Fox Hour</i>	Weekly one hour anthology show ran on CBS.	Terrace 1980 p. 675
1956-1957	Warner	<i>Warner Brothers Presents</i>	Weekly one hour anthology drama on ABC featured a 10-15 minute promotional segment for Warner movies.	Terrace 1980 p. 490 Brooks & Marsh 2003 p. 1282
1958-1959	Disney	<i>Walt Disney Presents</i>	60 minute weekly anthology show on ABC	Terrace 1980 p. 487-488
1959-1961	Disney	<i>Walt Disney's Wonderful World of Colour</i>	Weekly anthology TV show showcasing Disney TV and movie characters on ABC, later moved to NBC	Terrace 1980 p. 288
1969-1979	Disney	<i>The Wonderful World of Disney</i>		Brooks & Marsh p. 1278
1979-	Disney	<i>Disney's Wonderful World</i>		Brooks & Marsh p. 1278
1997-	Disney	<i>The Wonderful World of Disney</i>		Brooks & Marsh p. 1278

APPENDIX 34 Annual calendar of major movie awards, film festivals and film markets

ANNUAL CALENDAR	FILM AWARD OR FESTIVAL	SIGNIFICANCE	YEAR FOUNDED
December	National Board of Review	Second oldest awards and first major awards of the year.	1930
December	New York Film Critics	Most prestigious critics awards	1935
December	Los Angeles Film Critics		1976
January	National Society of Film Critics		1967
December nominations January awards	Golden Globes	Second most prestigious awards	1943
January nominations February awards	British Academy Awards (BAFTA's)		1947
January nominations February/March awards	Academy Awards	The big awards!	1927-28
CALENDAR	FESTIVAL	SIGNIFICANCE	YEAR FOUNDED
January	Sundance Film Festival	High profile for discovering new independent talent	1978
February	Berlin Film Festival		1951
March	American Film Market	Most prestigious North American market	1981
May	Cannes Film Festival	Most prestigious film festival and market	1947
June	Moscow Film Festival		1935
June/July	Karlovy Vary Film Festival		1965
September	Venice Film Festival		1932
September	San Sebastian Vary Film Festival		1953
September	Toronto Film Festival	Launch pad for independent films for possible Academy Award nominations	1975

Sources: Reel Facts by Cobbett Steinberg (1982) and Internet websites

APPENDIX 35 Sample of major Hollywood promotions, merchandising tie-ins and product placements

Year	Studio	Movie / character	Promotional tie-ins, merchandising & product placement	Sources
1903	Edison	<i>Street Car Chivalry & The Unappreciated Joke</i>	"These short comedies are listed as ads because the overhead placards on the streetcar bear products offered by Edison Manufacturing."	Early Motion Pictures and the de- "Rationalizing" of Advertising James M. Loter - 3/11/2003. http://mcdavid-loter.com/essays/early.html
1910	Vitagraph	<i>Vitagraph Girl</i>	The Vitagraph Girl was featured on a song sheet cover as a promotional tie-in. "By 1916 other tie-ins included songs composed especially for films".	Abel 1999 p. 149 See Appendix YYY Staiger 1990 p. 110
1915	Universal	<i>Movie star contest</i>	Universal staged a national beauty contest to find a new female movie star with the final staged at the newly built Universal Studios in Hollywood.	"Universal Beauties" in <i>Moving Picture World</i> 24, No. 11 June 12 th , 1915: 2075.
1929	Disney	<i>Mickey Mouse</i>	"Disney issued what is believed to be the first movie merchandise license for the rights to put a Mickey Mouse character on a children's writing tablet which according to legend was granted for a \$300 fee. By 1932, Disney set up a licensing division".	Marich 2005 p. 128
1933	MGM	<i>Dinner at Eight</i>	"Coca Cola and MGM agreement in 1933 whereby the soft drinks company funded the studio with \$ 0.5 million in return for the endorsement of its product by MGM stars. That year Coca Cola was deeply involved, right down to local level, in the promotion of "Dinner at Eight" through national magazine ads and placards carried by delivery trucks and local dealers, all tying together Jean Harlow, the drink and the film."	Izod 1988 p. 102
1934	Disney	<i>Mickey Mouse</i>	"By 1934 about 80 American companies including General Foods, RCA, Victor and Ingersoll Watches were paying royalties of between 2.5 and 5% on products sold with the aid of Disney designs. Merchandising as it became known raised income for the company of some \$300,000 (in that year one third of its net profit)"	Izod 1988 pp 103
1930s	Warner Fox	<i>Bugs Bunny</i> <i>Shirley Temple</i>	"In addition to Disney, names like Little Orphan Annie and Bugs Bunny infiltrated American households in that era. One of the early licensing successes was the unprecedented sale of Shirley Temple look-alike dolls".	Marich 2005 p. 128
1938	Disney	<i>Snow White and the Seven Dwarfs</i>	"A total of 147 manufacturers were licensed to produce 2183 different novelty products. Sales of character dolls topped \$ 2 million and eager fans purchased no fewer than 16.5 million Snow White drinking glasses". "Disney demonstrated the importance of soundtrack music. Every radio station played Heigh-Ho and Whistle While You Work and all kids wanted to play the record on their tinny toy record players. The single that they heard on the radio made them want to see the movie. After they saw the movie they bought the record."	Roberrston 2001 p. 27 Goldberg 1991 p. 63
1938	Paramount	<i>The Buccaneer</i>	"In connection with 'The Buccaneer' (Paramount 1938), one could purchase blouses called 'The Boss', 'The General' and 'Dominique', each one sewn with the label 'A Buccaneer fashion inspired by The Buccaneer, a Paramount Picture.'	Sennett 1998 p. 139
1939	MGM	<i>Gone With The Wind</i>	"The movie struck consumer could purchase Gone With The Wind dolls and paper dolls, cookbooks, water colour paint	Bridges 1989 p. 240

			books, china figurines, cotton hankies, jigsaw puzzles and games, dress patterns and dresses, rayon print fabric and straw bonnets, snoods and neckties and linen kitchen calendars. And the list continues with cigarette rollers, playing cards (the aces carried a picture of Rhett), collector plates, a seat on the Gray Line Bus Company's GWTW Pilgrimage Tour and a postage stamp from Fiji all commemorating the film".	
1947	Paramount	<i>Unconquered</i> <i>Wild Harvest</i> <i>Variety Girl</i>	Paramount organised \$9 million worth of paid advertising tie-ins to cross promote these three movies.	Campbell 1948 p. 22
1955	Disney	<i>Davy Crockett</i>	"Davy and his song moved millions of children and fueled a \$300 million merchandising. There were Davy Crockett clothes, toothbrushes, flashlights, moccasins, wallets, rugs, bedspreads, lunch boxes, toys, and of course, the coonskin cap (the price of raccoon fur jumped from \$.25 a pound to \$8.00 a pound)! Coonskin hats were the mandatory regalia of the day and every kid in a America had to have one!"	Hender, Howard 2004 "Davy Crockett Craze Home Page" http://www.geocities.com/toppsgeren/04Cap.html
1959	MGM	<i>Ben Hur</i>	<i>Ben-Hur</i> men's sports shirt with chariot wheel buttons (see Appendix) and boys charioteer armour and helmet.	Sennett 1998 p. 139
1970	Universal	<i>Love Story</i>	Erich Segal's book <i>Love Story</i> was released on Valentine's Day by Harper & Row spent 9 months on NY Times best-seller list.	Wyatt 1994 p. 149
1974	Paramount	<i>Great Gatsby</i>	Legendary merchandising campaign to cross-promote the " <i>The Great Gatsby</i> " – " <i>the most-talked about film since Gone With The Wind</i> ". The pre-release publicity and promotion campaign " <i>generated enough audience anticipation to already have earned an unheard of \$18.6 million in advance bookings – nearly three times its \$6.4 million cost. The product tie-ins, valued at \$6 million were designed to create a third level of awareness</i> ".	Front cover of TIME magazine "Ready or Not, Here Comes Gatsby," <i>TIME magazine</i> , March 18, 1974 http://www.time.com/time/magazine/article/0,9171,911141,00.html
1977	LucasFilm	<i>Star Wars</i>	Star Wars revolutionised modern merchandising in Hollywood. Merchandising generated over \$1 billion – five times more than the movie's budget.	Wyatt 1995 pp 150-154 Shone 2004 p. 66.
1982	Universal	<i>E.T.: The Extra-Terrestrial</i>	"The most celebrated product placement of all time. Hershey chocolate lent its Reese's pieces – then a 2 nd tier candy bar. Reese's Pieces experienced a 65% hike in sales".	Marich 2005 p. 104
1994	Disney	<i>The Lion King</i>	"Disney's 1994 tsunami of a blockbuster <i>The Lion King</i> rolled up \$313 million in domestic box office and \$1.5 billion in retail merchandise sales".	Marich 2005 p. 129
1995	United Artists	<i>GoldenEye</i>	"According to <i>Variety</i> , tie-ins with promotional partners such as BMW, Omega watches, and Yves St Laurent added as much as \$50 million extra exposure for <i>GoldenEye</i> . BMW alone was reported to spend a figure comparable to its normal investment in the launch of any new product – estimated at \$20-30 million. Other companies involved in tie-in campaigns included Yves St Laurent which sponsored a retail promotion at 145 stores across the country, the oil company Citgo which ran a point-of-purchase promotion in more than 9,000 stores, supporting it with TV advertising and Omega which supported the opening of the film with an ad campaign in upscale magazines. All of these efforts served as important parts of	Lukk 1997 p. 59; pp 65-66

			<i>the closing effort of the advertising and marketing campaign. At this point, the GooldenEye soundtrack was also in the stores. The GoldenEye title song was performed by Tina Turner and a music video was released to video channels and retail stores”</i>	
2005	Disney-Pixar	<i>The Incredibles</i>	<i>Disney negotiated seven promotional partnerships with SBC, Procter & Gamble, McDonalds and other firms worth \$200 million (\$50 million in paid media and \$150 million in promotional exposure value). “The respective \$160 million and \$200 million figures for ‘Treasure’ and ‘Incredibles’ tie-ins reflect estimated overall promotional value, including paid media, gross impressions, online exposure, collateral materials, premiums, prizes, instore displays, promotional packaging and direct mail. The promotion is being supported by two TV spots and a national print campaign advertising a sweepstakes offering the chance to win \$10 million”</i>	Schiller 2004
2004	MGM	<i>The Pink Panther</i>	<i>“MGM orchestrated a merchandising blitz. The Pink Panther animated character was licensed to 20 companies to make 200 products.”</i>	Marich 2005 p. 119
2005	Disney-Pixar	<i>The Incredibles</i>	<i>Disney negotiated seven promotional partnerships with SBC, Procter & Gamble, McDonalds and other firms worth \$200 million (\$50 million in paid media and \$150 million in promotional exposure value). “The respective \$160 million and \$200 million figures for ‘Treasure’ and ‘Incredibles’ tie-ins reflect estimated overall promotional value, including paid media, gross impressions, online exposure, collateral materials, premiums, prizes, instore displays, promotional packaging and direct mail. The promotion is being supported by two TV spots and a national print campaign advertising a sweepstakes offering the chance to win \$10 million”</i>	Schiller 2004

APPENDIX 36a Sound of Music (1964) ads and merchandise

Omitted due to copyright restrictions

APPENDIX 36b The Jazz Singer (1927) ad theme and merchandise

Omitted due to copyright restrictions

APPENDIX 37 Major Studio Consumer Products & Licensing Divisions

Major studio	Merchandising arm	Weblink / URL
Disney	Walt Disney Consumer Products	Disney established it's first licensing division in 1932 http://corporate.disney.go.com/corporate/overview.html
Warner	Warner Brothers Licensing	http://www.timewarner.com/corp/businesses/detail/warner_bros/index.html
Paramount	Viacom Consumer Products	http://info.neopets.com/viacom/
Fox	Fox Consumer Products Division	http://findarticles.com/p/articles/mi_m3092/is_16_37/ai_50267682
Sony, Columbia,	Sony Pictures Consumer Products	http://www.sonypictures.com/corp/corporatefact.html#spcp
MGM-UA	MGM Consumer Products	http://www.mgm.com/corp_news_releases.do?id=342
Universal	NBC-Universal Consumer Products	http://www.nbcuni.com/About_NBC_Universal/Company_Overview/overview06.shtml

APPENDIX 38 EXAMPLES OF HIGH CONCEPT POSTERS

Frequently cited examples of poster artwork that typifies high concept advertising can be seen below at the following weblinks in the poster artwork for *M*A*S*H* (Fox - 1970), *Chinatown* (Paramount – 1974), *Paper Moon* (Paramount - 1973), *The Great Gatsby* (Paramount - 1974), *The Exorcist* (Warner Brothers – 1974), *Jaws* (Universal - 1975), *Heaven Can Wait* (Paramount - 1978), *Star Wars* (Fox - 1977), *Close Encounters of the Third Kind* (Columbia - 1978).

M*A*S*H (1970 poster)

<http://www.impawards.com/1970/mash.html>

Paper Moon (1973 poster)

http://www.impawards.com/1973/paper_moon.html

Chinatown (1974 poster)

<http://www.impawards.com/1974/chinatown.html>

The Great Gatsby (1974 poster)

http://www.impawards.com/1974/great_gatsby.html

The Exorcist (1973 poster)

<http://www.impawards.com/1973/exorcist.html>

Heaven Can Wait (1978 poster)

[http://www.impawards.com/1978/heaven can wait.html](http://www.impawards.com/1978/heaven_can_wait.html)

Star Wars (1977 poster)

http://www.impawards.com/1977/star_wars.html

http://www.filmsite.org/posterpages/p_starw.html

Close Encounters of the Third Kind (1977 poster)

http://www.impawards.com/1977/close_encounters_of_the_third_kind.html

APPENDIX 39 Film rentals as percentage of gross box office

Year	Film rentals as percentage of U.S. box office	US Film rentals as percentage of American gross of world box office	Source and Business environment observation
1918	15-20%		From Donahue (1987) Industry shakeout Silent film era
1932	35%		Film Daily Yearbook (FDY)
1934	35%		FDY
1935	35%		FDY
1937	25%		FDY
1938	25%		FDY
1939	25%		FDY
1940	35%		FDY Gone With The Wind
1941	31%		FDY
1942	35%		FDY
1943	35%		FDY
1944	31%		FDY
1945	35%		FDY
1946	35%		FDY
1947	35%		FDY
1948	35%		FDY
1949	36%		FDY
1950	20-25%		From Donahue (1987) End of the Studio Era
1950	35%		FDY
1951	35%		FDY
1952	36%		FDY
1953	33%		FDY
1954	35%		FDY
1955	35%		FDY
1956	31%		FDY
1957	29%		FDY
1958	27%	45%	FDY
1959	25%	34%	FDY
1960	30-35%		From Donahue (1987) TV - rapid diffusion
1960	23%	31%	FDY
1961	24%	30%	FDY
1962	22%	30%	FDY
1963	26%	33%	FDY
1964	25%	33%	FDY
1965	37%	37%	FDY Sound of Music
1966	40%	37%	FDY
1967	40%	38%	FDY
1968	35%	38%	FDY
1970	27%	49%	From Vogel 2004 Film industry recession & new distribution entrants
1971	25%	51%	Vogel 2004
1972	27%	49%	Vogel 2004
1973	26%	52%	Vogel 2004
1974	29%	48%	Vogel 2004
1975	30%	49%	Vogel 2004
mid-1970s	34-36%		Donahue 1987 p. 32
1976	28%	50%	Vogel 2004
1977	37%	41%	Vogel 2004
1978	45%	43%	Vogel 2004
1979	38%	46%	Vogel 2004
1979	39-40%		Donahue 1987 p. 32
1980	43%	44%	Vogel 2004 Beginning of home video era
1981	39%	42%	Vogel 2004
1982	39%	35%	Vogel 2004
1983	35%	39%	Vogel 2004
1984	33%	33%	Vogel 2004
1985	30%	36%	Vogel 2004 Home video boom & rise of mini-majors
1986	31%	41%	Vogel 2004
1987	29%	43%	Vogel 2004
1988	35%	42%	Vogel 2004

1989	38%	43%	Vogel 2004
1990	36%	47%	Vogel 2004 Ancillary markets reach critical mass
1991	39%	44%	Vogel 2004
1992	41%	42%	Vogel 2004
1993	39%	50%	Vogel 2004
1994	38%	50%	Vogel 2004
1995	44%	46%	Vogel 2004 Box office boom
1996	41%	51%	Vogel 2004
1997	42%	50%	Vogel 2004
1998	40%	51%	Vogel 2004
1999	42%	48%	Vogel 2004
2000	37%	47%	Vogel 2004 US cinema recession pending
2001	39%	42.7%	Vogel 2004
2002	38%	47%	Vogel 2004
2005	45%-60% varies from film to film	??? %	Epstein 2005p. 115
Normal film rental range	US: 35%	Foreign: 40%-45%	Industry rule of thumb

Sources: Film Daily Yearbooks – 1933-1970; Donahue (1987) pp 32 and 178; Vogel (2004) pp 58

APPENDIX 40 Career backgrounds of the founders and senior marketing officers of the early Major studios

[illegible]

<p>Famous Players-Paramount.</p> <p>Famous Players founded in 1913. Paramount in 1914. Merged in 1916.</p>	<p>Adolph Zukor – President, Famous Players-Paramount. Founded Famous Players (1913). Acquired Paramount (1916).</p>	<p>Chicago-based fur salesman who acquired Hale’s Tours. He moved to New York and invested in penny arcades (in partnership with Marcus Loew) that were converted into nickelodeon movie theaters. Sold out and resigned as treasurer of Loews theater chain and established his own movie studio Famous Players (1913) . He merged FP with Lasky and Paramount in 1916 serving as President.</p> <p><i>“It was my custom to take a seat about six rows from the front. I spent a good deal of time watching the faces of the audience, even turning around to do so. A movie audience is very sensitive. With a little experience I could see, hear and ‘feel’ the reaction to each melodrama and comedy. Boredom was registered – even without comments or groans – as clearly as laughter demonstrated pleasure. I am a sly audience watcher but nobody in a projection room, however much his experience, can judge an audience’s reaction – and it is surprising how wrong one can be.”</i> – Adolph Zukor</p> <p>“Our prime aim is always to keep abreast of audience taste and ahead if possible” – Adolph Zukor</p>	<p>Ramsaye 1986 p. 431.</p> <p>Zukor 1953 pp 43.</p> <p>Zukor 1953 p. 202.</p>
<p>Famous-Players Paramount</p>	<p>Al Lichtman</p>	<p>Early career in vaudeville theater and as a film salesman. Hired by Zukor to run Famous Players film sales. In 1915 Lichtman managed Famous Players-Paramount first in-house exploitation department handling the studio’s advertising, publicity, promotion and merchandising.</p>	<p>Ramsaye 1986 p. 597. Gaines 1990.</p>
<p>Famous Players-Paramount</p>	<p>Sidney Kent</p>	<p>Worked as Sales Manager for the American Drugists Syndicate prior to joining Edison’s General Film Corporation in film distribution sales. Joined Famous Players-Paramount as Zukor’s chief aide then became General Manager, Film Distribution responsible for selling and marketing all Paramount movies in 1920s.</p>	<p>Ramsaye 1986 p. 829</p>
<p>Loews-MGM</p> <p>Loews created MGM through mergers in 1924.</p>	<p>Marcus Loew</p>	<p>New York vaudeville entrepreneur and former partner of Zukor. He converted his chain into movie theaters and acquired Metro, Goldwyn and Mayer studios, eventually merging them into MGM in 1924.</p>	
<p>Loews-MGM</p>	<p>Louis B. Mayer</p>	<p>New England nickelodeon owner demonstrated significant promotional capabilities marketing ‘The Passion Play’ in Massachusetts in 1909. Made a personal fortune as New England regional distributor selling ‘<i>Birth of a Nation</i>’ - the first American made blockbuster. He became a producer and then the first President of M.G.M.</p> <p><i>“He was a great audience watcher”</i> spending many hours sitting in movie theaters with audiences observing their reactions to the film.</p> <p><i>“He (Mayer) attended every public preview of a Metro picture. ‘That’s where the audience is!’ he would say ‘and that’s where I want to see the</i></p>	<p>Higham 1994 p. 18, 29-30.</p> <p>Mayer’s grandson quoted in Stohr 2004.</p> <p>Eyman 2005 p. 298.</p>

		<i>picture- with them!"</i>	
Loews-MGM	Howard Dietz	Worked as a copywriter in a New York ad agency in 1915 prior to joining Goldwyn Pictures and then MGM where Dietz was named the studio's first Director of Advertising & Publicity where he created the new studio's Leo the Lion trademark and wrote the famous MGM slogan " <i>More Stars Than There Are in Heaven</i> ".	Dietz 1974 pp 40-41; p. 109; p. 111. Crowther 1957 p. 64.
Loews-MGM	Pete Smith	Publicist joined MGM under Dietz, trained in the studio became Head of Publicity eventually Head of Production at MGM.	Higham 1994 p. 78.
Loews-MGM	Howard Strickling	Worked as a journalist before joining Metro in 1919 and Goldwyn prior to the MGM merger. Trained in MGM's publicity department and became head of advertising and publicity in 1934 succeeding Pete Smith.	Higham 1994 p. 121.
Fox Film Founded in 1914.	William Fox	Operated a successful clothing business in New York before buying nickelodeon theaters in 1904, later establishing his own film exchange in and then established a film studio in 1914 creating Fox Film. Innovated large screen cinema (Fox Grandeur) and talking picture sound system.	Sinclair 1933 p. 34-35; 39; 46.
United Artists Founded in 1919	Mary Pickford, Charles Chaplin, Douglas Fairbanks and D.W. Griffith. Hiram Abrams, General Manager.	The four principals were creative talent – actors, director / producers. Abrams was a former distributor and exhibitor, originally helped form Paramount then left to help create UA. " <i>Acknowledged by all to be as the greatest salesman in the business.</i> "	Balio 1976 pp 24-26.
Columbia Pictures Founded in 1920 as CBC became Columbia in 1924.	Jack and Harry Cohn and Joe Brandt (President).	1902-08 Jack Cohn and Joe Brandt worked for Hampton Advertising agency in New York. Harry Cohn worked in music publishing. Jack moved into production and joined Universal as Laemmle's secretary. Brandt also joined Universal " <i>Brandt had a gift for salesmanship</i> " and ran the film exchanges. " <i>Joe Brandt was a master of exploitation</i> ".	Dick 1992 pp. 5, 21, 26-27, 38.
Warner Brothers Founded in 1923	Warner brothers –Harry, Jack, Sam and Abe.	Nickelodeon theater operators who later established a film exchange and finally moved into production.	Warner-Sperling & Millner with Warner 1994 pp. 33, 42, 60, 77.
Warner Brothers Founded in 1923	Hal Wallis	Worked in the publicity department at Warner Brothers and eventually became studio Head of Production. Later won Oscars as producer of Casablanca (WB) & Ben-Hur (MGM).	Warner-Sperling & Millner with Warner 1994 p. 77.
RKO Founded in 1929	David Sarnoff, Chairman Joseph Schnitzer, President	Sarnoff was President, RCA the driving force behind the creation of NBC national radio network. Schnitzer had extensive experience in distribution and production.	Lasky 1984 p. 24, 42.
Walt Disney Founded in 1925	Walt Disney	Film animator and producer.	Hollis & Sibley 1988 p. 6, 40.

APPENDIX 41 Executive marketing rosters at the Major studios – snapshots 1910-25, 1934, 1940, 1960, 1980

Year	FP-Paramount	Loews-MGM	Universal	CBC (pre-Columbia)	
1912-1925	1916 President: Adolph Zukor Exploitation Manager (advertising, publicity, merchandising): Al Lichtman	1924 Loews-MGM President Nicholas Schenck MGM Studio President: Louis B. Mayer Advertising & Publicity Manager: Howard Dietz	1912 President: Carl Laemmle Vice President: Robert Cochrane Advertising & Publicity Manager: Phil Cochrane Ad Agency: Witt K. Cochrane	1920 President: Joe Brandt (directed exploitation and sales)	
Year	Paramount	Loews-MGM	Universal	Warner Bros.	
1934	President: Adolph Zukor <i>General sales manager:</i> Neil F. Agnew <i>Director Advertising & publicity:</i> Robert Gillham Ad agency: Lord & Thomas	Loews-MGM President Nicholas Schenck MGM President: Louis B. Mayer <i>General sales manager:</i> Felix F. Feist <i>Publicity & advertising director:</i> Howard Dietz	President: Carl Laemmle <i>General sales manager:</i> James R. Grainger <i>Head of exploitation, advertising & publicity:</i> Phil Cochrane	President: Harry M. Warner <i>Eastern & Canadian general sales manager:</i> A.W. Smith Jr <i>Western & southern general sales manager:</i> Gradwell L. Sears <i>Director – Publicity & Advertising:</i> S. Charles Einfeld	
Year	Paramount	Loews-MGM	Universal	Warner	20th Century-Fox
1940	President: Barney Balaban <i>General sales manager:</i> Neil F. Agnew <i>Director Advertising & publicity:</i> Robert Gillham	Loews-MGM President Nicholas Schenck MGM President: Louis B. Mayer <i>General Manager sales & distribution:</i> William Rodgers <i>Director of advertising, publicity & exploitation:</i> Howard Dietz	President: N.J. Blumberg <i>General sales manager:</i> William A. Scully <i>Director of exploitation, advertising & publicity:</i> John Joseph	President: Harry M. Warner <i>General sales manager:</i> Gradwell L. Sears <i>Director – Publicity & Advertising:</i> S. Charles Einfeld	<i>President:</i> Joseph M. Schenck <i>General manager – distribution:</i> Herman Wobber <i>Director, advertising & publicity:</i> Charles McCarthy
Year	Paramount	Loews-MGM	Colombia	Warner	20th Century-Fox
1960	President: Barney Balaban <i>President, Paramount distribution:</i> George Weltner <i>National Director Advertising, publicity & exploitation:</i> Jerome Pickman	President: Joseph R. Vogel <i>V.P. & General manager sales & distribution:</i> J.P. Byrne <i>Director advertising, publicity & exploitation:</i> Howard Strickling	<i>President:</i> A. Schneider <i>V.P. & General sales manager:</i> Rube Jackter <i>Director, advertising, publicity & exploitation:</i> Robert Ferguson <i>Liaison, business executive, sales, national advertising & publicity department:</i> Harry Kosiner	President: Jack Warner WB Studio publicity director: Bill Hendricks <i>President & general sales manager, Warner Bros. distribution:</i> Charles Boasberg <i>Advertising manager:</i> Gil Golden <i>National publicity manager:</i> Meyer Hutner	President: Spyros Skouras <i>V.P. in charge of advertising, publicity & exploitation:</i> S. Charles Einfeld <i>General sales manager:</i> Alex Harrison
Year	Paramount	MGM	Colombia	Warner	20th Century-Fox
1980	Chairman & CEO: Barry Diller <i>Paramount studio - V.P. worldwide publicity & promotion:</i> Eddie Kalish	President & CEO: Frank Rosenfelt <i>Senior V.P. worldwide marketing:</i> Richard Kahn <i>V.P. worldwide advertising, publicity</i>	President: Frank Price <i>President Columbia Pictures distribution:</i> Norman Levy <i>V.P. & General manager of sales:</i>	<i>Chairman & CEO:</i> Ted Ashley <i>Executive V.P.</i> <i>Worldwide publicity & advertising:</i> Sanford Reisenbach <i>V.P. Market research:</i>	Chairman & CEO: Dennis Stanfill <i>President, Marketing & distribution:</i> Ashley Boone <i>V.P. worldwide publicity & promotion:</i>

	V.P. National Advertising: Tom Campanella V.P. Creative advertising: George Cohen <i>Executive V.P. Distribution & Marketing:</i> Frank Mancuso V.P. & General sales manager: Marty Kutner	<i>& promotion:</i> Al Newman <i>V.P. International – International advertising & publicity:</i> Bill Edwards <i>Director , advertising, publicity & promotion:</i> John Skouras <i>Director, Marketing management services:</i> Deanna Wilcox	Raymond McCafferty <i>Vice Presidents of advertising, publicity & promotion:</i> Martin Levy & Irv Ivers	Allan Freeman <i>V.P. Publicity:</i> Joe Hyams <i>V.P. & General sales manager – WB distribution:</i> Barry Reardon <i>National director of publicity & advertising:</i> Ernie Grossman	Robert Dingilian <i>V.P. & General sales manager:</i> John Peckos
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Sources: International Motion Picture Almanacs 1934-35 pp 835-863; 1940 pp 668- 720; 1960 pp402-481; 1980 pp 447-493.

APPENDIX 42 Movie attendance milestones in the U.S. market 1893-2006

Period	Milestone	Source
1893-95	Edison's peep-hole kinetoscopes offer first moving pictures. Technology diffuses. Novelty attracts paying customers at fairgrounds, penny arcades, museums, halls.	
1895	Lumiere brothers demonstrate first film projector in Paris. Cinema is born.	
1895-1897	Paying audiences attracted to all types of short films in many different venues.	
1898-1900	Downturn in audience interest as novelty of watching any kind of moving pictures wears off.	AFI data Csida & Csida 1978 p. 76-77; p. 138. Balio 1985 p. 11.
1900	Film popularity increases after films telling narrative stories attract audiences and become big box office hits: <i>A History of the Crime</i> – Pathe (1900); <i>A Trip to the Moon</i> – Melies (190); <i>The Great Train Robbery</i> – Edison (1903). Genres emerge.	
1902	First film exchange opens in America. Embryonic organised film distribution.	
1905-1908	Unaffiliated national network of film exchanges in America. Nickelodeon frenzy – 9,000 makeshift theaters open across America providing affordable mass entertainment for urban working classes. Europeans begin making bigger budget, longer epic films. Nickelodeon programming strategy critical as quick turnover of customers was the key to profitability. Pathe's <i>The Passion Play</i> a huge box office hit in 1907-08.	Musser 1991 p. 235. Izod 1988 p. 9. Abel 1999 p. 60.
1909	Downturn in movie attendance. Nickelodeon boom ends. Edison establishes MPPC.	
1910	MPPC sets up the GFC buys-out all film exchanges in America except William Fox.	
1911-1920	Feature films begin appearing and become popular as movie star system emerges. Permanent movie theaters are constructed in America including many elaborate movie palaces, large theater circuits emerge. Hollywood studios enter exhibition.	
1920	Movies popularity increases. Commercial radio introduced in America.	
1925	Paramount, MGM, Fox and Warner have large theater circuits. Universal operates a small circuit.	
1926	NBC national radio network established in U.S. Movie attendance slightly affected.	
1927	Talking pictures introduced. Movie theater attendance booms.	
1931-36	Great Depression. Movie attendance declines dramatically.	
1937-46	Theater attendance booms through Second World War. Peaks in 1946.	
1947-1974	Steep decline in movie theater attendance over 25 year period due to diffusion of television, changing demographics and social values in the 1960s.	
1975-76	' <i>Jaws</i> ' spurs first increase in movie attendance in 28 years. Decline again in 1976. Sony introduces Betamax video recorder.	
1977-1979	' <i>Star Wars</i> ' triggers increased annual movie attendance.	
1980-84	Annual attendance in drops in 1980 and then rises slightly again over 3 year period.	
1985-88	Annual attendance drops again during the video boom as video libraries proliferate.	
1989-90	Annual attendance rises in 1989 and falls again in 1990	
1991-2002	13 year rise in movie attendance as theater chains embark on massive multiplex construction programs and Hollywood blockbusters boom at box office.	
2003-06	4 year decline in movie attendance as large screen TVs and other digital technologies and entertainment alternatives proliferate	

APPENDIX 43 Examples of movie franchises and serials from Major studios

Studio	Era	Series films/movie franchises	No. Films	Serials	No chapters	
Pathe	1910s			Perils of Pauline	20	
Universal	1930s	Lone Ranger (1920-56)	5	Tailspin Tommy (1934)	15	
		Frankenstein (1931-48)	7	Perils of Pauline	12	
		Dracula (1931-48)	4	Ace Drummond (1936)	13	
		The Mummy (1932-56)	6	Flash Gordon (1936)	13, 15, 12	
	1940s	Invisible Man (1931-56)	6	Buck Rogers (1939)	13	
		Wolf Man (1941-42)	2	Green Hornet (1940)		
		Sherlock Holmes (1942-49)	10			
	1950s	Creature from the Black Lagoon (1954-56)	3			
Francis the Talking Mule (1950-1956)		7				
1970s	Jaws (1975-1983)	4				
	1990s	Jurassic Park (1993-2001)	3			
Paramount	1930s	Hopalong Cassidy	3			
	1940s	Bulldog Drummond	8			
		Road to.. Hope/Crosby (1940-62)	7			
	1970s	The Godfather (1972-90)	3			
	1980s	Indiana Jones	4			
		Star Trek (1979-2008)	11			
		Beverly Hills Cop (1984-94)	3			
	1990s	Jack Ryan (1990-2002)	4			
Mission Impossible		3				
MGM	1930s	Tarzan (1932-1948)	12			
	1940s	Dr Kildare (1937-1942)	7			
		Lassie (1943-1949)	5			
		The Thin Man (1934-45)	6			
		Andy Hardy (1937-1946)	16			
UA	1920s	Zorro	2			
	1960s	Bulldog Drummond	2			
		James Bond (1962-2006)	22			
		Pink Panther (1963-2006)	10			
1970s	Rocky (1976-2006)	6				
Fox	1930s	Charlie Chan	17			
	1970s	Mr Moto	8			
		Sherlock Holmes	2			
		Star Wars (1977-2005)	6			
	1980s	Alien (1979-2004)	6			
	2000s	Die Hard (1988-95)	3			
		X-Men (2000-06)	3			
Columbia	1940s	Blondie (1938-50)	28	Captain Midnight (1941)	15	
		Bulldog Drummond	2	Batman (1943)	15	
				Superman (1949)	15	
				Captain Video (1951)	15	
	1960s	Gidget (1959-1963)	3	Blazing the Overland Trail	15	
		1980s	Ghostbusters (1984-89)	2		
		2000s	Spiderman (2002-07)	3		
Warner	1920s	Rin Tin Tin	6			
	1970s	Dirty Harry	5			
		Smoky & Bandit (1977-83)	3			
		Mad Max (1979-85)	3			
	1980s	National Lampoon (1983-00)	5			
		Police Academy (1984-2007)	8			
	2000s	Harry Potter (2001-08)	6			
		Matrix	3			
Disney	1930s	Silly Symphonies				
	1950s	Davy Crockett	2			
	1960s	Herbie the Love Bug	6			
	1980s	Land Before Time	12			
	2000s	Pirates of Caribbean(2003-07)	3			

Sources: IMDB.com, Filmsite.org and wikipedia.org

APPENDIX 44 Major studio house styles and strategy during the Studio Era

Major Studio	House style	Strategy	Genres associated	Sources
Paramount	The dominant market leader from late 1910s-1930s. During the Studio Era, Paramount meant prestige, quality, sophistication & an “aristocratic sheen”. “ <i>The most European of the studios</i> ” because of the large contingent of European actors and directors on payroll. Also known as “ <i>the director’s studio</i> ” because the “ <i>the film was the thing not the star</i> ”.	Big stars in sophisticated movies attractive to middle class audiences to its vast theater chains.	Cecil B. De Mille epics Sophisticated comedies.	Zukor 1953 p. 238. Eames 1985 p. 12. Mordden 1988 p. 33. Izod 1988 pp. 86-94. Karney 2001 p. 212. Naughton & Smith 1998 p. 30-31.
Loews-MGM	Big Five Major and market leader from 1930s-1950s. Glamour, lavish extravagance, high quality production values and big budgets. “ <i>The ultimate fantasy factory</i> ” and “ <i>nouveau riche glitter</i> ”. The artist’s studio with the biggest roster of movie stars - “ <i>MGM has more stars than in the heavens</i> ”.	Glamorous feel-good escapism for the whole family. Operated the smallest theater chain but they were exclusively 1 st run houses	Big budget musicals Historical dramas Melodramas Family films – Tarzan, Lassie, Andy Hardy	Eames 1982 p. 8. Stohr 2004. Mordden 1988 p. 53. Karney 2001 p. 212.
Fox Film	Late developing Big Five Major. Low budget crowd pleasers as Fox Film. Innovated with technology – talking pictures and Fox Grandeur. “For a decade, Fox avoided the race for prestige driving Paramount and First National. With stars Theda Bara, William Farnum and Tom Mix he produced melodramas and action pictures to please patrons in unpretentious houses. Unsophisticated films brought continuing profits.”	Low cost under William Fox.	Dramas, westerns, Sherlock Holmes series. Charlie Chan and Mr Moto B movies.	Karney 2001 p. 212. Naughton & Smith 1998 pp 30-31. Koszarski 1990 pp 84-85.
20th Century-Fox from 1935 under Darryl F. Zanuck	Zanuck favoured “ <i>brassy musicals, folksy nostalgia and spectacles showing off the studios famed special effects unit</i> ”	Switched to high quality production under Zanuck.	Big budget musicals, spectacles, drama – in 1953 introduced Cinemascope.	Behlmer 1993 preface xxi.
Warner Brothers	Innovated with talking pictures and became an overnight Big Five Major studio. “ <i>Warner Brothers was a studio with its sleeves rolled up. Gritty gangster movies, social problem pictures and gutsy musicals were the staples</i> ”.	Low cost film factory making topical working class stories based on serious social issues with subversive themes	Gangster movies (Robinson, Cagney, Raft, Bogart,). Gritty dramas. Prestige biopics.	Naughton & Smith 1998 pp 30-31. Behlmer 1985 pp. 54-55.
R.K.O.	The smallest of “the Big Five” and the last Major entrant. Had high quality production values – “ <i>a designer’s studio in the creation of the fantastic</i> ” (e.g. King Kong). RKO theater circuit was centred in the north-east, mainly in the New York area. “ <i>This became RKO’s targeted public</i> ”.	High quality features with special effects and “ <i>a heavy B movie schedule</i> ”. Clearing house for independents.	Ginger Rogers-Fred Astaire musicals. Dramas (Citizen Kane) Two reel comedies. Distributed Selznick, Goldwyn & Disney.	Mordden 1988 p. 294; p. 319. Izod 1988 pp 84-94. Naughton & Smith 1998 p. 30-31.
Universal	The first Hollywood Major slipped in the 1930s to become a member of “the Little Three”. “ <i>Universal had the least ambitious aesthetic of all the Major studios</i> ”, supplying many mid-western theaters.	Low cost B pictures for double bills and serials to non-metropolitan theaters.	Westerns – Tom Mix and Hoot Gibson. Horror – Dracula, <i>Frankenstein</i> , <i>The Mummy</i> , <i>Wolf Man</i> . Serials – <i>The Perils of Pauline</i> , <i>Flash Gordon</i> , <i>Ace Drummond</i> , <i>The Green Hornet</i> . <i>Francis</i> the talking	Mordden 1988 p. 294, pp. 323-325. Naughton 1998 pp 48-49. Hirschhorn 1983 p. 55.

			mule in the 1950s.	
United Artists	Member of “the Little Three”. Cherry picked the best high quality and low budget independent projects for distribution throughout the Studio Era. Moved into the prestige end of the market after 1950 and became a market leader.	Distribution only, owned no theaters. Home of the independent.	Pickford, Griffith, Fairbanks and Chaplin movies. Goldwyn and Disney films.	Balio 1976 p. 96 Izod 1998 pp. 84-94.
Columbia	Member of “the Little Three”. A Poverty Row studio throughout the Studio Era. Moved into prestige end of the market from 1950s and became a market leader.	Low-cost mass production. Targeted the lower end of the market ignored by the Big Five.	Low budget westerns. Screwball comedies. Occasional prestige film.	Hirschhorn 1989 p. 9. Izod 1988 pp. 84-94
Disney	Independent animated studio that evolved into a Major in the 1950s when it produced many box office hits.	Family entertainment company with a different business model – owned no theaters, made more money from licensed merchandising than from box office until 1950s.	Animated short films – Mickey Mouse, Donald Duck. Feature length animated films from late 1930s. Live action family films from 1950s e.g. Davy Crockett, Mary Poppins.	Maltin 1984.

APPENDIX 45 Theatre holdings of Major film companies in Old Hollywood

Hollywood Major	Circuits acquired by the Majors	Region	Number of theatres	Year of acquisition	Total theatres in Major's circuit
First National	First National circuit of independents	National	639 Paramount acquired many First National theaters	Circuit lasted only from 1917-1925	639 in 1920 including 224 first run theatres
Paramount-Publix	Balaban & Katz (B&K)	Chicago / mid-west also 1 st and 2 nd runs in New York, Los Angeles and other key cities.	100+ B&K Paramount acquired many First National	1925 B&K merged with Publix	Expanded from 300 – 1500 between 1925-1929 including 29 first run houses. Zukor 1953: 1,400 theaters in 1948 (p. 291) in U.S. 600 theaters overseas. Many 1 st run showcase theaters overseas (p. 239).
Loews-MGM Inc. (MGM studio)	Loews theaters	New York / East Coast (owned 12 theaters in New York by 1909)	100+	1924 Loews formed MGM	100+ including 24 first run houses
Warner Brothers	Stanley Theatres	Philadelphia	250	1925	320+ Warner houses incl. 28 first run
Warner Brothers	Skouras Theatres	St Louis / south	70	1926	
Fox Film 20 th Century-Fox after 1935	Fox Metropolitan Circuit Fox West	New York (owned 14 theaters in New York by 1910) Dominated the western states	1920: Fox - 25 store theaters that were remodelled vaudeville houses. In 1927, Fox had 1,000 houses in U.S. & the Fox Metropolitan circuit had 175 houses. Fox West – 400 houses. 30 first run theaters in 1940, & a large overseas circuit	1930	Solomon 2002 p. 5. Balio 1976 p. 113.
RKO	Keith Albee Orpheum	East coast (NY)	100– 200 including 19 1 st run houses	1929 RKO formed	Crafton 1997 p. 141.
United Artists	United Artists Theater Circuit (owned by U.A.'s investors).	1 st run theaters in major metropolitan areas. Co-owned city theaters in partnership with other Major studios.	?	1926	Balio 1987 p. 11. Balio 1976 p. 65.
Universal		Mid-west	200		Hampton 1970 p. 321

Sources: various. Huettig (1944 pp 70); Allen (1989); Film Studio histories for Warner Brothers, RKO, 20th Century Fox. Websites: Balaban & Katz www.chicagotelevision.com/WBKB.htm and Skouras Theatres at http://httpsv.irt.drexel.edu/faculty/ina22/cliplib/clip-it's_up_to_you.htm

APPENDIX 46 Highest grossing foreign films in the U.S. market 1950-74.

Year	Film	Distributor	Country of origin	Gross film rentals	Source
1958	<i>God Created Woman</i>	Kingsley	France	\$ 3 million	Ranked # 25 "Top Grossers of 1958" in <i>Variety</i> Jan 7, 1959 p. 48
1958	<i>Night Heaven Fell</i>	Kingsley	France	\$ 1 million	Ranked # 77 "Top Grossers of 1958" in <i>Variety</i> Jan 7, 1959 p. 48
1961	<i>La Dolce Vita</i>	Astor	Italy	\$ 6 million	Ranked #73 "All-Time Top Gross Films" <i>Variety</i> Jan 10, 1962 p. 13
1962	<i>Two Women</i>	Embassy	Italy	\$ 3 million	Ranked #29 "Big Picture Rentals of 1962" <i>Variety</i> Jan 9, 1963 p.18
1962	<i>Never on a Sunday</i>	Lopert	Greece	\$ 4 million	Ranked# 242 "All-Time Top Grossing Films" <i>Variety</i> Jan 9, 1963 p.18
1963	<i>8-1/2</i>	Embassy	Italy	\$ 1.1 million	Ranked # 29 "Top Rental Films of 1963" <i>Variety</i> Jan 8, 1964 p. 37
1966	<i>A Man and a Woman</i>	Allied Artists	France	\$ 350,000	Ranked # 87 "Big Rental Pictures of 1966" <i>Variety</i> Jan 4, 1967 p 8
1967	<i>Shop on the Main Street</i>	Euro Int'national	Czech	\$ 1.3 million	Ranked # 65 "Big Rental Films of 1967" <i>Variety</i> Jan 3, 1968 p. 25
1967	<i>A Fistful of Dollars</i>	UA	Italy	\$ 2.0 million	Ranked # 46 "Big Rental Films of 1967" <i>Variety</i> Jan 3, 1968 p. 25
1967	<i>For a Few Dollars More</i>	UA	Italy	\$ 2.2 million	Ranked # 41 "Big Rental Films of 1967" <i>Variety</i> Jan 3, 1968 p. 25
1968	<i>Elvira Madigan</i>	Cinema V	Sweden	\$ 2.1 million	Ranked # 51 "Big Rental Films of 1968" <i>Variety</i> Jan 8, 1969 p. 15
1968	<i>The Good, the Bad and the Ugly</i>	UA	Italy	\$ 4.5 million	Ranked # 24 "Big Rental Films of 1968" <i>Variety</i> Jan 8, 1969 p. 15
1968	<i>Closely Watched Trains</i>	Sigma III	Czech	\$ 1.5 million	Ranked # 61 "Big Rental Films of 1968" <i>Variety</i> Jan 8, 1969 p. 15
1969	<i>I Am Curious Yellow</i>	Grove Press	Sweden	\$ 6.6 million	Ranked # 12 "Big Rental Films of 1969" <i>Variety</i> Jan 7, 1970 p. 15
1969	<i>Inga</i>	Cinematation	Sweden	\$ 1.8 million	Ranked # 58 "Big Rental Films of 1969" <i>Variety</i> Jan 7, 1970 p. 15
1969	<i>Fanny Hill</i>	Cinematation	Sweden	\$ 1.2 million	Ranked # 77 "Big Rental Films of 1969" <i>Variety</i> Jan 7, 1970 p. 15
1970	<i>Z</i>	CRC	France	\$ 6.7 million	Ranked #14 "Big Rental Films of 1970" <i>Variety</i> Jan 6, 1971 p. 11
1970	<i>Fellini's Satyricon</i>	UA	Italy	\$ 1.4 million	Ranked #57 "Big Rental Films of 1970" <i>Variety</i> Jan 6, 1971 p. 11
1972	<i>Garden of the Finzi-Continis</i>	C5	Italy	\$ 1.5 million	Ranked # 70 "Big Rental Films of 1972" <i>Variety</i> Jan 3, 1973 p. 36
1973	<i>Enter the Dragon</i>	WB	Hong Kong	\$ 4.2 million	Ranked # 28 "Big Rental Films of 1973" <i>Variety</i> Jan 4, 1974 p. 13
1973	<i>Chinese Connection</i>	NGP	Hong Kong	\$ 3.4 million	Ranked # 40 "Big Rental Films of 1973" <i>Variety</i> Jan 4, 1974 p. 13
1973	<i>Fist of Fury</i>	NGP	Hong Kong	\$ 2.8 million	Ranked # 50 "Big Rental Films of 1973" <i>Variety</i> Jan 4, 1974 p. 13
1973	<i>Trinity is Still My Name</i>	AVCO Embassy	Italy	\$ 2.1 million	Ranked # 63 "Big Rental Films of 1973" <i>Variety</i> Jan 4, 1974 p. 13

APPENDIX 47 Independently distributed films placed in Top 100 All Time Rental Champions

Year	Movie (ranking)	Star or genre	Distributor	Total rentals (\$ Millions)	All-time rental champion
1950	Duel in the Sun (4) The Red Shoes (25)	Joseph Cotton Ballet film	Selznick Eagle Lion	\$ 10.0 m. \$ 5.0 m.	Gone With The Wind (1939) \$ 26.0 million
1954	This is Cinerama (5) Duel in the Sun (7) The Red Shoes (49)	Cinerama doco Joseph Cotton British ballet	CRC Selznick Eagle Lion	\$ 12.5 m. \$ 11.3 m. \$ 5.0 m.	Gone With The Wind (1939) \$ 33.5 million
1960	This is Cinerama (10) Duel in the Sun (14) Cinerama Holiday (20) Seven Wonders (21) Oklahoma (45) Search for Paradise	Cinerama doco Joseph Cotton Cinerama doco Cinerama doco Shirley Jones Cinerama doco	CRC Selznick CRC CRC Magna CRC	\$ 12.5m. \$ 11.3 m. \$ 10.0 m. \$ 9.5 m. \$ 7.1 m \$ 6.5 m.	The Ten Commandments (1956) \$ 34.2 million
1965	This is Cinerama (18) Seven Wonders (23) Cinerama Holiday (27) El-Cid (29) Duel in the Sun (32) Oklahoma (84) La Dolce Vita (107)	Cinerama doco Cinerama doco Cinerama doco Charlton Heston Joseph Cotton Shirley Jones Anita Ekberg	CRC CRC CRC Allied Artists Selznick Magna Astor	\$ 15.0 m. \$ 12.5 m. \$ 12.0 m. \$ 12.0 m. \$ 11.3 m. \$ 7.1 m \$ 6.0 m.	Gone With The Wind (1939) \$ 41.2 million
1970	The Graduate (3) This is Cinerama (42) Seven Wonders (64) Cinerama Holiday (70) El-Cid (71) Duel in the Sun (77)	Dustin Hoffman Cinerama doco Cinerama doco Cinerama doco Charlton Heston Joseph Cotton	AVCO Embassy CRC CRC CRC Allied Artists Selznick	\$ 43.1 m. \$ 15.0 m. \$ 12.5 m. \$ 12.0 m. \$ 12.0 m. \$ 11.3 m.	Gone With The Wind (1939) \$ 72.9 million
1976	<i>The Graduate</i> (10) <i>Papillon</i> (43) <i>Cabaret</i> (57) Walking Tall (82) This is Cinerama (96)	Dustin Hoffman Steve McQueen Liza Minelli Gregory Peck Documentary	AVCO Embassy Allied Artists Allied Artists CRC-AIP CRC	\$ 49.9 m. \$ 19.75 m. \$ 20.25 m. \$ 17.0 m. \$ 15.4 m.	Jaws (1975) \$118 million

Source data: *Variety* Jan 4, 1961 p. 49; Jan 5, 1966 p. 6; Jan 6, 1971 p. 12; Jan 5, 1977 p. 16

APPENDIX 48 DELETED

APPENDIX 49 Major studios and subsidiary / affiliated studios in 2006

Media Group	Major Studios & subsidiaries	Markets served
Walt Disney Company / Buena Vista Group	Walt Disney Pictures Pixar Touchstone Pictures Hollywood Pictures Miramax	Family movies e.g. <i>The Lion King</i> , <i>Pirates of the Caribbean</i> Computer animated movies e.g. <i>Toy Story</i> , <i>Finding Nemo</i> , <i>Cars</i> Mainstream movies for adult audiences Mainstream movies for adult audiences e.g. <i>The Sixth Sense</i> High quality films e.g. <i>Chicago</i> , <i>Cinderella Man</i> , <i>Kill Bill</i> , <i>Sin City</i>
Sony Pictures Entertainment	Columbia Pictures Tristar Pictures Sony Pictures Classics Screen Gems Sony Pictures Animation Metro Goldwyn Mayer United Artists Orion Pictures	Mainstream movies Mainstream movies and television programs Specialty division – low budget quality independent acquisitions Low budget horror and science fiction Computer animated films Mainstream films and television Now an art house studio brand for Sony Former high quality mini-Major brand awaiting revival by Sony
Time-Warner	Warner Brothers Warner Brothers Independent Castle Rock New Line HBO Films	Mainstream movies Independent movies Mainstream movies and television Mainstream movies e.g. <i>Lord of the Rings</i> Made-for-HBO movies and mini series, some theatrical releases
News Corporation / Fox Entertainment	20 th Century Fox 20 th Century-Fox Searchlight 20 th Century-Fox animation Fox Atomic	Mainstream movies Acquires independent product Animated films. Action and horror films for 17-24 year olds.
NBC-Universal	Universal Pictures / Studios Focus Features Rogue Pictures Working Title (partial ownership)	Mainstream movies Specialty product, foreign films. Low budget horror and action movies Successful British studio e.g. <i>Bridget Jones</i> , <i>Love Actually</i>
Viacom	Paramount Paramount Classics Dreamworks SKG Go Fish Pictures MTV Films Nickelodeon Movies Republic Pictures	Mainstream movies Art house Mainstream movies Low budget specialty films Films and TV movies targeting MTV audience Children's movies based on characters in Nickelodeon TV series One time Poverty row studio still distributes independent films

Sources: Corporate websites

APPENDIX 50 Leading producer nations output and share of world total production 1914-1949

Country	No. Films + % share of world total 1914-1920	No. Films + % share of world total 1921-1929	No. Films + % share of world total 1930-1939	No. Films + % share of world total 1940-1949
USA	7940 66%	5957 36%	5009 26%	4074 28%
Japan	Unavailable	3171 19% complete data not available	3963 20% 2 yrs data missing	1394 10%
Germany	1354 11%	2822 17%	1378 7%	564 4%
India	Unavailable	733 4%	1851 10%	1932 14%
Britain	614 5%	639 4%	1289 7%	530 4%
USSR	239 2%	554 3%	593 3%	-
France	Unavailable	446 2.5% complete data not available	1295 7%	663 5%
Italy	498 1%	236 1%	344 2%	689 5%
Hungary	384 3%	-	-	-
Austria	179 1.5%	-	-	-
Denmark	163 1.5%	-	-	-
China	-	-	428 2% 2 yrs data missing	-
Mexico	-	-	-	657 5%
Top 8 countries	11371 95%	14558 88.5%	15806 83%	10503 75%
Rest of the World	594 5%	1887 11.5%	3173 17%	3459 25%
World Output	11964 100%	16445 100%	18905 100%	13,962 100%

Source data 1914-1920: AFI Catalog for US films; Robertson (2001) for other nations

Source data: Robertson (2001)

* Japanese and ** French complete production data is not available 1921-1926.

Source data: Robertson (2001) French and Japanese complete production data not available 1921-1926.

APPENDIX 51 Mega marketing campaigns are not new in Hollywood

Year	Movie	Studio	Promotional elements co-ordinated for the launch	Source
1927	<i>The Jazz Singer</i>	Warner	Starred America's best-known entertainer Al Jolson. Massive publicity for the first all-talking picture. Positioning: 'Warner Brothers supreme achievement'. Oct 6 - Gala N.Y. society premiere with searchlights. "huge poster of Jolson, just his eyes, mouth, collar & white gloves outlined on black background greeted the crowd". Posters, billboards, theater marquees, press ads and merchandising carried the same image of Jolson. Feb. 1928 - Big premieres in London, Paris & Berlin. First record of a song from a movie was Jolson singing 'Mother of Mine' from <i>The Jazz Singer</i> .	Sperling 1994 pp 119-131; p. 140. See Appendix for poster, theater marquee, ads and merchandising examples. http://www.pictureshowman.com/questionsandanswers2.cfm#question11
1939	<i>Gone With The Wind</i>	Loews-MGM	Epic best selling novel popular in the South 2 year search to cast Scarlett - ongoing publicity. Positioning: the biggest movie event ever. "The most concerted campaign in history" 50 page press book for exhibitors. Full page print advertisements Major magazine publicity and ad campaign. Radio spots featuring the film's stars. "Unprecedented tie-ins" –licensed dress patterns, hats, hair nets, brassieres, corsets, veils, scarves, jewellery, watches, cups, bookends, chocolates, dolls, cookbooks, original paintings based on the movie. Main cast members flown to Atlanta for the world premiere on a fleet of chartered planes. One million people lined the main street of Atlanta to see stars arrive in the motorcade from the airport. Big street parade with brass bands playing "Dixie". The whole stage-managed event lasted a weekend. Fifty-foot cut-outs of stars on theater marquee. TV and radio coverage of Atlanta premiere. Full gala premiere with searchlights. National press coverage – front page N.Y. Times. Georgia Governor declared it a state holiday Mammoth <i>GWTW</i> marquees on New York theaters N.Y. gala premiere in 2 theaters shown live on TV Gimbels department store window display in N.Y.	Shone 2004 p. 28 Sennett 1998 p. 100, p. 129 Bridges 1989. Dietz 1974 pp 258-259.
1951	<i>Quo Vadis</i>	MGM	Full page colour insert in Variety hyping the \$7 million budget to attract theater bookings. Positioning: 'Greatest motion picture of all time' Publicity campaign Licensed merchandising tie-ins: hats, shirts, sweaters, chocolates, wallpaper, haircuts. Window displays in major department stores. Oversized press book for exhibitors Press ads, promotion, merchandising, publicity Roadshow release rolled out to 1 st run theaters in Los Angeles, New York, Chicago & Kansas City – charged the highest ticket prices.	Hayes & Bing 2004 pp 61-62.
1979	<i>Jaws</i>	Universal	Nov. '74 Producers & writer on TV talk shows Billboards, posters carried a single image of shark & girl swimmer Test screening March 28, 1975 – great results Intensive publicity blitz – studio publicists hyping all shark sightings Atlantic & Pacific coasts - "The summer of the shark" Studio record \$2.5 million promotional budget Merchandising: T-shirts, caps, beach wear, toys Press ads – image of shark and girl swimmer June 17 \$700,000 saturation TV campaign June 20 released into 500 theaters – 900 theaters wanted to book <i>Jaws</i> but Universal withheld going wider to fuel increased demand	Shone 2004 pp 23-27. Hayes & Bing 2004 pp 158-159. Sackett 1990 p. 241.
1993	<i>Jurassic Park</i>	Universal	Marketing strategy planned 15 mths before release 40 promotional partners – Kenner Toys (\$6-8 million tie-in advertising); McDonalds (\$12 million); Sega video games (\$ 7 million). 100 licensees / 1000 products. Publicity blitz, posters, billboards, saturation advertising campaign prior to launch.	Shone 2004 p. 219.
1998	<i>Godzilla</i>	Sony	July 1997 Teaser trailer – 'Size Does Matter' Billboards in all major U.S. cities	Shone 2004 pp. 268-270. Anonymous 1998 <i>Fortune</i> .

			Trailers on new years eve and new years day football bowl game. 220 licensed merchandising tie-ins worldwide. Nationwide pre-release publicity blitz. Front covers of TIME and Newsweek Promotional tie-ins with Taco Bell (\$60 million advertising Gordita tacos). Huge media spend on saturation TV advertising. May 20 Memorial Day holiday release	
2003	<i>Terminator 3 (T3)</i>	Warner Brothers	T3 ads played during Superbowl XXXVII Pre-game on-pitch interview with Schwarzenegger. Dozens of distinctly different TV commercials -- hard edge action spots targeting males and softer spots for women. 15 second trailer branding 'T3' & the release date. Early marketing targeted hardcore sci fi fans at Comicon fan convention. Mar. 7 Stars launch new trailer at Convention for undergraduate college newspaper editors (Seattle) Schwarzenegger unveils NASCAR <i>Terminator</i> car at Winston Cup Auto Club 500 race. May - Stars attend Cannes Film Festival -- U.S. journalists flown in on press junket. Global publicity blitz. 20 magazine covers for Schwarzenegger + 100 other magazine hits. Stars tape 100 interviews for TV show publicity. Stars make 12 appearances on network TV & cable shows. Saturation TV advertising 2100 GRPs in days prior to opening (costing \$10,000-50,000 per GRP). July 2 - Launched in wide release	Hayes & Bing 2004 pp. 23-27; p. 162; pp. 180-181; pp. 210-211; p. 222.

APPENDIX 52 New Hollywood: Major studio ownership and corporate siblings

Parent Company	Major Studio & film studio subsidiaries	Other subsidiaries (corporate siblings)
News Corp.	20th Century Fox , Fox Searchlight, Fox 2000	Fox Network, Sky TV, Direct TV, newspapers, magazines, Harper Collins.
Disney	Walt Disney , Touchstone, Hollywood Pictures, Pixar, Miramax, Dimension,	ABC TV Network, ESPN, Lifetime, A&E, ABC Family Network, Learning Network. E! & the History channel (joint ventures) ABC radio Disney theme parks, Disney stores, Disney licensing, Disney publishing
TIME-Warner	Warner Brothers , New Line, Fine Line	CW TV Network, TBS, TCM, CNN, HBO, Cartoon Network, Warner Music Group, TIME-LIFE, TIME-Warner Publishing group. Magazines, DC Comics, AOL, Six Flags Theme Parks, Warner Brothers Movie-World Parks
Sony	Columbia, MGM, U.A. Tristar, Screen Gems, Sony Classics	Sony Electronics, Columbia Records, CBS Records, Columbia House.
Viacom	Paramount , DreamWorks, Paramount Classics	CBS TV Network, CW TV Network MTV, Nickelodeon, VH1, Showtime, BET, Infinity radio, CBS radio, Simon & Schuster. Paramount Parks - theme parks.
General Electric (owns NBC-Universal)	NBC-Universal	Studio Canal, NBC TV Network, CNBC, Sci Fi Channel, EchoStar Universal Studios theme parks Universal Music Group

Source: Adapted from Wasko (2003) PP. 59-77.

APPENDIX 53 Biggest budget movie box office flops in history

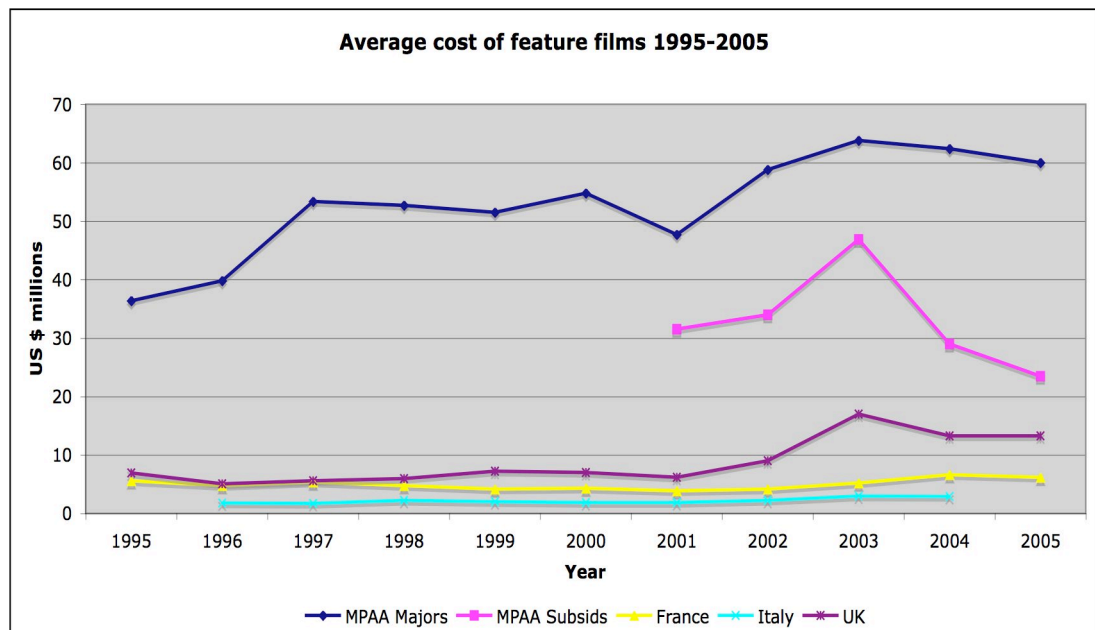
Year	Movie	Studio	Country	Budget (millions)	U.S. Box Office
1931	<i>Show Boat</i>	Universal	U.S.	\$1.1 m. Dick 1997 p. 102	Unavailable
1963	<i>Cleopatra</i>	Fox	U.S.	\$ 44 m.	\$ 26 m.
1968	<i>Star!</i>	Fox	U.S.	\$ 14 m.	\$ 4 m.
1970	<i>Waterloo</i>	De Laurentis	Italy/U.S.	\$ 25 m.	\$ 3.6 m. estimated.
1980	<i>Heaven's Gate</i>	U.A.	U.S.	\$ 44 m.	\$ 3.5 m.
1980	<i>Raise the Titanic</i>	ITC	Britain	\$ 36 m.	\$ 7 m.
1981	<i>Inchon</i>	One Way / Unification church	Korea	\$ 46 m.	\$5 m.
1986	<i>Howard the Duck</i>	Universal	U.S.	\$ 37 m.	\$ 16 m.
1987	<i>Ishtar</i>	Columbia	U.S.	\$ 40 m.	\$ 14 m.
1991	<i>Hudson Hawk</i>	Columbia	U.S.	\$ 60 m.	\$ 17.2 m.
1994	<i>The Shadow</i>	Universal	U.S.	\$ 40 m.	\$ 32 m.
1995	<i>Cutthroat Island</i>	MGM	U.S.	\$ 92 m.	\$10m.
1995	<i>Waterworld</i>	Universal	U.S.	\$ 175 m.	\$ 88 m.
1998	<i>Bulworth</i>	Fox	U.S.	\$ 30 m.	\$26 m.
1997	<i>The Postman</i>	Warner	U.S.	\$ 80 m.	\$ 17.6 m.
2001	<i>Town and Country</i>	New Line	U.S.	\$ 105 m.	\$ 6.7 m.
2001	<i>Final Fantasy</i>	Square/Chris Lee / Sony	Japan	\$ 137 m.	\$ 32 m.
2002	<i>Pluto Nash</i>	Warner	U.S.	\$ 100 m.	\$ 4.4 m.
2006	<i>Superman Returns</i>	Warner	U.S.	\$204 m.	\$ 200m.

Data sources: www.imdb.com www.the-numbers.com <http://acapella.harmony-central.com/archive/index.php/t-1101060.html>

APPENDIX 54 Average budget for Hollywood movies 1985-2005

Omitted due to copyright restrictions.

Source: MPA U.S. Economic Review 2005 www.mpaa.org



Source: Paillard and Closs (2000) Focus 2006 World Film Market Trends. European Audiovisual Observatory p. 7. Accessed online at: www.obs.coe.int.

APPENDIX 55 Average marketing (P&A) costs for Hollywood movies 1985-2005

Omitted due to copyright restrictions

Source: MPA U.S. Economic Review 2005 www.mpaa.org

APPENDIX 56 Leading Hollywood film studios 1912-1929

Founded	Name of film company	Merger, acquisition, partnership, JV	Parties / companies involved	Financial backing	Success or Failure
1912	Universal	<u>Merger</u> to create studio – distributor Formed by Carl Laemmle	IMP, Pat Powers, Rex, NYMP 101 Bison Nestor Champion, Centaur, Eclair <u>Distributed films:</u> Joker, Itala, Victor, Sterling, Crystal, Gem, Ambrosia, L-KO, Republic, Frontier, Gold Seal.	Initially self-financed 1915 opened Universal City Shields & Co. investment bank financed expansion into theatres in 1924 (Conant in MacCann 1987 p. 180)	Major studio from 1912 Initially the market leader and Big Three studio until early-1920s Highly profitable until 1930s Sold off its theatres in 1933 when in receivership.
1912	Mutual Film	Independent distribution combine formed by Harry Aitken	<u>Distributed films:</u> Thanhauser, Lux, Gaumont, Éclair, American, Great Northern, Solax, Reliance, Comet, Majestic, NYMP, Kay-bee, Broncho, Domino, Keystone, Continental	\$2.5 million Wall Street backing from Kuhn, Loeb Bakker 2003 pp 43 Slide 1998 p. 137	Failed - 1919
1912	Famous Players	Studio formed by Adolph Zukor	-	Self-financed and distribution advances	Successful independent studio
1913	Jesse L Lasky	Studio formed by Jesse Lasky	-	Self-financed and distribution advances	Successful independent studio
1914	Paramount Pictures Corp.	Distributor formed by W.W. Hodkinson	<u>Distributed films:</u> Famous Players Jesse L. Lasky Oliver Morosco Pallas/Bosworth		Major U.S. distributor
1914	World Film	<u>Merger</u> to create Major studio and distribution network	World Special Films Corp. Schubert Theatrical	\$3 million from Wall Street. Slide 1998 p. 235	Market challenger to Paramount from 1915-16. Failed - 1919
1914	Fox Film	-	Film companies owned by William Fox and backed by N.Y. investors	N.Y. investor group led by John F. Dryden President – Prudential Life invested in Fox Film (Conant in MacCann 1987 p. 180)	Major studio from 1914
1915	Triangle Films	Joint venture film studio	Harry Aitken Mack Sennett Thomas Ince D.W. Griffith	\$5 million Slide 1998 p 209	Failed - 1919
1916	Superpictures	-	W.W. Hodkinson	\$9 million	Failed 1917
1916	Triangle Distribution	Joint Venture distribution company 22 film exchanges	Triangle Films Superpictures <u>Distributed</u> Superpictures Triangle Kay-Bee Keystone	\$9 million company float Bakker 2003 pp 38	Failed 1917
1915	Metro Pictures Corp	JV producer-distributor	<u>Distributed films:</u> Dyreda, Popular Plays, Rolfe, Quality, Columbia	Self financed Bank loans.	Initial success. Failed. 1920 acquired by Loews Inc
1916	Goldwyn Pictures	Independent film studio Acquired 30 theatres in 1921	Samuel Goldwyn	Bank loans. Commercial National Bank. Berg 1989 p. 114 Duponts and	1924 acquired by Loews Inc

				Chase National on Goldwyn board (Conant in MacCann 1987 p. 180)	
1917	Famous Players-Lasky-Paramount Inc.	<u>Merger</u> or Joint Venture formed in 1917 producer-distributor then vertically integrated into exhibition	Famous Players Jesse L. Lasky Paramount	Public company. \$10 million preferred stock issue from Kuhn Loeb on Wall Street to buy build theaters Bakker 2003 pp 37-38	Dominant market leader and Major studio after 1917
1917	First National	Joint-venture film booking combine and film studio	Numerous theatre circuits and independent theatre owners	Self-financed by exhibitors. Bank of America loan. Goldman Sachs (Bakker 2003 pp 38.) Float issue of preferred shares by Hayden Stone & Co. (Conant in MacCann 1987 p. 180)	Initial success undermined by Paramount. Failed. Acquired by Warner Brothers in 1925.
1919	United Artists	Joint venture distribution company	Mary Pickford Douglas Fairbanks Charles Chaplin D.W. Griffith	Private company. Self-financed. Bank loans.	Major independent distributor after 1919
1923	Warner Brothers	Independent producer-distributor	Family company	Line of credit from Goldman Sachs Spelling-Warner & Millner 1994 pp 79	Became a Major studio in 1927-29
1924	Loews-M.G.M.	<u>Merger</u> producer-distributor-exhibitor	Loews Theatres Metro Pictures Goldwyn Pictures L.B. Mayer Pictures	Loews Inc. Public company - equity stocks. General Motors and Liberty National Bank on the board. (Conant in MacCann 1987 p. 180)	Major studio from 1924
1924	Columbia Pictures	Formed as a producer-distributor	C.B.C. Sales Corporation -Cohns & Brandt	Bank loans. Poverty row studio.	
1929	R.K.O.	<u>Merger</u> to create producer-distributor-exhibitor	R.C.A. F.B.O. K.A.O. Keith-Albee-Orpheum theatres	Merrill Lynch / RCA Bakker 2003 pp 38	Major studio from 1929-1946.

APPENDIX 57 World output for the largest seven producer-nations 1914-1999

Nation	1914-1920	1921-1929	1930-1939	1940-1949	1950-1959	1960-1974	1975-1979	1980-1989	1990-1999
USA	7940	5597	5009	4074	2929	2596	835	2569	3284
India	?	733	1851	1932	2709	5354	2858	7895	15787
Japan	?	3171	3963	1394	3573	6488	1687	3162	2562
Italy	498	236	-	689	1343	3510	801	1147	1037
France	?	446	1295	663	1162	2270	1039	1568	1480
Germany	1354	2822	1378	564	993	1447			
Britain	614	639	1289	530	980	1374			
Top 7 producer nations	83%	83.5%	79%	71%	69.3%	47.8%	46.1%	48.3%	58.5%
Rest of the world	17%	16.5%	21%	29%	30.7%	52.2%	53.88	51.7%	41.5%
World film output per decade	11,964	16,445	18,985	13,962	23,953	48,141	16,980	36,030	28,490

Source data: Total production calculated from annual raw production data in Robertson (2001) pp. 16-17.

APPENDIX 58 Major Studio marketing capabilities

Capabilities	Evidence	Era	Sources
Marketing intelligence			
	Environmental scanning. Majors closely monitored development of new technologies radio, TV, video, digital etc	1920s-1930s 2000s	Wasko (1994) p. 12-14. Bond (2001)
	Marketing intelligence. MPPDA (now MPAA) established as Hollywood's trade organization. Monitors economic trends, legislative changes, collates industry statistics, sponsors surveys, publishes market reports.	Since 1922	Puttnam (1997) Goldberg 1991 pp 165. www.mpaa.org
	Marketing intelligence on foreign markets provided to MPPDA by U.S. Commerce Department through its Motion Picture Division and via U.S. consulates.	From 1926	Ullf-Moeller (1998) pp. 167-182.
	Market intelligence provided by Motion Picture Export Association (MPEA) - Hollywood's sole export agency based in Europe after WW2.	1945	Puttnam (1997) pp 158. Guback in Balio (1985) pp 470-474.
	Marketing intelligence provided by the Majors' worldwide network of distribution offices.	1920s onwards	Epstein (2005) pp 232. Hampton (1970 © 1931) p. 239.
	Marketing intelligence learned from trade press through news, market analyses, technology updates; production updates & campaign commentary.	1920s onwards	<i>Moving Picture World, Film Daily, Motion Picture Herald, Variety, Reporter, Screen International</i>
	Intelligence provided by professional advisers e.g. banks, accounting firms, consultants, attorneys and talent agencies provide ongoing informal intelligence.	1920s onwards	Epstein 2005 pp 233 www.pwc.com
	Intelligence gained from exhibitor associations (NATO) and conventions (e.g. ShowWest).	1940s onwards	See chapter 8 of this thesis.
	Pre-release screenings of movies at Trade Shows e.g. Comic Con	Since 1969	Hayes & Bing (2004) pp 345
	Intelligence and talent spotting through Major studio buyers attending festivals & film markets	1980-2004	Wasko (2000)
	P.R. lobby in Washington D.C.. Universal's Carl Laemmle began lobbying the White House suggesting motion pictures could play a propaganda role in the First World War and secured recognition that it was an essential industry thus guaranteeing raw materials during the war. Later a Motion Picture Division was formed within the Department of Commerce and ongoing assistance provided to the MPPDA by the State Department.	1915-1917	Puttnam (1998) p. 74-75. Ullf-Moller (1998) pp. 147-153.
	P.R. lobby in Washington. All five current and former heads of the MPPDA (MPAA) were previously high-ranking U.S. government officers with extensive Washington connections.	Since 1922	Puttnam (1997) pp 102; pp 158 Stanley (1978) pp 216 NY Times (2004)
Market research	Evidence	Era	Sources
	In-theatre audience surveys.	1911 onwards	Craw in Waller 2002 pp 71. Franklin in Waller 2002 pp 158. Barry & Epes in Waller 2002 p114. Marich 2005 pp 46-52. Epstein 2005 pp 229.
	Exhibitor surveys. Paramount commissions survey to identify who makes decision to attend movies.	1916	Bakker 2003
	Sales analysis. Majors monitor daily box office. Earliest daily box office monitoring in 1902.	1917 onwards	Zukor (1953) pp 37. Sinclair (1970) pp 51. Epstein 2005 pp 233.
	Primitive consumer panels	After 1922	Hampton 1970 © 1931 p. 311-312.
	Test screenings audience feedback used to re-edit films (product modification). Paramount tested <i>The Covered Wagon</i> in 1922,	Since 1920s	Zukor (1953) pp 223. Marich 2005 pp 35-41. Bart & Guber 2002 p 238. Yoder in Squire 2004 pp 305.
	Sneak previewing movies to fine-tune marketing campaigns.	Since 1920s	Fiske & Handel (1947) pp 274. Puttnam (1997) pp 95. Friedman in Squire 3 rd edition 2004 pp 288. Hayes & Bing 2004 pp 246.
	Audience Research used to aid media buying.	1920s	Gomery in Waller 2002 pp 125. Bakker (2003) pp 101-130.
	Universal establishes senior executive post to study market demand.	1930	Lewis 1933 p. 88
	<i>"Film companies had been among the first customers of market research firms using scientific research design and random sampling" – the Majors</i>	1930s	Bakker 2003

	<i>pioneered segmentation research and tracking studies.</i>		
	Regular movie-going audience surveys.	Late 1930s onwards	Garrison (1972) pp 146-147. Hayes & Bing 92004) pp 242. Yoder in Squire 2004 pp 313-314.
	Market research outsourced and to specialist firms	Since 1940s	Bakker 2003 Business History pp 101-130. Yoder in Squire 2004 pp 302. Hayes & Bing (2004) pp 237-265.
	Movie title testing regularly conducted	Since 1940s	Fiske & Handel (1947) pp 274. Goldberg 1991 pp 92. Wasko (2003) pp 191.
	Advertising strategy and effectiveness studies	Since 1940s	Fiske & Handel (1947) pp 275. Yoder in Squire 2004 pp 305,310 Goldberg 1991 pp 92. Epstein 2005 pp 182. Marich 2005 pp41-42. Hayes & Bing 2004 pp 152. Friedman in Squire 3 rd edition 2004 pp 287. Bart & Guber 2002 pp 228.
	Positioning research: qualitative research in theatre foyers and shopping mall intercepts.	1975-2004	Goldberg 1991 pp 92. Marich 2005 pp 26 & 33. Hayes & Bing 2004 pp 122.
	Nielsen-NRG confirms all Majors have in-house market research departments.	Since 1980s	Yoder in Squire (2004) 3 rd edition pp 302.
	Ongoing studies of public and moviegoer attitudes and behaviour conducted by NRG.	1980-	Yoder in Squire 2004 pp 302.
	Qualitative research testing movie concepts prior to investment to develop new projects.	1975-2004	Marich (2005) pp 26; 32-33. Friedman in Squire (2004) pp 287. Goldberg 1991 pp 92. Wasko (2003) pp 191. Hayes & Bing (2004) pp 87.
	Syndicated tracking studies of awareness and intention-to-see.	1975-2004	Goldberg (1991) pp 106. Yoder in Squire 2004 pp 311-312. Epstein 2005 pp 183. Bart & Guber 2002 pp 237. Hayes & Bing 2004 pp 240. Marich 2005 pp 42-46.
	Computerised marketing information systems. Warner Brothers 4 Star system.	1990s onwards	Fellman in Squire 2004 pp 363.
	Online audience tracking surveys.	Post 2000	Hayes & Bing (2004) pp 249.
Product development capabilities	Evidence	Era	Sources: See chapter seven
	Ongoing strategy since 1915-1917 to escalate film budgets to continually produce better quality and give audiences better value. Budgets rose to pay for movie stars, big name directors and greater number of technicians Hollywood movies a more polished 'look'. To cover bigger budgets, Hollywood had to entice audiences to pay higher ticket prices. "Such films had to be marketed as something special it was necessary to make them to glossier standards with much improved production values." (Izod 1988 pp 35-36)	Since mid-1910s	Izod 1988 pp. 35=36. Bakker 2003 pp. 35-46.
	EURO RIVALS 1914-1917: Few rivals were willing to escalate film budgets. MPPC companies were not. Gaumont and Éclair were cautious about investing in feature films. Nordisk, Cines and Pasquali attempted to escalate budgets but wartime conditions undermined their sources of financing.	Mid-1910s	Bakker (2003) Decline and Fall pp. 35-46.
	Hollywood developed a seven step new product development process comprising a comprehensive filtering process using 'readers' to identify the most likely commercial projects, a rigorous peer-review process during script development, business analysis of each projects commercial prospects based on preliminary marketing strategies, market testing during post-production enabling re-editing and fine tuning if required.	From 1920s	See chapter 7.
	RIVAL industries are predominantly artisanal.	From 1920s	

	Scripts do not undergo a formalised and rigorous new product development process.		
	Hollywood's ongoing drive for higher quality involved big budgets, big stars, improving production values including special effects, and movie awards that bestow peer recognition for quality. Branding –stars, genres, franchises		
	Innovation – Hollywood has also adopted a first mover strategy with innovations such as talking pictures, technicolour, widescreen processes, 3-D, stereo sound, Dolby, surround sound, CGI.		
Distribution capabilities	Evidence	Era	Sources: See chapter eight
	Unrivalled intensive global market coverage. Short length corporate-owned channels provide economies of scale. Channel centric.		
	Nine decades of distribution know-how to control diffusion to optimise profitability		
	Superior channel relations with exhibitors, critics, financiers, talent, agents		
	acquisitions, Selling, cost control, logistical management,		
	Distribution practices block booking optimised prices. Blockbuster – big P&A and wide release optimise prices.		
Promotional capabilities	Evidence	Era	Sources: See chapter nine
	Unrivalled promotional expertise – ad pub, merchandising		
	Outspent the rest of the world on P&A		
	Early use of established promotional channels – significant input from marketers ad men, press agents, sales executives.		
	STP Branding stars and movie genres and sophisticated Marcoms.		
Pricing capabilities	Evidence	Era	Sources: See chapter ten
	Block booking and high quality + big output optimised rentals. Wide release big P&A blockbusters with big stars and CGI optimise rentals.		
	Bundling in block booking		
Strategic marketing management capabilities	Evidence	Era	Sources: See chapter eleven
	Marketing orientated – responsive to external threats and opportunities		
	Quality differentiates HW Stars, budgets, “glossier look” production values, awards		
	Strategic brand management – star-as-brand, director-as-brand, producer-as-brand, movies, sequels, remakes and franchises/series		
	Segmentation + targeting via stars, genres and temporal distribution strategies– discriminatory pricing		
	Adaptability – MO - features, stars, vertical integration in Old Hollywood. TV era – disintegration – disconnected from audiences / TV failed to adapt – decline. New Hollywood – Blockbuster strategy + new technology = post theatrical markets + multiplexes – wide release		
	Innovation product, distribution, promotion adaptation to new media – radio, TV, digital		
	IMC Clear and consistent theme Decentralised Press books OHW Centrally driven campaigns since		
	Hollywood has vertically re-integrated using after markets – controls all entry-points		
	Barriers – Hollywood the brand, merchandising, partnerships,		

APPENDIX 59 Quality– percentage of films ranked in all-time Top 100 film lists

Country	<i>Sight & Sound</i> 1972 Critics Poll Greatest Films 88 listed	<i>The Guardian</i> Top 100 Films of All Time	<i>Leslie Halliwell</i> Top 1000 (Top 100)	<i>National Society of Film Critics</i> The A List. 100 Most Essential Films	<i>L.A. Times</i> (129 best films)	<i>TIME</i> magazine The Complete List All-time 100 movies	<i>Leonard Maltin's</i> 100 Must-See films of the 20 th Century	Percentage Range of critics picks of best ever films
U.S.A. (Hollywood)	34%	68%	54%	59%	63%	62%	76%	34%– 76%
France	24%	4%	11%	8%	14%	9%	2%	2% - 24%
Italy	12.5%	3%	3%	6%	6%	4%	6%	3% – 12.5%
Britain	2.2%	19%	12%	4%	8.5%	3%	5%	2.2% – 19%
Japan	6.8%	1%	4%	4%	3%	4%	2%	1% - 6.8%
China/Hong Kong		2%		5%		4%		2% - 5%
Germany	3.4%	2%	3%	5%	4%	4%	1%	1% - 5%
Russia/USSR	4.5%	1%	3%	2%	2.3%			1% - 4.5%
Sweden	3.4%	2%	4%	1%	1.5%	2%		1% - 4%
India	1.1%		1%	3%	2.3%	4%		1% - 4%
Spain			3%		0.8%	1%		0.8% - 3%
Poland	1.1%		2%	2%	0.8%	1%		0.8% - 2%
Argentina	1.1%							1.1%
Brazil	1.1%							1.1%
Denmark	1.1%		1%		0.8%			0.8% - 1.1%
Australia				1%				1%
Czech				1%		1%		1%
Greece				1%		1%		1%
Iran				1%				1%
New Zealand			1%	1%				1%
Mexico				1%				1%
Algeria			1%	1%	0.8%			0.8% - 1%
Canada					0.8%			0.8%

APPENDIX 60 Number of films ranked in al-time Top 100 films lists

Country	<i>Sight & Sound</i> 1972 Critics Poll Greatest Films 88 listed	<i>The Guardian</i> Top 100 Films of All Time	<i>Leslie Halliwell</i> Top 1000 (Top 100)	<i>National Society of Film Critics</i> The A List. 100 Most Essential Films	<i>L.A. Times</i> (129 best films)	<i>TIME</i> magazine The Complete List All-time 100 movies	<i>Leonard Maltin's</i> 100 Must-See films of the 20 th Century
U.S.	30	68	54	59	81 = 63%	62	76
France	21	4	11	8	18	9	2
Italy	11	3	3	6	8	4	6
Germany	3	2	3	5	5	4	1
Sweden	3	2	4	1	2	2	
Russia/USSR	4	1	3	2	3		
Denmark	1		1		1		
Poland	1		2	2	1	1	
Czech				1		1	
Greece				1		1	
Spain			3		1	1	
Britain	2	19	12	4	11	3	5
China/Hong Kong		2		5		4	
Japan	6	1	4	4	4	4	2
India	1		1	3	3	4	
Algeria			1	1	1		
Iran				1			
Australia				1			
New Zealand			1	1			
Argentina	1						
Brazil	1						
Canada					1		
Mexico				1			

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