

## Homework

~~ Essay ~~

# Motion Picture Industry Goes Down – Blame It All On The Digital Revolution?

by Hannes Restel  
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Hannes Restel  
(Freie Universität Berlin)  
Matr.Nr: 389 67 81  
Babelsberger Str. 40  
10715 Berlin  
Tel: 0172 397 8084  
e-Mail: [restel@inf.fu-berlin.de](mailto:restel@inf.fu-berlin.de)

A rainy Saturday evening is the perfect time to go to the cinema and have some fun while watching the new brand-new blockbuster, right? Hmm... But instead of having a relaxed evening, you have to wait half an hour to get the cinema ticket and then there is another half an hour of commercials (commercials for alcohol and cigarettes, basically). Hey, wait a moment! Commercials? Didn't I just pay nine Euro? Finally, the very nerve-wracking iceman is arriving, trying to sell his prohibitive Magnum.

While I'm starting to get a nervous breakdown, the red curtain opens at last. Just another ten minutes of trailers and then the movie will start. I'm feeling better. I like trailers. But here it comes: A spot for the anti piracy campaign introduced by the film industry. Because of video piracy, nobody visits cinema any more and thousands of people working in the film industry will lose their jobs, it says. Well, perhaps that's happening because of the way we consumers are treated. Commercials all around and motion picture industry is slapping in our faces because every single consumer is a criminal!

No doubt, film industry - as same as music industry - is in a deep crisis; But is it really piracy, that's the reason for all things? Or are there other factors that are responsible for the trouble entertainment industry is in right now?

We will concentrate on motion picture industry in this essay only.

There are three big market sections for the film industry and its studios: box office, video sales (including DVD and VHS) and video rentals. The box office is the amount of money received from ticket sales, which were \$23bn world wide in 2005. In the United States of America it was nearly \$9bn and in Germany it was €900M.

The second section is that of the video sales. This section is even more profitable, as it is twice the volume of the box office - in Germany, video sales were €1,7bn in 2004 (see [4]). No matter what country you look at, forecasts predict that video sales are growing and will continue to grow. As you need DVD players to watch all these nice DVDs, entertainment industry already sold 136 million players in the U.S. and earned about \$15bn (see [3]).

The years 2001 to 2004 were extraordinary years for film industry, as motion pictures like the "Lord of the Rings" and "Star Wars" trilogies, Spider Man, Shrek, and the "Harry Potter" cycle lifted up admissions to a new level. Within four years box office climbed from 7,6bn to 9,6bn in the United States. But this boom seems to be over now. Admissions fell nearly 15 percent the last two years and that's the huge problem. Although box office raised over the last years (and went back to normal last year), admissions nearly stayed constant and are on the same level they were back in 1997.

At the same time, video sales jumped to \$21,2bn. One reason responsible for this shift are the release times of DVDs. The gap between the release in cinemas and the release on DVD is getting shorter and shorter. So people wait two or three months and get the DVD instead of going to the movies.

In contrast to the sales, the video rentals went down constantly for the last three years. More and more rental stores are closing.

Now that we have seen the sales numbers for the film industry, let's have a look on the numbers for film piracy and let us combine both worlds, afterwards. First of all, let us define what piracy is, in this case: It is the "illegal acquisition of copies of films, music, programs and other digital media". There are many ways to obtain these copies: File sharing via the internet, copying of CDs and DVDs, or buying them on the black market. The quality of these copies vary. Some of them were recorded with a wobbly camcorder in a cinema with Thai subtitles, and other copies are faked so brilliantly that they look authentic (and these are the copies industry has to be afraid of).

There are ten million file sharers using client-server technology worldwide (see [1]) and another ten million people using pure peer-to-peer technology such as bit-torrent – altogether twenty million file sharers exist. That seems much, but in respect of the one billion people of the industrialised countries, just 0,02% of the population are file sharers. So it seems unlikely to me that file sharing poses such a huge threat to film industry.

So the more serious topic is that of copying and burning movies, films, and TV series on CDs and DVDs. People borrow a film at *Video World* or from a friend and then they copy it. In 2004, nearly 800 million blank media were sold in Germany that earned industry nearly €340M of money, but 100M of that media were recorded with films, so that German film industry lost €800M instead of earning it. It is obvious, that these calculations are naïve: It is unlikely that every person who owns an illegal copy of a motion picture would have seen it in cinema or would have bought that DVD in a shop, if such things as DVD writers weren't invented. Industry has a potentially loss of €800M but it doesn't mean that they really lost that much money.

Of course, motion picture industry does lose money. For example, lots of movies like "Star Wars" are available via the internet before they are released on DVD.

In 2005, the MPAA (the lobby organisation of the big American major studios) performed a poll (see [2]). An interesting result of that poll is, that the most important supporter for entertainment industry is the large community of the technology freaks. This community consists of people who do own more than four entertainment devices such as DVD players, DVD writers, big TV screens, home theatre systems, and a broadband internet access. Not only is that community very important to hardware industry, a member of that community visits cinema and buys by far more DVDs than the average consumer, especially regarding the very expensive new released DVDs.

As a matter of fact, this group is in control over the technology and the knowledge to download, rip, and copy films and videos. That's why industry would be wise not to offend that group of consumers although this group plays its part in piracy and therefore is a target for the anti piracy campaign. If industry does, it is about to lose it's most important buyership, that makes entertainment industry strong.

Because of the digital revolution and the internet, such a thing as piracy was able to evolve. 40 years ago, motion picture industry successfully faced another threat - television. Today motion picture industry and television industry are closely connected to each other and do support each other. The same will happen to film industry and the new media. The Internet offers new distribution systems like pay-per-view and is a very powerful tool for marketing strategies, which are so very essential for Hollywood producers. Today, marketing costs of an average major studio production are \$36M, which is a lot. The internet will help to reduce these costs. Even rivals like games industry and film industry are inspiring each other. On top of everything, thanks to the digital revolution the video sales offer a new cash flow for entertainment industry. Ten years ago – when VHS sales plodded along - no one thought of a DVD or even a Blu-ray Disc. Nowadays this second section is more valuable to the major studios than anything else.

Yes, today piracy is definitely a severe problem. But as laws are getting more and more stringent and pro-capitalistic, and as there is less and less data protection, the attraction of file sharing and copying shrinks. New technologies as the Blue-ray Disc arise, that really are copy protected. Over the past years more and more file sharing networks have been closing or turned legal and commercialised. So these personal file sharing networks will go down in the near future. What's left is the professional piracy, committed by real gangs of criminals who sell “their” products on the black market. But there is the black market for everything (even for toothpaste in China) and motion picture industry has to accept and start living with it.

As long as Hollywood doesn't lose its creative energy and holds up its endless chain of utilisation (box office, video rental, video sale, television, sequels, reruns, and merchandising), motion picture industry will survive as it always did. A first step would be to turn consumer-friendly again. That is to trust the consumer and give him back his pride and the joy to go to the movies, again.

List of references:

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3. <http://www.thedigitalbits.com/articles/cemadvdsales.html>
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