

CINEWORLD/CITY SCREEN MERGER INQUIRY

Summary of hearing with Curzon held on 23 May 2013

Background

1. Curzon Cinemas said that it was the part of Curzon World that ran cinemas, mainly in London but increasingly also in other parts of the UK. Although Curzon Cinemas showed some of the most popular films, some of its venues specialized in the more challenging films and the programming at each venue was designed to cater for the local audience, which in some cases was loyal to the specific cinema. Curzon had a membership scheme and produced a magazine as well as other marketing material.
2. Curzon World included a distribution arm—Curzon Film World—previously known as Artificial Eye. This bought rights to screen films in the UK. Having cinemas was a strength in negotiations to buy film rights, because it was possible to guarantee a film's access to those cinemas, which was important to the sort of niche films that Curzon was interested in.
3. Curzon Home Cinema was a streaming service that aimed to make Curzon's films and those of some other distributors available for people to watch at home, sometimes at the same time as they were screened in the cinemas. Chelsea Films, another subdivision, bought niche films, for example for straight-to-DVD. Fusion Media was a wholly-owned subsidiary that was a DVD sales company. It sold DVDs of Curzon's films and those of around a dozen other distributors to Amazon and other retailers.
4. Curzon Franchise was a provider of services to a small number of part-time cinemas in arts centres and theatres. Curzon Franchise provided the branding, programming and assistance with marketing. Although Curzon World did not have a programming arm, it provided programming services to a small number of cinemas.
5. This integrated model was unusual in the UK.
6. Curzon was privately-funded by a number of investors.

Revenues and earnings

7. Around 25 per cent of Curzon Cinemas' revenue came from the films of which it owned the distribution rights. Around 75 per cent of total revenue came from the box office and the rest from food and drinks. These proportions varied by cinema, largely due to the different size of the bar areas. Some cinemas made a larger contribution than others to the proportion of total box office earnings and earnings from retail sales. The proportions also varied by cinema. Customers were sensitive to the prices of retail items. Cinema customers reported them to be expensive and compared them with the price of equivalent items in other settings such as pubs and restaurants. However, Curzon did not think that these prices had a material effect on the choice of Cinema.

The market for independent films

8. In a mainstream cinema the opening weekend was regarded as crucial and that would determine the decision about where and for how much longer to show the film. Independent films often had a 'slower burn', because their typical audiences did not rush to see the film on the opening weekend and might attend midweek viewings. Also the reputation of a good independent film might grow over time and if it succeeded at an award ceremony there might be a new peak in attendances, even some months on from its first showing.

Relationship with the merger parties and others

9. Curzon exhibited all of the films that Picturehouse distributed. It had found it harder to place its own films with Picturehouse over the past four to six years because Picturehouse had begun to programme markedly fewer challenging and independent films and had replaced them with more mainstream ones. It was also unusual for Odeon or Vue to show Curzon's films. Everyman had, like Picturehouse, moved to be more mainstream. Curzon's main market as a distributor was with the small independent cinemas, for example those programmed by the Independent Cinema Office.

Views on competition in the market

10. In assessing the competition in an area it looked both at the overall number of screens and at the nature of the cinemas. It would see an art house cinema as competing more directly with it. It was prepared to charge more than the local multiplex as a way of attracting a more affluent, adult audience, although it might price lower than the multiplex at some times of the week.
11. Curzon believed that there was a large overlap between cinema types. Around 20 per cent of multiplex customers might find an independent too pretentious, while 20 per cent of art house customers would avoid a multiplex cinema. But other cinemagoers would happily go to either. Some customers were loyal to a specific cinema, or to a chain, but many were not attached to a brand at all.

Market entry

12. A decision to enter a local market would be based on an understanding of the demographics of an area, the proximity and nature of the competition. It was aiming to get a good geographical spread across the UK. Occasionally a development would come about as a result of an approach from the existing operator or an invitation to tender. Often it was a case of identifying a town and then walking around to find an empty building of the right size. Negotiations might then take two years to complete and the fit-out might take another six months. Taking over a venue that was already a cinema would take around six months to complete.
13. The costs of entry included the cost of the lease or freehold of the building, and then the fit-out, which came to about £500,000 per screen.
14. Finding appropriate properties presented some difficulties. Basements and second floor spaces were appropriate, but they needed to be spaces with at least a 4.5-metre ceiling-height. A bigger barrier was the fact that cinemas tended to pay lower rent than other commercial tenants, which meant that landlords might choose to lease to restaurants and retailers rather than cinemas.

15. A new cinema operator might face difficulty with finding a site if it could not point to a track record of paying its bills and running a successful operation. It would also be more difficult to negotiate with distributors. Distributors might ask for a deposit, which might be returned after three to four years' trading with them. Having to do this with several studios would represent a sizeable investment. A further pressure on a small operator might be an informal arrangement between a bigger chain and the distributors to exclude the smaller ones from access to certain movies.

Impact of the merger

16. Curzon anticipated that the merger could have an effect on the distribution side of its own business, because it expected the trend for Picturehouse to show the more commercial films to continue. It did not expect Cineworld to start showing more art-house movies. There was a large overlap in the films shown by the two chains. Curzon therefore expected the choice for cinemagoers to reduce.
17. Curzon also thought that towns where both Cineworld and City Screen were present would be more difficult territory for an independent cinema operator to enter or survive. It appeared that Picturehouse had good financial resources behind it and therefore might be able to invest in premises that were too expensive for independent cinema operators that did not plan to show mainstream films. The rent tended to dictate what films a cinema would show, because of the amount of revenue it was required to generate.