COMPETITION COMMISSION

# CINEWORLD/CITY SCREEN MERGER INQUIRY

## Summary of hearing with an independent cinema operator held on 6 June 2013

### Background

1. The independent cinema operator (ICO) said that it had two cinemas. The cinemas did not have a membership scheme for members of the public. Its first cinema had been converted to digital about three years before and the second had opened with both 35mm and digital capability.

### Marketing and advertising

2. Both cinemas had printed programmes and there were advertisements within the sites. In addition the cinemas had websites, weekly newsletters and listings in the press. The cinemas attracted the interest of magazine feature writers and television programmers, which maintained general awareness of the cinemas. There was also a good presence on social media.

### Understanding customer behaviour

3. The ICO said that the majority of its customers came from the immediate locality of each cinema.

### Ancillary revenues

4. One of its cinemas' sites included a restaurant. The revenue of the restaurant was affected by the numbers coming into the cinema. Therefore it was necessary to show films that would attract a reasonable audience. The other cinema was small and easier to fill. It had had around 90 per cent occupancy over the previous 18 months.

5. Both cinemas made a good proportion of their revenue from food and drink. Prices for food and drink were set by head office. Changes in the prices of these items might affect the quantity bought, but would not affect a customer's decision to attend the cinema.

### Programming

6. The ICO used the services of Picturehouse's programming arm to obtain films, because it could get better terms from the film distributors. It met with Picturehouse every month to share programming ideas and decide on titles. The audiences of each cinema were slightly different. The ICO said that although there were probably alternative providers of programming services, eg Curzon, Picturehouse understood its sites and was sympathetic to its needs. The final decision on programming remained with the ICO, and Picturehouse would source its choice of films, even if it had not recommended them.

## Competition with the merger parties and others

7. The ICO considered its closest competitors to be other independent cinemas in the locality of each of its venues because of the experience they offered.

8. The ICO said that, while it was aware of the programme and prices of nearby cinemas, it did not monitor them formally. Its cinemas offered a specific experience and had audiences which had developed a loyalty to them. It did not consider the prices of DVD or movie streaming services when setting its own prices as its audiences were seeking a cinema experience.

9. The ICO had not noticed any effect from the opening of a Picturehouse cinema. Nor had the programming received from Picturehouse changed.

## Market entry

10. The opening of the ICO's second cinema had been prompted by the owners of the building and had fitted with the ICO's wider business.

11. The challenges of setting up the new cinema included licensing regulations which restricted opening hours and required that the bar was open only to cinema customers. The developer had paid all the set-up costs, including the fit-out of the cinema and the bar. For the ICO the process had taken about six months but it had taken longer for the developer. The ICO did not have any plans to open further cinemas at this time.

## Impact of the merger

12. The ICO did not expect the merger to result in any change in its positive relationship with Picturehouse. It also did not think that there would be a change in the Cineworld or Picturehouse offers. It saw the two as very distinct offers.