CINEWORLD/CITY SCREEN MERGER INQUIRY

Summary of hearing with Showcase held on 13 June 2013

Background

1. Showcase said that it was part of National Amusements Inc, a private US company that had interests in production, distribution and exhibition. In the UK it was active in cinema exhibition only. It operated 20 cinemas in the UK, three of which were Cinema De Lux (CDL) cinemas, in Bristol, Derby and Leicester.

Pricing

2. Showcase said that in setting prices of ancillary products like drinks and snacks it would look at costs and what it considered an appropriate market price. It did not look at the prices charged by its competitors.

Understanding customer behaviour

3. Showcase operated a Showcase Insider Club which gave members the benefit of premieres and concessions. It was also a means of communicating with customers and building their loyalty.

4. The distance that customers travelled differed by geographical area. When planning a new cinema, Showcase looked at the number of potential customers within a 30-minute drive-time. However, people travelled shorter distances in London and further to see ballet and opera. They might also travel further to a cinema in a large shopping centre.

Programming

5. Showcase bought films on a film-by-film, theatre-by-theatre basis, negotiating with the studios for rental arrangements and revenue sharing for each film. Programming decisions took into account the local market around each cinema. In operating a multiplex cinema, Showcase would attempt to show a wide range of films (rather than the same film across many screens). It tried to offer a diversity of film, for example showing blockbusters, niche market films and a small but growing amount of alternative content like ballet and opera. Showcase believed that it showed 80 to 85 per cent of art-house films.

6. Decisions to programme a new film or hold one over from the previous week were made on the basis of what was working financially. Showcase did not experience any difficulty gaining access to films from distributors, although occasionally a distributor might choose one cinema over another on the basis of its expectations of how a film would do in that venue.

Developments in the industry

7. Showcase said that digitization had been an opportunity to programme and display more content, in order to increase footfall at less busy times. While the introduction of DVDs and film-streaming services had had some effect on film exhibition, the point of running a cinema was to encourage people to come out of their homes to enjoy films.

This was the case each time new technology emerged. Showcase regarded other cinemas and indeed other types of leisure experience as greater competition than the other mechanisms for viewing film. Indeed anything that increased awareness and discussion about film was an advantage.

Competition with the merger parties and others

8. Showcase did not look at what its competitors were showing when making programming decisions. However, it viewed any and all cinemas as competitors in each local market and actively monitored what they were playing, their prices, whether they were giving more priority to 3D or 2D versions of a film, and their running times and start times. Showcase did not necessarily adjust in response to its competitors' actions, but would wait to see what effect they were having on its own performance.

9. Picturehouse presented itself as an art house showing lots of alternative content and with a different clientele. It was a niche cinema operation and attracted people that might not want to go to a multiplex. This was less because of the films that Picturehouse showed, which included mainstream, highly commercial films, and more because of the environment it created.

Market entry

10. Showcase was looking to expand further in the UK. It was in negotiations with respect to a variety of potential new locations. Most new cinemas were within retail centres and it was necessary to work with developers. In those cases, Showcase would be bidding in competition with other chains for the opportunity to operate the cinema. Showcase had built cinemas itself in the past, but had not done so recently. This was mainly because of changes in planning regulations favouring town- and city-centre developments rather than out-of-town. Showcase would not typically build a small, inner-city cinema similar to Picturehouse. However, it would consider a cinema offering if it felt it was commercially viable. It had not been interested in acquiring Picturehouse.

11. Showcase said that all its new cinemas in the UK would be branded as Cinema de Lux, as would its refurbishments. The CDL concept was to take a cinema and raise the number of screens, with large seating capacity auditoriums. All would be finished to a more sophisticated level, but each would be slightly different, according to what suited the local market. Some housed Directors' lounges, with private bars, luxury seating and service.

12. The time it took to develop a new cinema varied considerably according to factors such as the developer's plans, planning permission and tenancy take-up. It could take less than two years or more than seven.

Impact of the merger

13. Showcase was less interested in who owned a cinema than in its proximity to its own cinemas and the way it was operated. It did not expect the acquisition to affect its ability to obtain access to films. It dealt with Picturehouse's distribution arm and had a good relationship with it that it expected to continue.