

# THE CANADIAN FEATURE FILM DISTRIBUTION SECTOR IN REVIEW: TRENDS, POLICIES AND MARKET DEVELOPMENTS



Prepared for



Submitted by

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## Table of Contents

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<b>ACKNOWLEDGEMENTS</b> .....	<b>1</b>
<b>TABLE OF CONTENTS</b> .....	<b>2</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>4</b>
<b>GLOSSARY OF TERMS AND ACRONYMS</b> .....	<b>13</b>
1. GLOSSARY OF TERMS .....	13
2. ACRONYMS .....	17
<b>INTRODUCTION</b> .....	<b>18</b>
1. PREAMBLE .....	18
2. APPROACH AND METHODOLOGY .....	20
2.1. <i>A Portrait of the Audience Viewership of Canadian Feature Films by Canadians</i> .....	20
2.2. <i>Literature Review on the Changing Distribution Sector: Canada and Internationally</i> .....	21
2.3. <i>Informant Interviews with Stakeholders</i> .....	21
3. STRUCTURE OF THIS REPORT .....	21
<b>I. THE CANADIAN FEATURE FILM DISTRIBUTION SECTOR: THE POLICY CONTEXT AND THE WINDOW RELEASING MODEL</b> .....	<b>22</b>
1. PREAMBLE .....	22
2. FEDERAL POLICY ON THE FEATURE FILM DISTRIBUTION SECTOR .....	22
2.1. <i>The Feature Film Distribution Policy</i> .....	22
2.2. <i>Share of the Domestic Theatrical Distribution Market</i> .....	24
2.3. <i>The Financing of Canadian Feature Films by Canadian Distributors</i> .....	27
3. THE WINDOW MODEL .....	28
3.1. <i>The Windowing Release Strategy</i> .....	28
3.2. <i>US Trends in the Windowing Model</i> .....	29
3.3. <i>International Trends</i> .....	31
4. SUMMARY OBSERVATIONS .....	33
<b>II. TRACKING AUDIENCES FOR CANADIAN FEATURE FILMS</b> .....	<b>35</b>
1. PREAMBLE .....	35
2. THE BIG SCREEN .....	36
2.1. <i>Number of Screens, Sites and Screen Density</i> .....	36
2.2. <i>Canadian Films Released Theatrically and the Performance of Canadian Films</i> .....	38
3. THE SMALL SCREEN .....	42
3.1. <i>Viewing of Canadian Feature Films on Conventional, Pay-Television and Specialty Services</i> .....	42
4. RENTAL OR SALES OF FILMS ON PHYSICAL MEDIA .....	45
4.1. <i>Market Share of Canadian Feature Films as Measured by the Estimated Share of Total Copies Sold or Rented</i> .....	45
5. SUMMARY OBSERVATIONS: NATIONAL AND INTERNATIONAL TRENDS .....	47
5.1. <i>The Big Screen</i> .....	47
5.2. <i>Feature Film Exhibited on Television</i> .....	49
5.3. <i>Rental and Sales of Films on Physical Media</i> .....	51
5.4. <i>Video-On-Demand and Digital Platforms</i> .....	52

<b>III. THE CANADIAN FEATURE FILM DISTRIBUTION SECTOR IN REVIEW: CHALLENGES, POLICIES AND MARKET DEVELOPMENTS.....</b>	<b>57</b>
1. PREAMBLE .....	57
2. MARKETING AND PROMOTION OF CANADIAN FEATURE FILMS.....	57
2.1. <i>Marketing and Promotion Costs</i> .....	57
2.1.1 <i>The Use of the Internet in Promotion</i> .....	60
2.2. <i>Audience Research</i> .....	60
2.3. <i>Best Practices in Promotional Campaigns</i> .....	62
3. SALES OF CANADIAN FEATURE FILMS .....	64
3.1 <i>Trends in Sales of Canadian Feature Film</i> .....	64
3.2 <i>Growing Importance of Other Platforms</i> .....	67
4. POLICIES IMPACTING THE CANADIAN DISTRIBUTION SECTOR.....	68
4.1. <i>The Federal Government Distribution Policy</i> .....	68
4.2. <i>Canada’s Feature Film Policy</i> .....	69
4.3. <i>Telefilm Canada’s Marketing Program</i> .....	69
4.4. <i>The Role of the CRTC</i> .....	70
<b>IV. CONCLUDING OBSERVATIONS .....</b>	<b>72</b>
1. OVERVIEW.....	72
2. DIRECTIONS FOR THE FUTURE .....	73
2.1 <i>Experimentation in the Release Strategies of Canadian Films</i> .....	73
2.2 <i>Increased Focus on Understanding the Audiences for Canadian Films</i> .....	73
2.3 <i>Government Policies in the Digital Age</i> .....	74
<b>ANNEX 1: BIBLIOGRAPHY .....</b>	<b>75</b>
<b>ANNEX 2: LIST OF STAKEHOLDERS INTERVIEWED .....</b>	<b>80</b>
<b>ANNEX 3: ABOUT THE CONSULTANT.....</b>	<b>81</b>

## Executive Summary

This inaugural report provides a portrait of the Canadian feature film distribution sector with a focus on the marketing, distribution and sales of Canadian feature films.

The goals of this study are three-fold: to describe the role that the Canadian distribution sector plays in the feature film sector; to provide an understanding of the realities and challenges facing the Canadian feature film distribution sector in its efforts to release Canadian films; and to provide a portrait within available data of Canadian audiences reached with the Canadian films released on the various distribution platforms. To the extent that trends and policies from the United States (US) and from member countries of the European Union (EU) could provide a point of comparison, we have included them in this report.<sup>1</sup>

Canadian-owned and -controlled feature film distributors covered in this report are members of the Canadian Film Distributors and Exhibitors Association (CAFDE) and members of the Regroupement des distributeurs indépendants de films du Québec (RDIFQ).<sup>2</sup> Canadian-owned and -controlled distributors distribute both Canadian feature films and non-Canadian feature films. Canadian distributors were responsible for the release of 76.6% of all films released in 2011 in Canada, of which 60.1% were non-Canadian films and 16.5% were Canadian films.

### I. THE ROLE PLAYED BY CANADIAN FEATURE FILM DISTRIBUTION IN THE FEATURE FILM SECTOR

Canadian feature film distributors play a key role in the financing of Canadian films through minimum guarantees. They also promote, market and oversee the release of Canadian films on all distribution platforms.

Canadian film distributors operate in a market dominated by a small number of major foreign-controlled distributors with access to markets in the US and around the world who also enjoy economies of scale in marketing and promotion. In 2011, Canadian distributors accounted for 23% of all box office receipts, while the six major, foreign-controlled distributors achieved a 77% share.

In the European market, European distributors, including a number of television broadcasters who have created their own distribution companies-- account for 35% of all revenues, while US distributors are estimated to attract 65% of all revenues.<sup>3</sup>

Canadian federal policy has long recognized the importance of a viable Canadian-owned and -controlled distribution sector capable of financing and marketing Canadian films.<sup>4</sup> As such,

<sup>1</sup> The European Union (EU) is an economic and political partnership between 27 European countries.

<sup>2</sup> CAFDE members include: Alliance Films, KinSmith, Métropole Films, Mongrel Media, E1 Films/Seville Pictures, and Video Service Corporation. Members of the RDIFQ include A-Z Films; Axia Films Distribution; Domino Film; Evokative Films; and Film Option International; Funfilm Distribution; K-Films Amérique; Les Films du 3 Mars; and Locomotion Distribution.

<sup>3</sup> *First Meeting of Experts on Independent Distribution in Canada*, Background paper prepared by the European Audiovisual Observatory, Brussels, June 22 and 23, 2006.

the Feature Film Distribution Policy (Distribution Policy), introduced in 1988 and still in effect today, provides guidelines that prevent foreign takeovers of Canadian-owned and-controlled distribution businesses but permit new foreign-owned and-controlled companies to operate in Canada for the purposes of distributing proprietary films.

Similarly, the *Québec Cinema Act* (1983) limits the right to distribute non-proprietary films in Québec to Canadian firms that have their principal establishment in Québec. Motion Picture Export Association of America (MPEAA) members operating in the Québec market since 1987 have negotiated a special status under this legislation.<sup>5</sup>

The federal government's Distribution Policy is seen as integral to the viability of a Canadian feature film sector. Though Canadian distributors are under no obligation to buy Canadian productions, federal and provincial funding sources act as incentives for such investments.

Canadian distributors have invested \$188 million in Canadian feature films supported by the Canada Feature Film Fund (CFFF) between 2002-2003 and 2010-2011. These investments have been primarily made in the form of minimum guarantees.<sup>6</sup> The CAFDE estimates that over a 10-year span (2000-2010) Canadian distribution companies have spent in excess of \$400 million in the acquisition and marketing of Canadian films.<sup>7</sup>

#### Summary of Key Statistics of the Canadian-Owned and -Controlled Distribution Sector

Key Statistics	Percent
Share of Films Released in Canada by Canadian Distributors (2011)	76.6%
▪ Non-Canadian Films Released	60.1%
▪ Canadian Films Released	16.5%
Market Share of Box Office Earned by Canadian Distributors (2011)	23.6%

#### Trends in the Windowing Model and Release Strategies

Both in Canada and in member countries of the EU, the distribution sector is predicated upon exclusive release arrangements, with theatrical release playing a crucial element in the creation of a "brand identity" for a film. Distributors maximize revenues by staggering the platform through which a film is marketed.

One of the major trends impacting the distribution sector as a whole is demand from audiences for content on multiple screens and platforms, at the time of their choosing. The decision as to when to release a movie and to which channels is a strategic issue for the industry, determined by the best way to maximize revenues. Films are normally first distributed to the market that generates the highest revenues over the shortest amount of time.

<sup>4</sup> François Macerola, *Canadian Content in the 21<sup>st</sup> Century in Film and Television Productions: A Matter of Cultural Identity*, Department of Canadian Heritage, June 2003.

<sup>5</sup> A Canadian distributor that does not have its principal place of business in Quebec and did not have a provincial license on December 17, 1982 must subcontract distribution in the province to a Quebec-based Canadian firm regardless of whether it has proprietary rights or not.

<sup>6</sup> Source: Telefilm Canada.

<sup>7</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit.

Typically, Canadian theatrical films follow a consistent value chain or series of “windows,” which are considered important to the successful release and exploitation of a film. For a typical Canadian film, the sequence is: theatrical, home video/DVD, digital delivery and VOD, pay-television, network television and then cable television.

Experimentation with windows is taking place, particularly in the US and Europe, as the industry seeks to determine how best to exploit the opportunities of a multi-platform distribution environment.

In the last few years, the trend in the US has seen a reduction in the various exploitation windows with some films being released on the same day as (or close to) their theatrical release. *Screen Digest* estimates that US exclusive theatrical windows have shrunk from 23 weeks to 17 weeks, forcing exhibitors to raise ticket prices.

In Europe, some distributors are experimenting with reverse windows in which films or parts of films are released on VOD at an early stage, after which they close down to protect the other windows.

The European Commission has created a pilot initiative to encourage further experimentation.<sup>8</sup>

In the Canadian context, some Canadian distributors express the view that new release models may be appropriate for Canadian films.

Overall, it is anticipated that the theatrical distribution window for feature films will maintain its relative importance in the value chain both domestically and internationally for some time to come.

## II. TRACKING AUDIENCES FOR CANADIAN FEATURE FILMS

Canadians have a number of options for accessing films including on the big screen, on conventional and speciality television channels, as well as via video-on-demand and pay-per-view services. They can also buy, rent or download films to watch at home, or on personal viewing devices.

Film distributors play a key role in building audiences in the domestic market in partnership with producers through the CFFF administered by Telefilm Canada. One of the goals of Canada’s feature film policy, *From Script to Screen: New Policy Directions for Canadian Feature Film*, is “to build larger audiences at home and abroad.”<sup>9</sup> To the extent that Canadian feature films are viewed by Canadians, Canadian distributors are seen to be helping to meet the objectives of Canada’s feature film policy.

### Theatrical Film Market: National and International Trends

Total Canadian box office surpassed more than CAD \$1 billion in 2011, demonstrating that Canadians love to watch movies on the big screen. The box office for films released around the world reached USD \$32.6 billion in 2011.<sup>10</sup> According to *Screen Digest*, Canada was one

<sup>8</sup> 2012 Annual Work Plan Programme for the Implementation of the Preparatory Action ‘Circulation of Films in the Digital Era,’ European Commission, March 27, 2012.

<sup>9</sup> *From Script to Screen: New Policy Directions for Canadian Feature Film*, Minister of Public Works and Government Services, 2000.

<sup>10</sup> *Theatrical Statistics Global 2011*, Motion Picture Association of Canada, 2012.

of the top 10 feature film markets in 2010.<sup>11</sup> In fact, the publication which divided the globe into five key regions, estimates that Canada ranks third on the planet in terms of per capita spending on movies."<sup>12</sup>

Measured globally, Canada ranks eleventh in terms of its screen density.<sup>13</sup> The Canadian exhibition sector provided Canadians with 2,771 screens installed at 657 cinema sites, for an average of 79.8 screens per million people in 2011. However, the sector is highly concentrated, with one of the country's 10 exhibitors, Cineplex, owning almost 50% of all screens in 2011 and capturing almost 66% of the box office market revenue in Canada in 2010.<sup>14</sup>

In 2011, Canadian films played an average of 7.8 weeks in theatres compared with the much longer run of 15.2 weeks, on average, for US films. We also note the average stay of foreign films in theatres was similar to the stay for Canadian films at 7.7 weeks.

The top 10 box office hits in 2011 were all American films with the exception of one British film and a British-US production; overall, Canadian films captured 2.8% of the box office.<sup>15</sup> Two Canadian films, *Starbuck and Le Sens de l'humour* ranked within the top ten independent films for 2011. Nine of the top 10 Canadian films for 2011 broke the one million dollar mark in box office receipts.

Canadian films' share of the box office in Canada's French-language market was 13.4%, well ahead of the market share of Canadian films in the English-language market at 1%. The French-language market generated box office receipts worth \$19,767,000 compared to \$8,123,000 for the English-language market.<sup>16</sup>

Increasingly, funders, the industry and the federal government have recognized that the success of Canadian films should be seen within the context of the independent film market. Canadian filmmakers are niche players as they lack the budgets to compete directly with Hollywood, but still strive to succeed with smaller titles.

Films that fell into the independent film market category captured a 35% share of the 2011 Canadian box office. Canadian films captured a robust 20% share of this independent film market. This compares well with the market share of European films in 2011, which was estimated to be 28.5%. Like Canada, however, Europe's top 10 films were dominated by US sequels.<sup>17</sup>

### Television Market

While the theatrical window represents a key platform for the distribution of feature films, television platforms account for a large share of the overall audience to any given feature film. The viewing of Canadian films by Canadians on television includes films broadcast on conventional stations, pay-television, and specialty services.

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<sup>11</sup> *Global Box Office Exceeds 31 bn in 2010*, Screen Digest, September 15, 2011.

<sup>12</sup> *Overview of the DVD and Blu-Ray Disc Market*, Screen Digest, 2012.

<sup>13</sup> Source: *Screen Digest Canada Summary: All Cinema Data for Canada*, April 12, 2012

<sup>14</sup> Presentation by Cineplex Inc. to the Media Exhibitor Conference, March 15, 2012.

<sup>15</sup> Source: Telefilm Canada, based on Motion Picture Theatre Association of Canada

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.



In the English-language market, Canadian films attained a higher share of total views of feature films on conventional, specialty television and pay-television platforms (6.9%, 7.4% and 3.1%, respectively) than they attained in the theatrical window in 2010 (1.4%).

In the French-language market, the opposite has been the case. Canadian films' share of the total views of feature films on conventional, specialty television and pay-television platforms (7.3%, 7.6%, and 9.8%, respectively), has consistently been much less than the box office share achieved by Canadian films in the theatrical window between 2006 and 2010. (13%)

It should be noted that the audience shares in the television windows in the English-language market suggest that Canada's broadcasting regulations in the conventional, specialty television and pay television segments may be contributing to building audiences for Canadian feature films. By contrast, in the theatrical sector, cinema owners face no exhibition requirements for Canadian films, and the market share for films exhibited in English has consistently been lower than in the television windows.

Canadian distributors interviewed for this study expressed concern that there is a trend towards the gradual disappearance of film slots on television and a decline in the licence fees being paid by broadcasters to distributors. This has an impact on both the viewership of Canadian feature films and the revenues that are generated for the sector.

Of all the television platforms, pay-television is the most important for the exhibition of Canadian feature films because of the revenues generated for Canadian distributors from this market. There is concern about declining support for English-language feature films as demonstrated in the licence fees offered by the pay services in favour of made-for-pay-television sitcoms.<sup>18</sup> The overall implication for the Canadian feature film distribution sector is significant in that it impacts the sector's ability to continue to support Canadian feature films.

A number of studies have called on the CRTC to develop a policy to better support the promotion and exhibition of Canadian feature films on television. Our interviews with stakeholders confirm that the issue of exhibition of Canadian films on conventional television and on pay-television needs to be addressed as a policy by the federal government and the CRTC.

Like Canada, member countries of the EU are facing a gradual disappearance of film slots from the schedules of national television services, and a drastic drop in acquisition prices.

This situation is apparent in all European countries, and it has a direct effect on the export of European films. Because European distributors no longer have any guarantee that these films will be bought by national television stations, they are increasingly reluctant to buy them.

### Other Platforms

The home video market has traditionally provided a significant source of revenue and audience reach following a film's theatrical release. Typically a film's performance at the box office is mirrored by its performance in the home video market. In recent years, there has been a steady decline in this market. The number of Canadian feature films sold and rented (on physical media such as DVD and Blu-ray) represented a small share of the market, namely 1.2%, and 2.9%, respectively, in 2010.

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<sup>18</sup> Presentation by Canadian Association of Film Distributors and Exporters to the CRTC on the development of a regulatory framework for the French language television markets, December 8, 2011.

The home video market is being transformed as traditional forms of distribution (DVDs) are increasingly being replaced by new formats such as Blu-ray and by new distribution mechanisms such as kiosks and digitally-distributed options such as video-on-demand.<sup>19</sup> Kiosks are computerized distribution devices, similar to vending machines, that allow customers to rent or purchase DVDs of movies, television programs or video games. Machines can be found outside supermarkets, convenience stores and other high-traffic areas.

Video-on-demand (VOD) is experiencing very significant growth and will assume considerable importance in the evolution of the Canadian broadcasting system. All major cable companies in Canada now offer VOD, and certain specialty channels also have associated VOD channels. According to PricewaterhouseCoopers, Canada's VOD revenues are expected to reach US \$469 million by 2015, which represents a doubling since 2011 when they were US \$232 million.<sup>20</sup>

Revenues from VOD have now become a critical source of income for Canadian feature films and can represent more than one-third of the revenue from all broadcast sources.<sup>21</sup>

Interviews conducted with Canadian distributors reveal that Canadian feature films are also being sold to iTunes. Though revenues are growing, they have not yet replaced the revenue declines from the DVD and Blu-ray Disc market. Canadian distributors confirm in interviews that the sell-through and rental market is becoming important for Canadian films including sources such as iTunes and X-Box, Sony PSN and Playstation network, and Google/YouTube. Canadian distributors also sell Canadian films to Netflix. Interviews with Canadian distributors confirm that digital platforms are becoming increasingly important. One estimate puts the total revenues represented by the combined platforms of VOD, PPV, iTunes, Netflix and other digital platforms at as much as 15% of all revenues generated from Canadian feature films in a given year.<sup>22</sup>

One of the issues of concern among Canadian distributors is the impact of making Canadian films available on Netflix which, over a long period of time, may reduce the value of a film.<sup>23</sup> For some distributors, it is clear that Netflix with an estimated one million subscribers in Canada is a competitor to pay-television services.

The European Audiovisual Observatory reports that there has been a rapid rise of video-on-demand in member European states, which is available on different networks (the Internet, IPTV, cable, satellite broadcasting and digital terrestrial television) and via different models (rental, purchase, subscription, etc.). *Screen Digest* predicts that by 2015, digital platforms will account for 11% of movie consumption spending worldwide.<sup>24</sup>

Canadian distributors are exploiting new digital platforms including downloads, streaming, subscription video-on-demand ("SVOD") and pay per view. With improved technology and increased availability of affordable hardware, these platforms will increasingly become a growing part of any title's ultimate earnings.

<sup>19</sup> John Hazelton and Andreas Wiseman, "Hope on the Home Front," in *Screen International*, February 1, 2012.

<sup>20</sup> *Ibid.*

<sup>21</sup> *Broadcasting Regulatory Policy CRTC 2010-190: Regulatory framework for video-on-demand undertakings*, CRTC, Ottawa, 29 March 2010.

<sup>22</sup> Source: CAFDE.

<sup>23</sup> Streaming content over the Internet involves the licensing of rights with the license periods, terms and conditions of such licenses varying between one film and another.

<sup>24</sup> *Overview of the DVD and Blu-Ray Disc Market*, Op. Cit.

The possibilities offered by the Internet are evolving but it is clear that the recipe for online success requires constant monitoring because of the lightning speed with which changes happen in cyberspace.

One best practice that has been identified is the extent to which an online campaign for a film can fit well with a film's theme and the conventional media marketing campaign.

It should be noted that as technologies continue to disrupt the traditional model for home entertainment distribution, one size will increasingly not fit all. There is no magic formula for the home release of a movie given the multiple routes to the customer. The home entertainment future distribution is slated to continue to become fragmented across all windows.<sup>25</sup>

#### Summary of Key Statistics for the Performance of Canadian Films in Canada on the Various Platforms

Type of Screen and Year	Key Statistic	Performance Achieved
The Big Screen (2011)	Market Share of Box Office of Canadian Films Within the Independent Film Market	20%
	Nine of Ten Top Films	Achieved \$1 million in box office
The Small Screen (2010)	Share of Total Views to English-Language Films	
	Conventional	6.9%
	Specialty	7.4%
	Pay-Television	3.1%
	Share of Total Views to French-Language Films	
	Conventional	7.3%
	Specialty	7.6%
Pay-Television	9.8%	
Home Video (2010)	Number of Canadian Films as a Percentage of all Films Rented	2.9%
	Number of Canadian Films as a Percentage of all Films Sold	1.2%

### III. CHALLENGES, POLICIES AND MARKET DEVELOPMENTS

The challenges, policies and market developments that impact the marketing and promotion efforts of Canadian distributors determine to a large extent the sectors' ability to succeed both at attracting Canadian audiences for Canadian films and generating revenues for the sector.

#### Marketing and Promotion of Canadian Feature Films

Canadian distributors face new challenges for promotion and marketing as new platforms both disrupt and offer new revenue opportunities. The most daunting challenge is opening the film: Canadian distributors have to create a recognized brand name that lasts a long period of time and do it in a couple of weeks with no second chances to correct. Marketing ef-

<sup>25</sup> Arash Amel and Laura Aquilera, *Summit Tests On-demand Window Ahead of Packaged Media Release*, Screen Digest, June 3, 2011.

forts made in this market may then benefit exploitation in all release windows. However, compared Canadian budgets pale in comparison with the marketing and promotion budgets of US studios.

The marketing budgets of films supported by the CFFF in 2011 averaged \$610,026 for English films, and \$387,018 for French films in 2011. By contrast, the average Prints and Advertising (P&A) spend for major releases topped \$37 million in 2010, the highest number since 2003, when the six largest studios spent an estimated average of \$39.5 million on P&A in North America.<sup>26</sup>

One of the best practices identified in this report concerning the success of Canadian promotional campaigns for Canadian films is the extent of collaboration between producers, distributors, broadcasters and exhibitors.

A theme identified in this study is the importance of ensuring that Canadian producers increase their focus on understanding audiences' tastes in films. Research to support better-targeted films will be an important factor in the greater success Canadian distributors, exhibitors and broadcasters will have in promoting and marketing Canadian films.

With this goal in mind, Telefilm Canada recently announced its intention to study consumer trends in the film industry and is conducting a study on the brand attributes associated with Canadian cinema as well as Canadians consumer habits regarding Canadian cinema.<sup>27</sup> The EU is also reviewing its policies regarding the distribution of films with a goal of gaining a better understanding of the audiences for films produced by member states.

#### Sales of Canadian Feature Films Supported by Telefilm Canada

Telefilm Canada collects data on the gross sales of CFFF-supported films. Gross sales include all the revenues generated by a Canadian feature film. According to Telefilm Canada, typically, the bulk of sales of films takes place in years two, three and four after financing has been granted to a Canadian distributor by the CFFF. In fact, this three-year span accounted for 89% of total sales in 2010-2011.<sup>28</sup>

Within the domestic market, English-language CFFF-supported feature films are generating their greatest sales in the home video and television markets. Total sales of English-language films made in home video represented 39% of all sales for the English-language market in 2011 while the television market (pay television, conventional and specialty combined) contributed 38% of all sales.

Sales of French-language films in 2011 show that the theatrical market was the most important with sales to this market representing 47% of all sales. Television sales were the second largest market representing 24% (conventional and pay TV combined) followed by home video rental and home video sell through with each market representing 13% of all sales.

In international markets, sales of English-language films are significantly higher than they are for French-language films. Total gross sales in 2011 for all foreign markets for English-language feature films supported by the CFFF were approximately \$48 million. This compares with approximately \$2.6 million in sales generated by French-language films.

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<sup>26</sup> Larry Gerbrandt, "Does Movie Marketing Matter," in *Hollywood Reporter*, June 10, 2010.

<sup>27</sup> "Telefilm Canada and HEC Montreal Announce Research Partnership", Telefilm Canada news release, May 31, 2012.

<sup>28</sup> *Fostering Cultural Success: Telefilm Canada's Corporate Plan, 2011-2012 - 2014-15*, Telefilm Canada.

Canadian distributors are exploiting new digital platforms including downloads, streaming, subscription video-on-demand (SVOD) and pay-per-view. These platforms will increasingly become a growing part of any film's ultimate earnings. The deals that Canadian distributors have made with iTunes have underpinned the growth of their digital businesses. Deals with Netflix in Canada highlight the importance of content, both new releases and older films. It is important to note, however, that sales of films on digital platforms are not presently being tracked.

#### Summary of Key Statistics for the Canadian Distribution Sector and the CFFF

Key Statistics	Performance Achieved
Average Marketing and Promotion Spend (2011)	
CFFF Supported English-Language Films	\$610,026
CFFF Supported French-Language Films	\$387,018
Gross Sales of CFFF Supported Films (2011)	
CFFF Supported English-Language Films	\$70,259,557
CFFF Supported French-Language Films	\$28,131,613
Investments Made by Canadian Distributors in the Form of Minimum Guarantee to CFFF-Supported Films Over Ten Years	\$188 million

#### IV. CONCLUDING OBSERVATIONS

This study finds that industry-wide collaboration is needed so that Canadian distributors can experiment with release strategies of Canadian films. Such collaboration requires the participation of broadcasters who own VOD services. The extent to which Canadian broadcasters can help increase the exhibition of Canadian films on the Canadian broadcasting system, this will help increase the visibility of Canadian films overall.

Greater focus should be placed by producers, distributors, funders and others on understanding the audiences for Canadian films which would enhance the promotion and marketing of Canadian films.

The federal government should modernize the Distribution Policy to ensure that it continues to achieve its intended goals.

Another area that merits review is the lack of regulatory oversight by the CRTC over services such as Netflix. The lack of regulation of such services raises important questions about the ongoing ability of the Canadian distribution, production and broadcast sectors' to acquire, finance, market and promote Canadian programming including Canadian feature films.

## Glossary of Terms and Acronyms

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### 1. Glossary of Terms

**Blu-ray Disc: (BD)** is an optical disc storage medium designed to supersede the DVD format. The format was developed to enable recording, rewriting and playback of high-definition video (HD), as well as storing large amounts of data.

**Big Screen:** Refers to theatres.

**Hollywood Blockbuster:** a film or movie that has wide popular appeal or financial success.

**Broadcasting Distribution Undertaking (BDU):** An undertaking for the reception of broadcasting and the retransmission thereof by radio waves or other means of telecommunication to more than one permanent or temporary residence or dwelling unit or to another such undertaking. Canadian BDUs include Rogers, Bell, Videotron and Shaw.

**Canadian-owned-and-controlled distribution company:** A Canadian company whose controlling interest and/or ultimate control resides within Canada. Canadian control is determined using sections 26 to 28 of the *Investment Canada Act* (ICA).

**Connected TV:** also referred to as "hybrid TV" or "smart TV (and not to be confused with IPTV, Internet TV, or Web TV), is the phrase used to describe the current trend of integration of the Internet and Web 2.0 features into modern television sets and set-top boxes, as well as the technological convergence between computers and these television sets / set-top boxes. These new devices most often also have a much higher focus on online interactive media, Internet TV, over-the-top content, as well as on-demand streaming media, and less focus on traditional broadcast media like previous generations of television sets and set-top boxes always have had.

**Content Aggregator:** An online entity that combines information, content and reference materials from various sources and makes it available online for streaming (e.g. Netflix) or download (e.g. iTunes) by Internet users.

**Conventional TV:** Television stations that, historically, have broadcast their signals using over-the-air transmitters. This transmission capability enables their signals to be received directly by viewers with a television set and an antenna. As a result, viewers can receive the signals without subscribing to a BDU, such as a cable system. However, most conventional TV stations are retransmitted via a BDU and are received in TV households, which subscribe to the BDU.

**Distribution Company:** a company that specializes in the acquisition of rights and carries out theatrical distribution of films followed by releases in all other media. It determines release dates and plans, controls and executes distribution and promotion campaigns and pays any associated distribution costs.

**DVD:** is an optical disc storage format which offers higher storage capacity than compact discs while having the same dimensions.

**Exhibitor:** Typically denotes a movie theatre, whether independent or a chain, where customers pay to view films. In some contexts, it may refer to a broadcaster or Internet streaming provider.

**Electronic Sell Through (EST):** Sale of an electronic copy (typically encrypted) of an audiovisual work for repeated private viewing by a customer on authorized devices over an indefinite period of time. The provider is selling the consumer a perpetual licence to the particular title. Also referred to as “download to own”. The viewer purchases a permanent (copy protected) electronic version of the TV show, series or movie, akin to purchasing a DVD.

**Foreign-controlled distribution company:** a distribution company that is not Canadian. Typically refers to the branch offices of the six Hollywood studios which include Walt Disney Studios Motion Pictures, Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, and Warner Bros. A foreign-controlled distributor’s controlling interest and/or ultimate control resides outside of Canada or does not meet the “Canadian control” test of the *Investment Canada Act*.

**Free-on-Demand (FOD):** Provides on-demand access to programs at no cost to the viewer.

**Independent Film:** This term is understood to mean films produced outside of the major US studios. In other words, not a Hollywood studio film. The majors normally produce movies within their own corporate divisions and distribute them through their subsidiaries all round the world. A film is described as independent when its financing, production or distribution occurs in whole or in part outside this vertically integrated structure.

**Internet Protocol TV (IPTV):** TV delivered over the Internet. Specifically, a system where digital television is delivered, online, over a secure, closed, broadband network (as opposed to open or public Internet or traditional radio frequency broadcast, satellite signal or cable television networks). IPTV allows customers/viewers to receive content, typically on a subscription basis, through any computer- or software-based media player. The content can be viewed on a computer, portable media device or television (via a set top box). IPTV can offer the customer live TV (multicasting), time-shifted programming and on-demand content. Major IPTV providers in Canada include Bell, Manitoba Telecom Services, Sasktel and Telus.

**Internet Service Provider (ISP):** A company that provides access to the Internet to the general public.

**Internet TV:** Audiovisual content (both user-generated and professional) delivered online, often with no geographic limitation or charge to the consumer. It is generally advertiser supported, with revenue split between the service and the licensor. Internet TV is open to everyone and is free. Examples: Hulu, Joost and Babelgum

**Live Streaming:** The “retransmission” of TV signals on the Web or to mobile devices.

**Minimum Guarantee (MG):** The advance amount a distributor pays the producer or the sales agent for the right to sell the production in all media in a given territory and license a given production to exhibitors, broadcasters and other retailers. It is an advance on royalties that arises from the commercial exploitation of the producer’s rights.

**On-demand:** The transmission and viewing of audiovisual content where the consumer, not the provider, controls when the content is transmitted and viewed. On demand includes VOD, Digital Rental, Digital Sale, SVOD, Electronic Rental and other similar terms. Near-

video-on-demand (NVOD) though similar, gives the consumer the choice only of several pre-determined viewing times.

**Over-the-Top:** Television programming, movies, and/or video clips delivered to the consumer via the Internet (broadband) or other digital means (e.g. mobile), bypassing traditional cable and satellite providers. For example, Netflix.

**Print and Advertising (P&A):** A P&A commitment made by the distributor to release a film theatrically. The P&A commitment stipulates the amount that the distributor agrees to spend to market that release. The producer negotiates and contracts the P&A commitment before the film is produced.

**Pay-TV:** Subscriber-supported exhibition of audiovisual content for which viewers and other recipients (like hotels and hospitals) pay for the service as a whole, but are not charged a separate fee for the right to view an individual exhibition of each program. Examples: HBO, MovieCentral, Showtime, Starz, The Movie Network (TMN), and Superchannel.

**Physical retail and rental:** Also referred to as video or home video. Includes movies purchased or rented on physical formats, i.e. Blu-ray Disc (BD), DVD, VCD or VHS.

**Premium video on demand (PVOD):** The electronic delivery of films (rental and sell through) while they are still in theatrical release.

**Producer:** The individual: (a) who controls and is the central decision maker in respect of the production; (b) who is directly responsible for the acquisition of the production story or screenplay and the development, creative and financial control and exploitation of the production; and (c) who is identified in the production as being the producer of the production.

**Proprietary film:** is considered to be any film where the distributor owns world rights or is a major investor.

**Program rights “window”:** refers to the assignment of program rights for a specific time period and a specific platform in a specific territory.

**Personal Video Recorder (PVR):** A PVR is a consumer device that digitizes broadcast or cable TV onto a hard disk; it allows TV viewers to time shift, pause and fast forward (in real time), or to record a program for viewing at a later date like a VCR.

**Release Windows:** the prescribed time gaps between which films are aired over different media.

**Small Screen:** Refers to television.

**Set-top-box (STB):** Electronic device, usually in the home, which receives signals and converts them into viewable audiovisual content. Some set-top boxes may also have PVR capability. The decoder is supplied by nearly every BDU operator.

**Streaming:** Delivery of audiovisual content to a customer/viewer's authorized device where the content may be viewed contemporaneously (or near contemporaneously) with its transmission, but where no copy is retained on the authorized device (other than a small, transient portion as needed for viewing, which is immediately deleted).

**Subscription Video on demand (SVOD):** Gives digital access on demand to a variety of programs for which the viewer pays a periodic subscription fee rather than a per transaction



fee. Shaw Cable's SVOD and Netflix's "Watch Now", are cable, Internet and mobile examples of SVOD. The viewer pays a periodic subscription fee, either discretely or as part of some other "package" of services (e.g. Amazon, Pay TV).

**Tentpole release:** a big-budget Hollywood movie released theatrically whose earnings are expected to compensate the studios for its less profitable movies.

**Theatrical:** also referred to as box office, cinema visits or admissions.

**Theatrical Films:** Theatrical films are defined as films that are released first in cinemas.

**Transactional Video-on-demand (TVOD):** The viewer pays a per-transaction fee to stream or download for a limited period of time (typically 24-48 hours).

**Video-on-demand (VOD):** Program delivery, typically via cable TV, where the viewer, not the service provider, determines when the program is delivered. The consumer may pay a transaction fee to watch the program, or it may be offered without charge. Example: HBO on Demand, Showtime on Demand, Shaw Video on Demand, Rogers on Demand, Bell TV on-line and Illico TV.

VOD services allow viewers to select programs to view at the time of their own choosing. In contrast, traditional broadcasting services such as conventional, pay and specialty television services are often referred to as "linear services" in that they present programs at specific times as part of a program schedule. VOD services are "non-linear" since it is the consumer who selects the program and the viewing time.

Sources: Adapted from "CRTC Glossary"; Canadian Media Production Association, *Towards a Framework for Digital Rights*, 2010; CRTC, *Charting Canadian Communications Change and Regulatory Implications: Navigating Convergence II*, 2011, Nordicity, *Study of the Canadian Audiovisual Distribution Sector in Canada*, March 31, 2011; CRTC, *Regulatory framework for video-on-demand undertakings*, March 29, 2010; CRTC, *Perspectives on Canadian Broadcasting in New Media*, 2008; Telefilm Canada, *Annual Report 2009-2010, Fostering Cultural Success*, 2011.

## *2. Acronyms*

BDU: Broadcasting Distribution Undertaking

CAFDE: Canadian Association of Film Distributors and Exporters

CAVCO: The Canadian Audio-Visual Certification Office

CFFF: Canada Feature Film Fund

CFFP: Canadian Feature Film Policy

CMPA: Canadian Media Production Association (formerly CFTPA)

MPA: Motion Picture Association - Canada

CRTC: Canadian Radio-television and Telecommunications Commission

EST: Electronic sell through

EU: European Union

ISP: Internet service provider

IPTV: Internet protocol television

OMDC: Ontario Media Development Corporation

MG: Minimum guarantee

MPTAC: The Motion Picture Theatre Associations of Canada

OTT: Over-the-Top

P&A: Prints and advertising

RDIFQ : Regroupement des distributeurs indépendants de films du Québec

SODEC: Société de développement des entreprises culturelles

STP: Set-top box

VOD: Video-on-demand

*“...the new Canadian Feature Film Policy will...help ensure that Canadian distributors are in a much stronger position to market films with greater market potential.”*

*- From Script to Screen: New Policy Directions for Canadian Feature Films<sup>29</sup>*

## Introduction

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### 1. Preamble

This inaugural report provides a portrait of the Canadian feature film distribution sector with a focus on the marketing, distribution and sales of Canadian feature films.

Canadian-owned and -controlled feature film distributors covered in this report are members of the Canadian Film Distributors and Exhibitors Association (CAFDE) and members of the Regroupement des distributeurs indépendants de films du Québec (RDIFQ). Canadian owned-and-controlled distributors distribute both Canadian feature films and non-Canadian feature films. Canadian distributors were responsible for the release of 76.6% of all films released in 2011 in Canada, of which 60.1% were non-Canadian films and 16.5% were Canadian films.

Foreign-controlled distributors in Canada include the six studios that form the membership of the Motion Picture Association – Canada: Walt Disney Studios Motion Pictures, Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, and Warner Bros. Even through foreign-owned and -controlled distributors distribute fewer films than Canadian distributors – 143 films in 2011 – these films took the majority share of the box office generated in Canada with box office revenues representing 77.7% of all box office in 2011.

Federal government policy requires that Canadian feature films be distributed in Canada by Canadian-owned and -controlled distribution companies. In 1988, in order to encourage better market access for Canadian productions, the Canadian federal government adopted a Film Distribution Policy. One element of the policy was the establishment of foreign investment policy guidelines under the *Investment Canada Act*. The guidelines state that: foreign takeovers of Canadian-owned and -controlled film distribution businesses will not be allowed; new foreign distribution businesses will only be allowed to distribute proprietary films (proprietary films are considered to be any film where the distributor owns world rights or is a major investor); and takeovers of foreign distribution businesses operating in Canada will be reviewed to determine their net benefit to Canada.

The policy which requires that Canadian feature films be distributed in Canada by Canadian-owned- and -controlled distribution companies is enforced by all major public funding sources for the production of Canadian feature films, which make it a condition of obtaining funds.

One of the key activities of Canada’s film distribution sector is the marketing, promotion and exploitation of Canadian feature films. It is the role of the Canadian distributor to acquire or

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<sup>29</sup> *From Script to Screen: New Policy Directions for Canadian Feature Film*, Department of Canadian Heritage, 2000.

license the rights to Canadian feature films which may be sold.<sup>30</sup> Canadian distributors play a vital role in helping to build audiences for Canadian films on the various channels, in promoting Canadian talent and generally contributing to the success of the Canadian feature film industry.

For the purposes of this report, the Canadian feature film distribution sector is primarily represented by the membership of the CAFDE, which accounts for most of the distribution revenues for Canadian-owned and-controlled distributors.<sup>31</sup> We have also included in this report the perspective of Canadian independent distributors who are members of the Regroupement des distributeurs indépendants de films du Québec (RDIFQ).<sup>32</sup>

By the end of their lifecycle, most films released theatrically in Canada will also be made available across many channels, including on DVD and Blu-ray Disc for rental and purchase, via subscription and conventional television and, increasingly, as online video through streaming or downloading services.

An important goal of the federal government's feature film policy, *From Script to Screen: New Policy Directions for Canadian Feature Film*, is to determine the extent to which Canadians view Canadian films and on what platforms and channels. One of the policy's key objectives is "to build larger audiences at home and abroad through more effective support for the marketing and promoting of Canadian films."<sup>33</sup> The audiences garnered for Canadian films released by Canadian distributors is therefore very much at the heart of this report.

This study is important because there has not been a review of the changing realities impacting on the feature film distribution sector since the introduction of Canada's feature film policy in 2000. Since that time, the distribution sector has been impacted by new technologies, new business models and changes that have taken place in the support of marketing and promotion funding.

The goals of this study are three-fold: to describe the role that the Canadian feature film distribution sector plays in the feature film sector; to provide an understanding of the realities and challenges facing the Canadian feature film distribution sector in its efforts to release Canadian films; and to provide a portrait within available data of the audiences reached with the Canadian films distributed through the various distribution platforms.

To the extent that trends and policies from the United States (US) and from member countries of the European Union (EU) could provide a point of comparison, we have included them in this report.<sup>34</sup>

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<sup>30</sup> Distributors operating in Canada fall into two categories: Canadian-controlled- and foreign-controlled. Foreign-controlled distributors in Canada include the six studios that form the membership of the Motion Picture Association – Canada: Walt Disney Studios Motion Pictures, Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, and Warner Bros. Canadian-owned and -controlled feature film distributors covered in this report are members of the Canadian Film Distributors and Exhibitors Association (CAFDE) and members of the Regroupement des distributeurs indépendants de films du Québec (RDIFQ).

<sup>31</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op, Cit.

<sup>32</sup> They include A-Z Films; Axia Films Distribution; Domino Film; Evokative Films; and Film Option International; Funfilm Distribution; K-Films Amerique; Les Films du 3 Mars; and Locomotion Distribution.

<sup>33</sup> *From Script to Screen: New Policy Directions for Canadian Feature Film*, Minister of Public Works and Government Services, 2000.

<sup>34</sup> The European Union is an economic and political partnership between 27 European countries.

## 2. Approach and Methodology

The consultant used multiple lines of evidence to conduct the study.

### 2.1. A Portrait of the Audience Viewership of Canadian Feature Films by Canadians

One of the challenges in compiling a portrait of the audience viewership of Canadian feature films by Canadians is the use of different metrics to measure audiences. Canadians have a number of options for accessing Canadian feature films, including on the big screen, on conventional pay and speciality television channels, as well as via video-on-demand and pay-per-view services. They can also buy, rent or download films to watch at home or on personal viewing devices.

Presently, the Department of Canadian Heritage only tracks the box office generated by Canadian films in Canada as derived from the Motion Pictures Theatre Associations of Canada (MPTAC). This approach provides the market share achieved by Canadian films and does not represent the full viewership of Canadian films by Canadians. The Department is therefore developing a model that would measure the viewership of Canadian films using not just box office generated but also DVD sales and rentals and conventional, specialty, and pay television viewing. The model being developed will measure total views to Canadian films on these platforms. By calculating the number of total views to feature films, this metric provides a more complete picture of the audience viewership of Canadian feature films by Canadians. In the future, it is anticipated that the DCH will include in its model the views to Canadian films on video-on-demand (VOD), subscription video-on-demand (SVOD), and Internet downloads and streaming.

Unfortunately, this information was not available at the time of writing this report and therefore the audience viewership of Canadian feature films by Canadians was calculated using a number of alternate sources and metrics.

In order to compile a portrait of the exhibition of Canadian feature films in theatres in Canada, the consultant had access to Telefilm Canada's data on the box office in Canada as is derived from MPTAC. All box office receipts are supplied by MPTAC on a calendar year basis, from January 1 to December 31. The receipts of films having played in more than one calendar year are ascribed to the year in which they were earned. Our focus in this report is on Canadian films that were theatrically released in 2011.

*Screen Digest* was a source for data on the availability of theatrical screens in Canada as well as for trend analysis in the global theatrical market, broadcast, and for DVD and Blu-ray Disc and on-line streaming and downloading of films.

The Canadian Media Production Association's publication, *Profile 2011: An Economic Report on the Screen-based Production Industry in Canada*, served as a source of information on the broadcast of Canadian feature films for the year 2010 on conventional, pay and specialty television as well as information on the home video market, which allowed the consultant to identify the number of copies rented and sold of Canadian feature films in 2010.

Due to the lack of consistency in metrics used in these sources of data, the consultant did not reconcile the use of two different source years (2010 and 2011) through the use of a composite year.

## 2.2. Literature Review on the Changing Distribution Sector: Canada and Internationally

The consultant reviewed reports, studies and industry trade journals to document the trends, challenges and market developments that impacted the Canadian distribution sector in 2011. This review extended to an examination of the policies being employed in the US concerning feature film distribution and the EU. To the extent that policies provided a point of comparison or lessons learned, they have been included in the report. A selected bibliography is attached in Annex 1 of this report.

## 2.3. Informant Interviews with Stakeholders

The consultant conducted informant interviews with 22 stakeholders from both the English- and French-language markets, including distributors, exhibitors, producers, broadcasters and online distributors. Annex 2 contains a list of the stakeholders interviewed.

## 3. *Structure of this Report*

This report is divided into the following four sections:

- Section I describes the role of the Canadian distribution sector in the feature film sector in the context of federal policy as well as trends in the current window release model;
- Section II provides a portrait of the audiences reached by Canadian feature films that were released theatrically by Canadian distributors, exhibited on television, or rented and sold on DVD within available data; and
- Section III reviews the challenges and the market developments that the Canadian feature film distribution sector is encountering in its efforts to market, promote and sell Canadian feature films;
- Section IV concludes with summary observations.

*“Films do not exist for their own sakes... they exist only when they are experienced by audiences.”*

- Film Distributors’ Association Ltd.<sup>35</sup>

## **I. The Canadian Feature Film Distribution Sector: The Policy Context and the Window Releasing Model**

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### *1. Preamble*

Canada's feature film distributors have long been identified in federal policy as being indispensable to a vital national feature film industry. The feature film sector includes a variety of players who perform a range of functions in the feature film supply chain.<sup>36</sup> The film production community creates the content; distributors negotiate release patterns and promote the films; and theatrical exhibitors and DVD vendors make the content available to audiences.

As it has been observed, though, “The film distributor is not merely a middle-man between the production company and the exhibitor, limited only to buying and selling the product. Essentially, film distribution is the marketing activity for films. In addition to formulating and implementing promotional and advertising strategies, the distributor will liaise with the media, produce all necessary promotional materials (publicity shots, stills, artwork, press kits), provide advice on all aspects of production (enhancing the marketability of the film, casting, etc.), and provide financing for productions through advances and buying of rights.”<sup>37</sup>

This section first provides a background on the federal policy context for understanding the role of Canadian distributors in the feature film sector. This description situates the role of the sector in the overall feature film industry. We then provide a description of the trends taking place in the windows releasing model which impact the way the distribution business generally functions and conclude this section with summary observations.

### *2. Federal Policy on the Feature Film Distribution Sector*

#### *2.1. The Feature Film Distribution Policy*

Canadian federal policy has long recognized the importance of a viable Canadian-owned and -controlled distribution sector capable of financing and marketing Canadian films.<sup>38</sup> As far back as 1965, several independent reports emphasized the importance of encouraging the development of an independent Canadian film distribution industry, to provide Canadians

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<sup>35</sup> *Re: Cinema Communication consultation 1 – HT 2950*, Response to the EU consultation on Assessing State Aid for Films and Other Audiovisual Works, Film Distributors’ Association Ltd., 2011.

<sup>36</sup> The term ‘value chain’ was introduced in 1985 by Michael Porter, in his book *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press: New York, NY, 1985. Porter summarised the value chain as “the set of activities through which a product or service is created and delivered to customers.”

<sup>37</sup> Anthony Leong, Lara Kalins, Oren Levy, Marion De Marcillac, and Annekatriin Scholze, *The Film Distribution Industry in Canada*, 1996. Published online at <http://www.mediacircus.net/filmdis1.html>.

<sup>38</sup> François Macerola, Op. Cit.

with an alternative to omnipresent foreign films. A report commissioned by the federal government in 2003 summarized the rationale for the development of policy measures in support of the Canadian-owned distribution sector as follows:

- “i) Canadian distributors play a crucial role in support of Canadian films; they help finance them via minimum guarantees and they bring them to the public by developing and implementing marketing strategies. A distribution company’s capacity to effectively play this role hinges on its ability to generate sufficient revenue in the marketplace.
- ii) While representing a large proportion of the total number of distributors operating in Canada, Canadian-owned companies hold a small share of the domestic theatrical distribution market. Despite their strong market position, the foreign distribution companies operating in Canada have never been interested in distributing Canadian films.
- iii) A healthy indigenous film industry requires the existence of a viable Canadian-owned distribution infrastructure capable of financing and marketing Canadian films.
- iv) Since the Canadian distributors are largely responsible for the linguistic and cultural diversity of the international feature films available to Canadian audiences, a stronger distribution sector would ensure that Canadians have access to an abundance of diversified film programming.”<sup>39</sup>

The Feature Film Distribution Policy (Distribution Policy) introduced in 1988 by the federal government was aimed at strengthening both the Canadian film distribution and production sectors.<sup>40</sup> Among the main components of the Distribution Policy were guidelines that disallowed foreign takeovers of Canadian-owned and-controlled distribution businesses and only permitted new foreign-owned and-controlled companies to operate in Canada for the purposes of distributing proprietary films. These guidelines are still in effect today.

The Policy recognized that the best way to help Canadian distributors improve their market share in Canada was to improve their access to foreign independent films from around the world including the US.

Canadian distributors would then be in a position to augment their investment in Canadian films relative to the increase in the domestic market share they would achieve by distributing more foreign independent titles. Greater investment in Canadian films, in turn, would improve the quantity and quality of Canadian films and the chances of reaching larger audiences at the box office.

The Distribution Policy has been an important element in the success of the Canadian feature film industry. The report notes that, “the Canadian distribution sector is...in a significantly stronger position vis-à-vis the exhibitors, possesses far more market expertise, and is better able to effectively support the marketing of Canadian feature films.”<sup>41</sup>

In 2009, the federal government commissioned a report on Canadian audiovisual distributors with the goal of assessing the impact of technological change and business consolidation in the sector. This report, *Study of the Audiovisual Distribution Sector in Canada* found that

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<sup>39</sup> Ibid., page 82.

<sup>40</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit.

<sup>41</sup> François Macerola, Op. Cit., page 91.



feature film distributors in Canada have remained strong and relatively stable due in large part to the Distribution Policy.<sup>42</sup> The report also acknowledges that the existence of a strong feature film distribution sector is essential to enable Canadians to access domestic feature films at movie theatres, via home video and on television.

The CAFDE has noted that the Distribution Policy has been instrumental in carving out an important part of the Canadian market for Canadian companies. Since its introduction, the Canadian distribution sector has grown from “a handful of boutique companies to a group of larger companies that have the experience, financial strength and market clout to properly release the widest range of Canadian and non-Canadian films.”<sup>43</sup>

In Québec, the government passed the *Québec Cinema Act* in 1983, which contained a clause that accorded a general distributor’s licence for Québec only to those distributors headquartered in Québec. The legislation’s “Special” distributor’s licences could be issued to the distributors who held both world rights to a film and who were already established in Québec as of December 18, 1982. The Act limits the right to distribute non-proprietary films in Quebec to Canadian firms that have their principal establishment in Québec. The Motion Picture Export Association of America (MPEAA) members operating in the Québec market as of January 1, 1987, negotiated a special status under this legislation.<sup>44</sup>

## 2.2. Share of the Domestic Theatrical Distribution Market

The market share of Canadian feature film distributors in Canada is difficult to ascertain in light of the limitations of data collection. Statistics Canada collects data on the distribution sector in Canada, but does not isolate feature film distribution.<sup>45</sup> Also, the revenue data collected by Statistics Canada by country-of-control is very limited. According to a study conducted in 2010, Canadian-controlled distributor revenues claimed 29.4%, or \$575 million of total 2009 revenues.<sup>46</sup> The study also notes that between 2005-2009, Canadian-owned and-controlled distributors increased their share of the total market for distribution of foreign and Canadian films to between 25% to 30%.<sup>47</sup>

Foreign-controlled distributors in Canada include the six studios that form the membership of the Motion Picture Association – Canada: Walt Disney Studios Motion Pictures, Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLLP, and Warner Bros. The study points out that foreign-controlled distributors generated nearly three quarters of the total distribution revenues in Canada, or \$1.38 billion, in 2009.

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<sup>42</sup> *Study of the Audiovisual Distribution Sector in Canada*, prepared by Nordicity for the Department of Canadian Heritage, March 31, 2011.

<sup>43</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit.

<sup>44</sup> A Canadian distributor that does not have its principal place of business in Quebec and did not have a provincial license on December 17, 1982 must subcontract distribution in the province to a Quebec-based Canadian firm regardless of whether it has proprietary rights or not. The Motion Picture Export Association of America changed its name to the Motion Picture Association.

<sup>45</sup> Statistics Canada conducts an annual survey of the distribution sector whose targeted population consists of all establishments classified to the film and video distribution industry (NAICS 512120) according to the North American Industry Classification System (NAICS) during a reference year. This industry comprises establishments primarily engaged in acquiring distribution rights and distributing film and video productions to motion picture theatres, television networks and stations, and other exhibitors.

<sup>46</sup> *Study of the Audiovisual Distribution Sector in Canada*, Op. Cit.

<sup>47</sup> Ibid.

Unfortunately, there is a lack of detailed data that would allow us to ascertain the share of revenues earned by Canadian-owned distributors for the distribution of feature films.<sup>48</sup> Statistics Canada data used in the study is based on an analysis of 68 Canadian-controlled distribution establishments involved in the distribution of film and video to theatrical, television and other markets. Only eight companies included in the data were said by the study's authors to be members of CAFDE.

If we consider the market share of distributors, using box office receipts as a measure, we note that in 2011, Warner Brothers had the highest market share in Canada at 18.6%, followed by Paramount Pictures at 17.1% and Alliance Films at 12.9%. Overall, the Canadian distribution sector had a 23.1% share in 2011 compared to 76.9% for the foreign-controlled distributors. (see fig.1)

**Figure 1: Market Share of Canadian Distributors Using Box Office Receipts as a Measure, 2011**

Distributor	Nationality	Gross Box Office	Market Share
Warner Brothers	Foreign	\$181,115,922	18.6%
Paramount Pictures Corporation	Foreign	\$166,259,879	17.1%
Alliance Films	Canadian	\$125,381,329	12.9%
Sony Pictures Entertainment	Foreign	\$117,162,113	12.0%
Universal City Studios	Foreign	\$98,687,781	10.1%
Walt Disney Studios	Foreign	\$95,595,622	9.8%
Twentieth Century Fox Film Corporation	Foreign	\$89,836,220	9.2%
E-One	Canadian	\$69,812,502	7.2%
All Others	Canadian	\$29,249,572	3.0%
Total		\$973,100,940	100.0%

Source: *Rentrak*

Canadian distributors interviewed for this study note that Canadian films represent anywhere from 10% to 50% of the total number of films they release on an annual basis. Distributors explained that without the ability to release non-Canadian films, which to a large extent subsidize Canadian film releases, their businesses could not be viable. Canadian distributors were responsible for the release of 76.6% of all films released in 2011 in Canada, of which 60.1% were non-Canadian films and 16.5% were Canadian films.

Foreign-controlled distributors with branch offices in Canada have many advantages vis-à-vis Canadian distributors. With access to markets in the United States and internationally, the majors enjoy economies of scale in marketing and promotion. When a distributor acquires distribution rights to a property, resources are committed to the creation of an optimal promotional program. It is advantageous for the distributor to spread these costs over as many markets as possible. Promotional programs designed for the US market are easily transplanted to the Canadian market or spill-over due to the proliferation of American media in Canada. In fact, the US-based majors consider Canada to be part of their domestic territory.

<sup>48</sup> Alliance/VivaFilms, E1 Entertainment, TVA, Maple Pictures, Métropole, Mongrel Media, Kinosmith and VSC (Video Service Corp).

### 2.2.1 Canada Compared to Selected European Union Member Countries

Independent feature film distributors in selected member countries of the EU are facing similar challenges to those of Canadian feature film distributors largely because of the presence of the distribution arms of the American studios.

According to a study conducted by the European Audiovisual Observatory, revenues accrue to a relatively small number of independent distributors in a select number of European countries. As the study points out, an estimation of the overall market share (by revenues) obtained by distributors affiliated with US majors in five countries (France, Germany, Italy, Spain, United Kingdom) shows that these companies capture roughly 65% of revenues, leaving approximately 35% for independent European companies, many of which also distribute US produced films.<sup>49</sup>

A study conducted in 2006 by Europa Distribution Network, an association that represents 50 independent distributors from 18 European countries, in almost all European countries (with the exception of France), found that a characteristic common to a number of European countries is the dominant presence of the distributors affiliated with the American majors.<sup>50</sup> According to Europa Distribution Network, in 2005, the distribution subsidiaries of the major US studios held 50% of the market in France, 70% in Spain, 75% in Germany and 80% in the United Kingdom.<sup>51</sup> Canada too is dominated by the distribution arms of the American majors judging by the 76.9% they obtained in the market share of box office 2011.

One of the trends being observed in Europe is that the distribution arms of the majors are increasingly investing in local films which in the past would have been acquired up by the independent distributors. This is said to be an attractive area because in some countries like Italy, the distribution arms of the majors claimed a 30% market share in 2010.<sup>52</sup>

In some countries such as France and Italy, television broadcasters have created their own distribution companies. In France, distribution companies SND, Mars Films and TFM are subsidiaries of broadcasters,<sup>53</sup> and in Italy, distribution company 01 Distribution formed an association with broadcaster RAI, and distribution company Medusa associated with Mediaset. The French-language, broadcaster-affiliated distribution companies were said to have held a 17% market share of the distribution sector, whereas the Italian broadcasters' distribution affiliates were said to represent a 20% market share.<sup>54</sup>

It has been observed that the European broadcasters that invest significant minimum guarantees in films that they distribute can be considered producers.<sup>55</sup>

Europa Distribution has noted that, "these subsidiaries have a significant capital base and broadcasting at their disposal, which allows them to stock up directly on films. As a result, they have no trouble recuperating investments made for theatrical releases: they can simply re-sell the distributed films to themselves as many times as necessary and for whatever price

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<sup>49</sup> *First Meeting of Experts on Independent Distribution in Canada*, Background paper prepared by the European Audiovisual Observatory, Brussels, June 22 and 23, 2006.

<sup>50</sup> *Europa Distribution Platform Assessment and Proposals*, Europa Distribution, 2010.

<sup>51</sup> *Ibid.*

<sup>52</sup> *Independent Distribution in Western Europe*, Screen International, 2011.

<sup>53</sup> *Europa Distribution Platform Assessment and Proposals*, Op. Cit.

<sup>54</sup> *Ibid*, page 3.

<sup>55</sup> *La distribution indépendante en Europe, Etat des lieux et pistes de réflexions*, Europa Distribution, November 2006.

they desire. Consequently, a film's theatrical release no longer has any relation to the film's profitability."<sup>56</sup>

One of the impacts of broadcasters opening distribution arms is that they are in direct competition with independent distributors.

A number of companies have associated themselves with American studios to improve their economic performance. Alliances have been formed with the American majors in order to gain better access to the market and to achieve economies of scale. For example, Fox has formed an alliance with Warner and Sony, as well as with such local partners as UGC in France and Hispano Foxfilm in Spain. Gaumont has an alliance with Buena Vista International (GBVI) and Columbia Tristar, Mediaset is linked with Castle Rock Entertainment in Italy, Lauren Films is associated with BVI, and Sogecine is allied with Warner in Spain.<sup>57</sup>

### 2.3 The Financing of Canadian Feature Films by Canadian Distributors

Over the years, Canadian distributors have made significant financial investments in the form of minimum guarantees in the production of Canadian films. According to Telefilm Canada's most recent Annual Report, for 2010-2011, Canadian distributors contributed an average of 9% of the total financing (including English- and French-language films) for the 48 feature films supported by Telefilm Canada in 2010-2011 on total production budgets of more than \$212 million.<sup>58</sup> (see fig. 2)

**Figure 2: Sources of Financing for Canadian Feature Films Supported by Telefilm Canada, 2010-2011**

	Number of Projects	Budgets * (\$M)	CFFF	Broad-casters	Canadian Private Sector	Distributors and Exporters	Other Government Sources	Foreign Participants
French	19	\$76.5	31%	2%	6%	8%	48%	6%
English	29	\$135.8	31%	2%	16%	9%	25%	16%
Total	48	\$212.3	31%	2%	13%	9%	33%	13%

\*Does not include the foreign share (\$39.9 million) of official coproduction budgets in which Canada is a minority partner.

Source: Telefilm's database, figures are rounded.

According to Telefilm Canada, Canadian distributors have invested \$188 million into the financing of Canadian feature films supported by the CFFF between 2002-2003 and 2010-2011. These investments have been primarily made in the form of minimum guarantees.<sup>59</sup>

In addition to minimum guarantees, the Canadian feature film sector invests in the marketing of Canadian films. CAFDE estimated in 2010, in a submission to the federal government's consultation on the development of a National Digital Economy Strategy, that over a 10-year

<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

<sup>58</sup> *Daring to Change: A New Vision, Telefilm Canada Annual Report 2010-2011.*

<sup>59</sup> Source: Telefilm Canada.

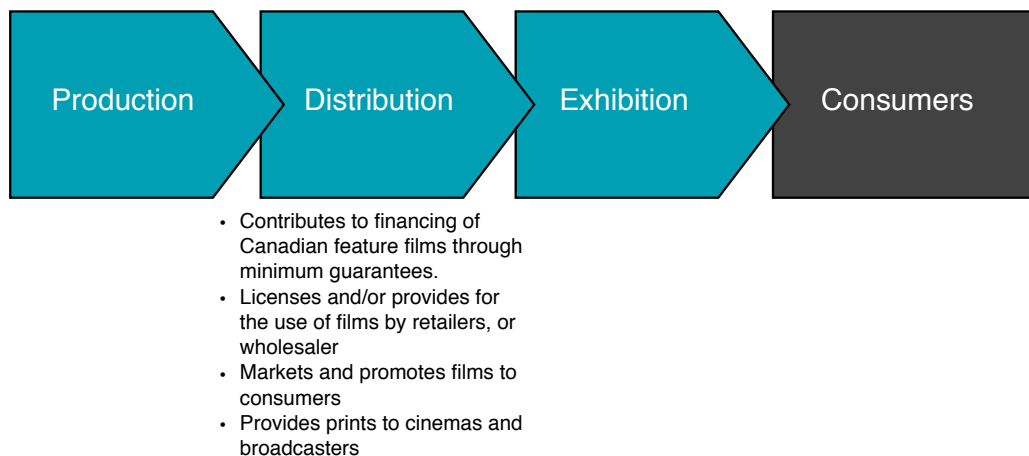
span (between 2000-2010) Canadian distribution companies have spent in excess of \$400 million in the acquisition and marketing of Canadian films.<sup>60</sup>

### 3. The Window Model

#### 3.1. The Windowing Release Strategy

The value chain of a feature film involves a number of players all working on different elements of the production and exploitation process, and adding value in different ways along the chain. Producers sell the feature film rights to a distributor. The distributor readies the film for use by retailers and exhibitors, and markets and promotes it to consumers (see fig. 3).

Figure 3: Value Chain of Role of the Distributor<sup>61</sup>



Source: Adapted from *The Motion Picture Industry: Critical Issues in Practice, Current Research and New Research Directions*

Canadian theatrical films have traditionally followed a consistent value chain or series of “windows.” For a typical Canadian film, the sequence is theatrical, home video/DVD, digital delivery and VOD, pay-television, network television and then cable television.

Figure 4: Typical Windows Model for Canadian Feature Films



Source: CAFDE

<sup>60</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit.

<sup>61</sup> Jehoshua Eliashberg, Anita Elberse and Mark A.A.M. Leenders, *The Motion Picture Industry: Critical Issues in Practice, Current Research and New Research Directions*, Harvard Business School, February 23, 2005.

The decision as to when to release a movie and through what channels is a strategic issue for the industry, determined by the best way to maximize revenues. Films are normally first distributed to the market that generates the highest revenues over the least amount of time.

A study conducted in 2010 by the Canadian Media Production Association on the acquisition of digital rights by broadcasters, producers and distributors found that unlike television, the distributor has traditionally retained all rights in all media – for lengthy terms – in order to recover the costs of releasing a film. The theatrical release of a film is considered to be a risky business.<sup>62</sup>

Our interviews with distributors as part of this study found that the windowing release strategy continues to be important. In particular, the promotional campaign concentrates on the theatrical release because of its effect on subsequent windows. The securing of a successful opening weekend continues to be a requirement for larger budget/wider release of Canadian films in terms of long-term success across all windows.

### 3.2 US Trends in the Windowing Model

Given the market domination of Canada's box office by American distribution companies affiliated with the US majors, it is instructive to examine trends in the windowing model in the US which act as a point of reference for the Canadian context.

In the last few years, the trend in the US has seen the various exploitation windows closing, with some films being released in other windows on the same day as (or close to) their theatrical release.

As early as 2005, Magnolia's parent company, 2929 Entertainment, began releasing films simultaneously in theatres, on DVD and on cable, a strategy called day-and-date. Magnolia tested the waters in 2005 with *Enron: The Smartest Guys in the Room*, followed by Steven Soderbergh's *Bubble*. While its release was not considered a success (it earned about \$150,000 in three weeks in theatres), the film made more revenue through day-and-date than it would have with a traditional release.<sup>63</sup> The company 2929 Entertainment owns the Landmark Theatre chain, which owns 58 theatres in 23 markets which participated in these release strategies. Vertically integrated distribution companies that own both distribution and exhibition such as 2929 Entertainment are said to have a stronger chance of prospering in the distribution business.

Simultaneous releases have also been used by cable television's Sundance Channel with a video-on-demand service called "Sundance Selects" that allows viewers to watch films on their televisions the same day they are released in theatres.

*Screen Digest* estimates that US theatrical windows have fallen from 23 weeks to 17 weeks, with shrinking windows forcing exhibitors to raise ticket prices. The result has been that week one for the top 10 titles is now more significant to exhibitors in the US than just the opening weekend. (See fig. 5) It is worth noting that shrinking windows have not however reversed declines in physical video retail spending which has been decreasing for the last eight years.

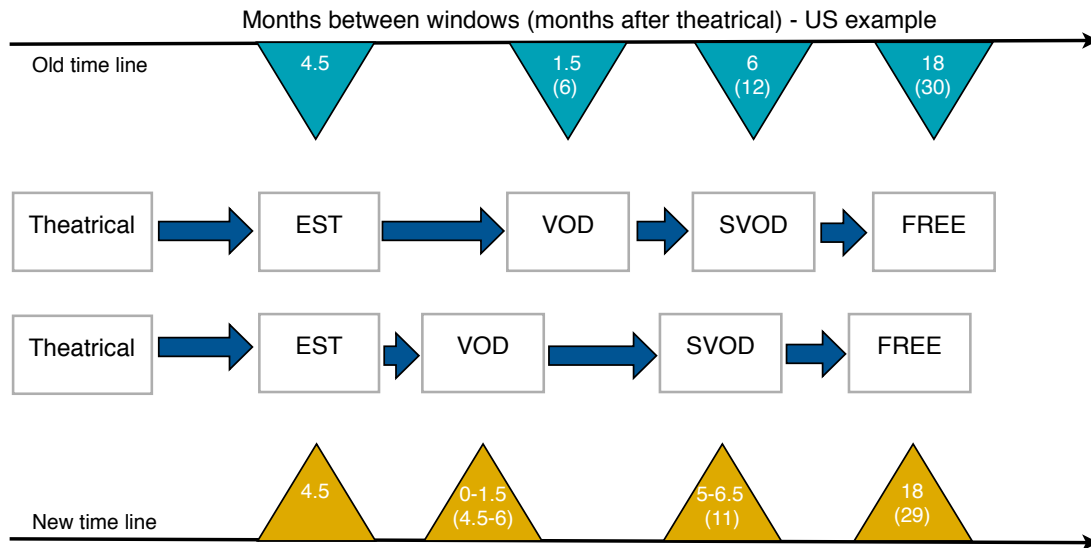
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<sup>62</sup> *Towards a Framework for Digital Rights*, prepared by Duopoly for Canadian Media Production Association, June 2010.

<sup>63</sup> Mahohla Dargis, "Hollywood Shines on Sundance; Independent Film Gets Burned," *New York Times*, January 21, 2007.

It is expected to decline globally to \$11.2 billion in the US in 2015, down from \$15 billion in 2011.<sup>64</sup>

Figure 5: Changes in the US Window Model for Films



Source: Ben Keen, *Does the Movie Industry Need a New Business Model?*, Screen Digest, 2010

Interviews with stakeholders for this study reveal that while day-and-date releases may represent new alternatives for distributing a film other than a traditional box office debut, how successful this strategy will be or for what types of films is still to be determined. Some distributors may be open to venturing into day-and-date releases although Canadian exhibitors are generally not in favor of giving up their four-month window for theatrical release. An important drawback for Canadian distributors could be that once committed to a VOD premiere, the opportunity to schedule a wide theatrical release would be curtailed.

In the US, the approach taken differs from one studio to another with Warner being the most aggressive, using a day-and-date VOD strategy for many titles in the US and Europe and experimenting with VOD prior to the DVD release. Universal and Fox are also going day-and-date for some titles, while Sony, Paramount and Disney are the most cautious with Sony, for example, only conducting limited day-and-date trials.<sup>65</sup>

A distributor interviewed for this study observed that in many ways, the independent film sector is best suited for experimenting with a day-and-date strategy, because these are typically lower budget films.

In the US more recently, distribution companies such as Lionsgate, Roadside Attractions and the Weinstein Company are using streaming and video-on-demand simultaneously with the-

<sup>64</sup> Tania Loeffler, Helen Davis Jayalath, *Movies: Cross-platform Market Monitor Movie Consumption and Trends Across Five Key World Regions*, Screen Digest, February 29, 2012.

<sup>65</sup> Ben Keen, *Does the Movie Industry Need a New Business Model?*, Screen Digest, March 21, 2010.

atrical in the release strategies of their films.<sup>66</sup> As one observer explained: “More and more often, these [films] are starry, prestige pictures with commercial potential -- projects more likely to have been traditionally platformed just a few years ago. While minimum guarantees for most indie pictures have gotten smaller over the past few years, with producers sharing more of the risk (and more of the potential box office reward), distributors have been increasing the guarantees on select, star-driven day-and-date projects, making such deals more attractive to filmmakers. Distribution sources say some of the competitiveness stems from VOD outlets themselves demanding more big-name premieres in their pipelines.”<sup>67</sup>

There have been some successes such as Magnolia's *Melancholia*, which appeared on VOD a month before its theatrical release and earned \$3 million in theatres and a reported \$2 million on VOD. This figure was greater than the \$4 million box office generated by each of Lars Von Trier's two films, *Breaking the Waves* and *Dancer in the Dark*. Similarly, *Margin Call* generated \$5.4 million, and it's estimated that it captured between \$4 million to \$5 million on VOD.<sup>68</sup>

Another development impacting release windows for films is the service Netflix. A subscription video-on-demand (SVOD) service, Netflix is seen as having the highest growth potential but it is also the most disruptive to the carefully orchestrated procession of distribution windows which has come to define the filmmaking business. As one analyst explained: “The jury is still very much out on whether Netflix, by offering a cheap buffet of movies so soon after their DVD release, is simply undermining the cinema's value chain. There is no doubt that Netflix's intention to purchase global VOD rights threatens the exclusive all-rights deal traditionally offered to theatrical distributors.”<sup>69</sup>

The trends being observed in the US market are reflective of a volatile environment for the distribution of theatrical films largely because of the impact of new technologies and new business models.

### 3.3. International Trends

In Europe, some distributors are experimenting with reverse windows in which films or parts of films are released on VOD at an early stage, after which they close down to protect the other windows. Examples include EuropaCorp's *Home* (2009) and Memento's *Amerrika* (2009), offering free VOD before theatrical release during a limited period, and up to a limited number of downloads. More recently the Sundance Festival offered three feature films in rental format on YouTube on the day of their premiere. This approach may be an appropriate windowing strategy for specific European films that are increasingly under pressure to quickly succeed in ever-shortening theatrical windows. Such flexibility may be beneficial because films that did not create significant returns in theatres could be more quickly released on VOD (rather than being blocked for an agreed time period) which, in turn, might promote their popularity among certain audiences.<sup>70</sup>

A recent study on the film sector in the United Kingdom (UK) found that while there is a need to protect the primacy of the theatrical experience and the typical four-month window for

<sup>66</sup> Gregg Goldstein, “Distributors go multiplatform diving: Movie bows increasingly include day-date VOD, streaming options”, in *Variety*, May 19, 2012.

<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

<sup>69</sup> Colin Brown, “The Future on Demand,” in *Screen International*, February 10, 2011.

<sup>70</sup> *Multi-Territory Licensing of Audiovisual Works in the European Union*, KEA European Affairs, October 2010, page 58.



Hollywood-style blockbusters, it is less necessary for smaller, independent films with a more limited Print and Advertising (P&A) budget. The study found that the VOD release in North America of Gareth Edwards' *Monsters* (2010) a month before its theatrical release in the same territory was an experiment that benefitted consumers who increasingly value convenience and access to entertainment on their terms.<sup>71</sup>

The report noted that, "windows experimentation is more relevant for low-budget films because their box office visibility is generally lower and their theatrical runs are generally shorter. By embracing such change, the industry would give audiences access to a wider range of films, including those that may otherwise have been underplayed, as well as having a vehicle with which to test new business models."<sup>72</sup>

A recent development in the UK is a multi-year agreement that the leading exhibitor Odeon Cinemas has entered into with Dreamworks Animation, in which both parties committed to a standard post-theatrical release window for the films *Madagascar 3: Europe's Most Wanted* and *Rise of the Guardians*. This agreement could herald a new industry-wide approach to release windows, putting in place an exhibitor-by-exhibitor strategy of managed flexibility.<sup>73</sup> The implication of this agreement is that the window model, which has been the foundation of the film distribution business, is changing because of new digital distribution platforms and the increasing fragmentation of entertainment options opened to consumers.

In France, release windows were reduced in 2009, bringing VOD in line with DVD (4 months after theatrical release) as well as reducing windows for Pay-TV (12 months) and conventional broadcasters (22 months).<sup>74</sup> Unlike other countries, release windows are overseen by the government in France.

A European study found that national distributors are interested in maintaining their overall revenues from theatres, broadcasting and DVD/Blu-ray, and seem reluctant to support a new version (VOD) that could cannibalize existing revenues while creating few returns. Moreover, distributors generally receive smaller revenue shares from VOD (5%-10%) than from DVD (25%-30%).<sup>75</sup>

One issue of concern for distributors is that the attractiveness of VOD services will depend on the degree of 'freshness' of the exclusive film premieres offered. In Europe, there are time delays in the availability of films in the various member states, particularly after their cinema release because of rights. The acquisition of rights to films by distributors is seen to be complex and governed by different policies between one member state and another. This situation is preventing the growth of VOD in Europe and preventing the distribution sector from taking full advantage of the potential benefits of the digital revolution in order to increase the transnational circulation of films and ultimately a wider audience.

One of the subjects being debated by the EU is the idea of opening up territorial rights on formats such as the VOD market in order to encourage greater circulation of European films across countries. This debate has raised the concern of independent distributors in Europe

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<sup>71</sup> *A Future for British Film: It begins with the audience*, prepared by the Film Policy Review Panel for the Department for Culture, Media and Sport, January 2012, page 34.

<sup>72</sup> *Ibid*, page 34.

<sup>73</sup> David Hancock, *Odeon agrees windows deal with Dreamworks Animation*, Screen Digest, March 23, 2012.

<sup>74</sup> "France Reduces Film Screen Windows," in *Screen International*, July 8, 2009..

<sup>75</sup> *Multi-Territory Licensing of Audiovisual Works in the European Union*, Op. Cit., page 51.

that have said that if distribution rights are not guaranteed, they will invest much smaller minimum guarantees in films.<sup>76</sup>

One development that has been observed is the establishment of VOD sites by distributors such as Artificial Eye in the United Kingdom. This company, which already owns a theatrical screen chain (Curzon), has its own VOD site for its films and also acts as an aggregator for other distributors.<sup>77</sup> The company aims to generate between 2% to 6% of a film's theatrical gross from VOD.<sup>78</sup> One of the advantages in having access to screens and to a VOD platform is that it allows Artificial Eye to collapse the theatrical window and have a simultaneous theatrical and VOD release, making the most of the marketing spend.

In 2011, the film *Pianomania* became the first simultaneous VOD release of a European film in seven territories including the United Kingdom, Ireland, France, Germany, Austria, Italy and Switzerland. The film was made available in four languages (English, German, French, and Italian) and was supported by a pan-European promotion campaign alongside local targeted actions.<sup>79</sup> This type of release allowed an independent film to reach a wide audience across Europe although a great deal of coordination was needed particularly in the marketing of the film.

For its part, the European Commission (EC) introduced in 2012 a pilot initiative aimed at improving the transnational circulation and global audiences for European films within the European Union. Supported by a budget of EUR 2 million for the first year, the initiative finances distributors interested in testing simultaneous or quasi-simultaneous releases of films. As described in a recent report issued by the European Commission, "*Circulation of Films in the Digital Era*", the EC wants to encourage experimentation by distributors with innovative strategies for distributing European films in cinemas, on DVD, on video-on-demand, in festivals, on television channels or on other platforms.<sup>80</sup> The EC is interested in fostering increased complementarity between distribution media to improve transnational circulation of films and to aim for larger audiences for European films.

#### 4. Summary Observations

Canada's Distribution Policy has helped build a Canadian-owned and-controlled distribution sector that distributes feature films in Canada. Under the current rules, for a Canadian theatrical feature film to qualify for federal production assistance, its distribution rights for the Canadian territory must be licensed to a Canadian-owned and –controlled distributor.

Canadian-owned and-controlled distribution companies currently hold a 23.1% market share using box office as a measure. Without the ability to release non-Canadian films, which to a large extent subsidize Canadian film releases, Canadian distributors' businesses would not be viable. Canadian distributors were responsible for the release of 76.6% of all films released in 2011 in Canada, of which 60.1% were non-Canadian films and 16.5% were Canadian films.

<sup>76</sup> Melanie Goodfellow, "Europa Distribution Warns Opening Up Territorial Rights Threatens MGs," in *Screen International*, October 10, 2011.

<sup>77</sup> Leo Barraclough, "Euro distribs diversify to make ends meet: Companies get into co-productions, VOD," in *Variety*, November 14, 2010.

<sup>78</sup> Ibid.

<sup>79</sup> *Fifth Europa Distribution Annual Conference*, Festival Lumiere, Lyon, October 6-9, 2011.

<sup>80</sup> *2012 Annual Work Plan Programme for the Implementation of the Preparatory Action 'Circulation of Films in the Digital Era*, European Commission, March 27, 2012.

While the window model continues to be the foundation for the feature films distribution business globally, we observe that there is experimentation taking place in the release strategies for films primarily in the US and some member countries of the EU.

In the US, there is vertical integration between distribution and exhibition and in some EU member countries, there is vertical integration between distribution and broadcasting. One observer explains this trend as follows: “in such a volatile market, vertically integrated companies have a far stronger chance of prospering. It’s much easier if you’re a distributor-exhibitor than either an exhibitor or a distributor.”<sup>81</sup>

The current windowing release strategy, in which the promotional campaign concentrates on the theatrical release, continues to be important for Canadian distributors because of its effect on subsequent windows. The securing of a successful opening weekend continues to be a requirement for larger budget Canadian films so that long-term success across all windows can be assured. At the same time, Canadian distributors are open to exploring new business models for the release of Canadian films. It is clear that no general rule exists as to what type of release window could best benefit Canadian films. It is possible that flexibility in the release strategy will be required for smaller-budget Canadian films given new distribution platforms such as the VOD platform.

One Canadian exhibitor interviewed for this study summed up the changes taking place in the release windows as reflective of the changing viewing habits of consumers who want access to a wide range of viewing opportunities. He went on to state that: “experimenting with windows is all about flexibility, a flexible approach to windowing on a film-by-film basis to maximise revenues across all release outlets.”

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<sup>81</sup> *Independent Distribution in Western Europe*, Op. Cit., page 4.

*Over the past 10 years, experience has taught us that box office figures simply don't tell the entire story. While box office continues to be an important measure of success, it must be looked at in conjunction with other factors."*

*- Fostering Cultural Success: Telefilm Canada's Corporate Plan 2011-2012 – 2014-2015<sup>82</sup>*

## II. Tracking Audiences for Canadian Feature Films

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### 1. Preamble

When the government of Canada's feature film policy was launched in 2000, it signalled a major shift in the federal government's support of Canadian feature films — from building an industry to building audiences. The policy introduced a new goal for Canadian films: to capture 5% of the domestic box office. Since then, the Department of Canadian Heritage, funders and the industry have recognized that while the box office metric is an important one, it does not capture all the audiences viewing Canadian feature films.<sup>83</sup>

As we have pointed out elsewhere in this report, Canadians have a number of options for accessing films including on the big screen, on conventional and speciality television channels, as well as via video-on-demand and pay-per-view services. They can also buy, rent or download films to watch at home, or on personal viewing devices. The extent to which the viewing of Canadian films by Canadian audiences can be measured across all of these platforms will provide a more complete picture of the industry's success in meeting the objective of the feature film policy to build audiences for Canadian films.

Film distributors play a key role in building audiences in the domestic market and they work in partnership with producers through the CFFF administered by Telefilm Canada. The CFFF represents the largest single source of financing for Canadian feature-length films in Canada. In 2010-2011, the Fund provided \$90 million for the development, production, distribution and marketing of films, representing 22% of the total financing.<sup>84</sup>

Some distributors earn performance-based funding for marketing through the CFFF, based on the box office generated for Canadian feature films and other criteria. Funds are available in the form of performance envelopes for distributors who achieve success at the Canadian box office. Effective in 2012, Telefilm has introduced new criteria for how a performance-based envelope will be calculated using a Success Index, which will now include gross domestic and international sales of films and ratio of private versus public funding.

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<sup>82</sup> *Fostering Cultural Success: Telefilm Canada's Corporate Plan 2011-2012 – 2014-2015*, Op. Cit.

<sup>83</sup> Telefilm Canada's new strategic plan states the intention of the agency to broaden the measures to viewing of Canadian feature films to include platforms other than the box office. See *Fostering Cultural Success: Telefilm Canada's Corporate Plan 2011-2012 – 2014-2015*, Op. Cit., page 16.

<sup>84</sup> *Profile 2010: An Economic Report on the Screen-Based Production Industry in Canada*, prepared by Nordicity for the CMPA and APFTQ in conjunction with the Department of Canadian Heritage, 2010, pages 67 and 68.

The distributor is also closest to the exhibitor in the value chain and is best positioned to gauge the audience potential of a Canadian film. As Telefilm Canada's CFFF Guidelines on the Marketing Program point out: "It is acknowledged that the contribution of the market voice, that is the involvement and commitment of the distributor... is critical to a project's success."<sup>85</sup>

In this section, we track the audiences for Canadian feature films in 2011 using available metrics, including the market share of Canadian films at the box office, the market share for Canadian films exhibited on television and the number of films rented and sold. For the latter two markets, the data presented is for 2010. In our summary observations in this section, we provide a comparison of the national trends in the viewing and exhibition of Canadian feature films to international trends in select member countries of the EU.

## 2. The Big Screen

### 2.1 Number of Screens, Sites and Screen Density

According to *Screen Digest*, Canada has more than 2,771 screens, 657 cinema sites and an average of 4.2 screens per site. Of total screens, 91.7% were multiplex screens (defined as five screens or more).<sup>86</sup> As can be seen in figure 6 below, the number of screens is expected to increase slightly in the next three years to reach 2,806 by 2014. The number of cinema sites in Canada is projected to decrease to an estimated 644 sites by 2014.

Figure 6: Canada: Cinema Screens, Sites and Screen Density: 2008- 2014

	2008	2009	2010	2011	2012	2013	2014
Cinema screens	2,739	2,691	2,715	2,749	2,771	2,790	2,806
Cinema sites	681	675	668	661	657	651	644
Average screens per site	4.0	4.0	4.1	4.2	4.2	4.3	4.4
Number of multiplex screens	2,491	2,501	2,511	2,521	2,531	2,540	2,550

Source: *Screen Digest Canada Summary: All Cinema Data for Canada, April 12, 2012*

Figure 7 shows the key metric of cinema screen density in Canada in population terms. There were 79.8 screens per million people in 2011, compared with 82 screens per million people in 2008. It is expected that by 2014, there will be 78.7 screens per million people in Canada.

Figure 7: Screen Density, per million head of population, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Number of screens per million head of population	82.3	79.9	79.7	79.8	79.5	79.2	78.7

Source: *Screen Digest Canada Summary: All Cinema Data for Canada, April 12, 2012*

<sup>85</sup> *Canada Feature Film Fund Guidelines: Marketing Program Guidelines*, Telefilm Canada, April 1, 2011, page 7.

<sup>86</sup> Source: *All Cinema Data for Canada*, Op. Cit.

A breakdown by province in figure 8 demonstrates that in 2004-2005, 32.4% of all screens in Canada were found in Ontario followed by 27.3% in Quebec, 13.1% in British Columbia and 12.4% in Alberta.

**Figure 8: Number of Screens by Province, 2004-2005**

Province	Number of screens	% of total screens
Newfoundland and Labrador	32	1.1
Prince Edward Island	16	0.5
Nova Scotia	100	3.4
New Brunswick	58	2.0
Quebec	802	27.3
Ontario	951	32.4
Manitoba	105	3.6
Saskatchewan	110	3.8
Alberta	364	12.4
British Columbia	384	13.1
Yukon, Northwest Territories and Nunavut	12	0.4
Total	2,934	100.0

*Source: Screen Digest as adapted from Statistics Canada publication "Movie theatres and drive-ins, 2002-2003," Catalogue 87F009, June 2004*

In 2011, 67.2% of all screens in Canada were digital. This figure is expected to rise to 84.1% in 2012 and 95.9% in 2013 and reach 100% in 2014.

**Figure 9: Digital Screens in Canada, 2011-2014**

	2011	2012	2013	2014
Digital screens as share of total screens	67%	84.1%	95.9%	100%

*Source: Screen Digest Canada Summary: All Cinema Data for Canada, April 12, 2012*

In terms of the number of exhibitors that exist in Canada, figure 10 reveals that in 2010, there were 12 exhibitors. However one company, Cineplex, owned almost 50% of all screens in 2011.

Figure 10: Share of Screens by Exhibitor, 2011

Name of Exhibitor	% of total screens
Cineplex Galaxy	48.8%
Empire Theatres	13.8%
AMC Theatres	5.8%
Guzzo Theatres	5.5%
Landmark Theatres	4.1%
Magic Lantern, Rainbow Cinemas	3%
Cinema City	1.6%
Les Cinema Cinentreprises	1.5%
Stinson Theatres	1.3%
May Theatres	0.9%
Premier Operating	0.8%
Cinemark	0.4%

Source: Screen Digest Canada Summary: All Cinema Data for Canada, April 12, 2012

According to Cineplex Entertainment, Cineplex captured almost 66% of the box office market revenue in Canada in 2010.<sup>87</sup>

## 2.2 Canadian Films Released Theatrically and the Performance of Canadian Films

Out of the 576 films released in theatres in 2011, 94 or 16.3% were Canadian films compared with 44% that were foreign and a further 39.5% of films that were from the US. (see fig.11)

Figure 11: Films Released Theatrically by Origin, 2011

Origin of Film	Number
Canadian film supported by the Canada Feature Film Fund	63
Canadian films not supported by the Canada Feature Film Fund	31
US	228
Foreign (other than US)	254
Total	576

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada

Of the 94 Canadian films released theatrically in 2011, 67% were supported by the CFFF administered by Telefilm Canada. When we consider how long Canadian films play in theatres, we note in figure 12 that Canadian films played an average of 7.8 weeks in theatres compared to the much longer period for US films of 15.2 weeks on average. We also note the average stay of foreign films in theatres was similar to the stay for Canadian films at 7.7 weeks. It should be noted that US films play longer in theatres.

<sup>87</sup> Presentation by Cineplex Inc. to the Media Exhibitor Conference, March 15, 2012.

Figure 12: Number of Weeks Canadian Films Play in Theatres

Country of Origin	Average Number of Weeks
Canadian Films	7.8
US Films	15.2
Foreign Films	7.7

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada

The box office earned by Canadian films playing in theatres in Canada in 2011 was \$27 million out of the total box office revenue generated of more than \$1 billion dollars. Of this total, US films generated \$875 million followed by \$98 million generated by foreign films, as can be seen in figure 13.

Figure 13: Total Box Office by Country of Origin, 2011

Country of Origin	Box Office	%
Canada	\$28 million	2.8%
Foreign other than US	\$98 million	9.8%
US	\$875 million	87.4%

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada

As is shown in figure 14, the 2011 top 10 box office hits were all American films with the exception of two films, a US-British production, and a British production. The list is also composed of sequels of US movies.

The last instalment in the Harry Potter series had a box office of more than \$43 million. Seven of the top ten films were in 3D format. Films in 3D format are aimed at giving the viewer a more immersive experience.

Figure 14: Top 10 Films in Canadian Theatres in 2011

Name of Film	Country of Origin	Box office Generated
Harry Potter and the Deathly Hallows II	UK-US	\$ 43,328,077
Transformer: Dark of the Moon	US	\$ 30,662,510
USA Pirates of the Caribbean on Stranger Tides	US	\$ 24,517,731
The Twilight Saga: Breaking Dawn	US	\$ 22,264,424
The Hangover 2	US	\$ 20,963,873
Fast Five	US	\$ 20,679,744
Bridesmaids	US	\$20,402,321
The Smurfs	US	\$ 19,414,361
Thor	US	\$ 18,626,804
The King's Speech	UK	\$ 17,007,786

Source: Telefilm Canada based on Motion Picture Theatre Association of Canada.

Note: The King's Speech was released in 2010. Only the box office accrued in 2011 is shown above.



While the Hollywood blockbuster films were popular with Canadian audiences, films that fell into the independent film market category also performed well at the box office capturing a 35% market share (see figure 16). We also observe in figure 15 that the market share of Canadian films, when positioned within the independent film market, captured a robust 20% share of the market.

Figure 15: Independent Film's Market Share by Country of Origin

Country of Origin	2011
Canada	20.3%
Foreign other than US	35.0%
US	44.8%

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada

A look at the top 10 independent films of the year shows that two Canadian films, *Starbuck* and *Le Sens de l'humour* came in 8th and 10th place respectively with box office receipts of more than \$3 million each. (See figure 16.)

Figure 16: Top 10 Independent Films in Canadian Theatres in 2011

Title	Country of Origin	Box Office in 2011
The King's Speech	UK	\$ 17,007,786
Black Swan	US	\$ 7,782,631
Hanna	UK-Germany-US	\$ 4,990,531
Midnight in Paris	US	\$ 4,890,085
50/50	US	\$ 4,547,747
The Ides of March	US	\$ 4,464,899
The Mechanic	US	\$ 3,833,170
Starbuck	Canada	\$ 3,508,497
The Three Musketeers	US-Germany-France-UK	\$ 3,414,120
Le Sens de l'humour	Canada	\$ 3,359,981

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada.

Note: The King's Speech was released in 2010. Only the box office accrued in 2011 is shown above.

### 2.2.1. Box Office by Linguistic Markets<sup>88</sup>

When Canada's two major language markets for feature films are compared, box office performance varied considerably in 2011. Canadian films' share of the box office in Canada's French-language market was 13.4%, well ahead of the market share of Canadian films in the English-language market at 1%. Measured in box office receipts, the French-language market generated box office receipts worth \$19,767,000 compared to \$8,123,000 for the English-language market. (See fig. 17)

<sup>88</sup> In Canada, the French-language market refers to all films presented in French. This includes films for which the original language of production was French, as well as other films dubbed into French, or presented with French subtitles. The English-language market refers to all films presented in English (original language, dubbed or subtitled).

The extent of the difference between the levels of success of French- and English-language feature films lies in the market itself. American culture and media do not dominate Québec's linguistic and cultural markets in the same way as is the case in English Canada. Moreover, Québec films are heavily cross-promoted within all French-language media, including television, magazines, feature films and radio. Taken together, this has resulted in a star system that so far does not exist to any significant degree in English Canada.

The American media and the marketing campaigns for American films are not overwhelming in Québec the way they are in English Canada. Québec audiences prefer to see films and television shows originally made in French.

Figure 17: Canadian Box office by Linguistic Market, 2011 (in thousands of dollars)

	French-Language Market	English-Language Market
Box Office Receipts	\$19,767	\$8,123
% of Market Share	13.4%	1%

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada

In the French-language market, the top grossing film was *Starbuck* with a box office of \$3,355,642, compared with the English-language market whose top grossing film was *Barney's Version* with a box office of \$2,895,841. (See figure 18.) Figure 18 shows that Alliance Vivafilm, Films Séville and Remstar were the Canadian distributors responsible for the box office success of the top grossing films.

Figure 18: Top 10 Canadian Films in 2011, both linguistic markets

Title	Distributor	Box Office in 2011
Starbuck	Films Séville	\$ 3,508,497
Le Sens de l'humour	Alliance Vivafilm	\$ 3,359,981
Barney's Version	Films Séville	\$ 3,009,288
Incendies	Films Séville	\$ 2,054,538
Gerry	Films Séville	\$ 1,968,419
Breakaway	Alliance Films	\$ 1,882,688
Monsieur Lazhar	Films Séville	\$ 1,768,145
Café de flore	Alliance Vivafilm	\$ 1,634,452
Funkytown	Remstar	\$ 1,324,563
Sur le rythme	Films Séville	\$ 943,434
Total		\$21,454,005

Source: Telefilm Canada based on Motion Picture Theatre Associations of Canada

Note: *Barney's Version* and *Incendies* were released in 2010. Only the BO accrued in 2011 is shown above.

### 2.2.2. Genres of Canadian Films

One of the policy objectives of Canada's feature film policy is to encourage the diversity of genres of Canadian feature films available to Canadians. An examination of the genres of films supported by Telefilm Canada in 2011 reveals that drama, comedy and science fiction categories represented 79.6% of total commitments made by Telefilm for this year. In terms of differences by linguistic market, we note that in the English-language market, there was a more diverse slate of films supported by Telefilm than there was in the French-language market. (see fig.19)

Figure 19: CFFF Commitments in Feature Films by Genre, 2011

Genre	English	%	French	%	Total	%
Comedy	\$6,951,525	21%	\$7,872,688	31%	\$14,824,213	26%
Drama	\$6,723,000	21%	\$17,505,000	69%	\$24,228,000	42%
Historical Drama	\$2,237,000	7%	--	0%	\$2,237,000	4%
Horror/Thriller	\$5,112,018	16%	--	0%	\$5,112,018	9%
Mystery/Crime/Police	\$750,000	2%	--	0%	\$750,000	1%
Romantic Comedy	\$3,784,915	12%	--	0%	\$3,784,915	7%
Science fiction/fantasy/tale	\$7,210,000	22%	--	0%	\$7,210,000	12%
Total	\$32,768,458	100%	\$25,377,688	100%	\$58,146,146	100%

Source: Telefilm Canada. Note: Totals may not equal 100% due to rounding.

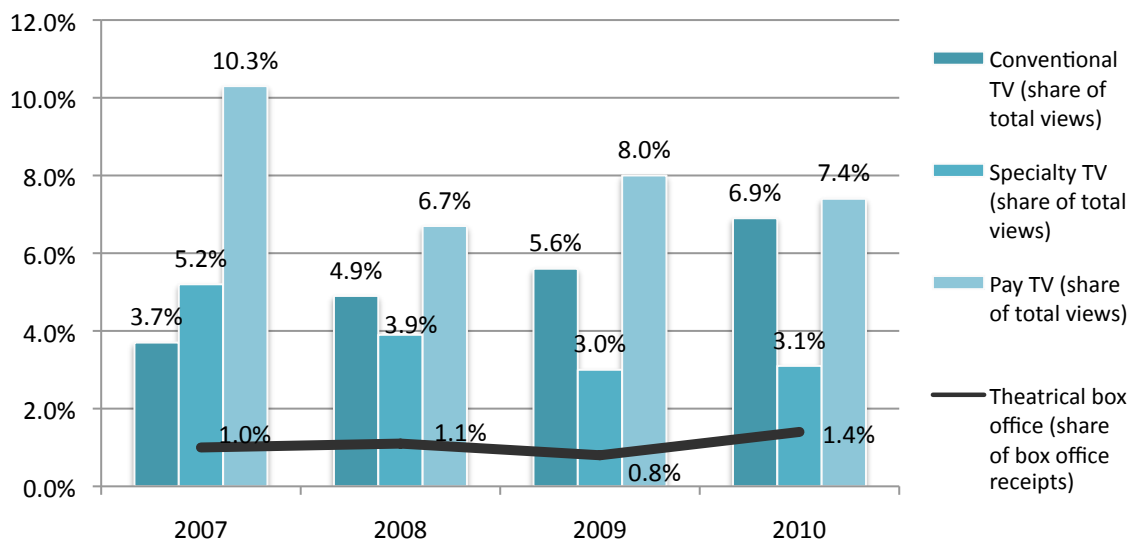
## 3. The Small Screen

### 3.1. Viewing of Canadian Feature Films on Conventional, Pay-Television and Specialty Services

While the theatrical window represents a key platform for the distribution of feature films, television platforms account for a large share of the overall audience for any given feature film.

The viewing of Canadian films by Canadians on television includes films broadcast on conventional stations, pay-television, and specialty services. Figure 20 below presents the market share of Canadian feature films exhibited on conventional television, pay-television and specialty services in the English-language market. We note that in 2010, the market share for films exhibited on English-language pay-television was the highest at 7.4%, followed by the market share for films exhibited on conventional stations at 6.9% and 3.1% for films exhibited on specialty television services.

**Figure 20: Market Share of Canadian Feature Films Exhibited on Television, English-language Markets**



Source: *Profile 2011: An Economic Report on the Screen-based Production Industry in Canada as adapted from the Department of Canadian Heritage analysis of data from BBM Canada.*

Note: For the television markets, the total number of views was estimated by dividing the total number of minutes spent watching a feature film by the average duration of the film. Only feature films that had a theatrical release were considered in this analysis.

As is illustrated in figure 20, in the English-language market, Canadian films attained a higher share of total views of feature films on conventional, specialty television and pay-television platforms (6.9%, 7.4% and 3.1%, respectively) than they attained in the theatrical window in 2010 (1.4%).

A study conducted in 2011, *Examination of the Levels of Broadcast for Canadian Theatrical Films*, found that while the volume of Canadian films on English-language television has increased on television, the volume of first-run Canadian films has decreased.<sup>89</sup> For example, almost three quarters of films broadcast in 2009-2010 were three or more years old.<sup>90</sup>

An examination of the market share of Canadian feature films exhibited on French-language television shows that, as in the English-language market, pay-television is an important platform capturing the highest market share at 9.8%. The market share for films exhibited on specialty services was 7.6%, higher for the French-language market than for the English-language market. French-language feature films exhibited on conventional television garnered a market share of 7.3% compared to 6.9% for English-language films.

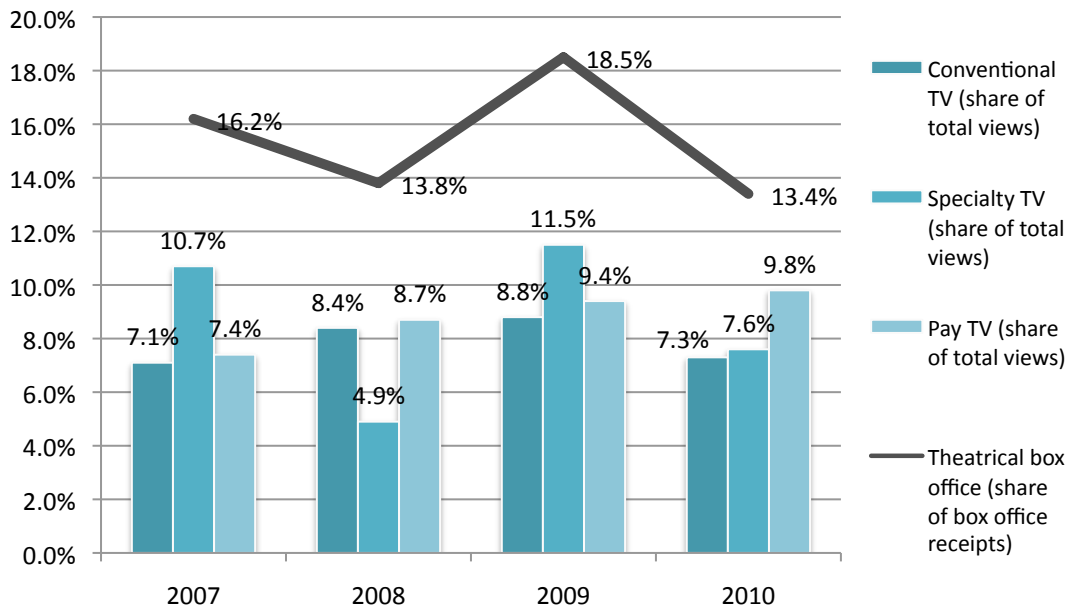
<sup>89</sup> *Examination of the Levels of Broadcast for Canadian Theatrical Films*, prepared by Strategic Inc for Canadian Media Production Association and Canadian Association of Film Distributors and Exporters, May 9, 2011.

<sup>90</sup> Ibid.

The relationship between the market share of Canadian films exhibited on the television windows and the theatrical window differs between the English-language and French-language markets.

It should be noted that the audience shares in the television windows in the English-language market suggest that Canada's broadcasting regulations in the conventional, specialty television and pay-television segments may be contributing to building audiences for Canadian feature films. Certain broadcasters such as pay television broadcasters have conditions of licence that state that they must acquire and exhibit Canadian films. Other specialty services have mandates to exhibit Canadian feature films. This compares with the theatrical segment where cinema owners face no exhibition requirements for Canadian films, and in which the market share for films exhibited in English has consistently been lower than in the television windows.

**Figure 21: Market Share of Canadian Feature Films Exhibited on Television versus Theatrical -French**



Source: *Profile 2011: An Economic Report on the Screen-based Production Industry in Canada* as adapted from the Department of Canadian Heritage analysis of data from BBM Canada.

Note: For the television markets, the total number of views was estimated by dividing the total number of minutes spent watching a feature film by the average duration of the film. Only feature films that had a theatrical release were considered in this analysis.

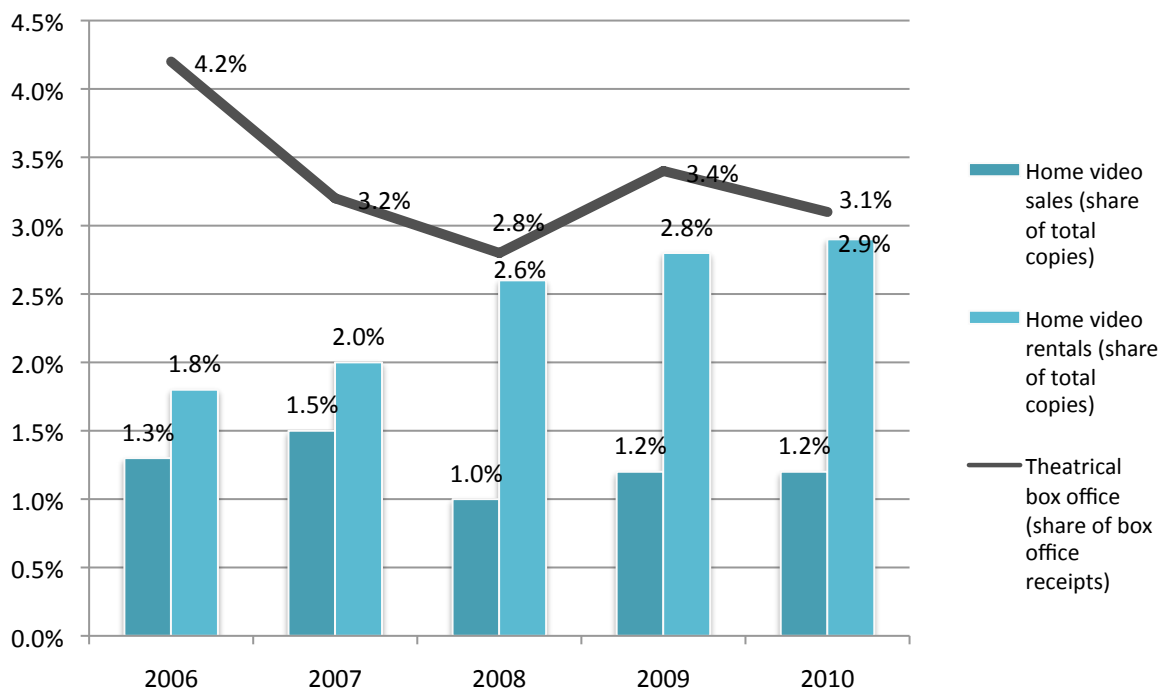
#### 4. Rental or Sales of Films on Physical Media <sup>91</sup>

##### 4.1. Market Share of Canadian Feature Films as Measured by the Estimated Share of Total Copies Sold or Rented

In 2010, the market share of Canadian feature films as measured by the estimated share of total copies sold was 1.2%. This compares with the market share of Canadian feature films rented which was at 2.9% in 2010. As data is not available in terms of the market share by linguistic markets of English and French, it is difficult to arrive at conclusions on the distinctiveness of the two markets.

These market shares are lower than the overall share of box office revenues in Canada captured by Canadian feature films. (See figure 22.)

**Figure 22: Market Share of Canadian Feature Films in Canada, Home Video Versus Theatrical Box Office (both linguistic markets)**



Source: Profile 2011: An Economic Report on the Screen-based Production Industry in Canada as adapted from the Department of Canadian Heritage analysis of data from BBM Canada.

Note: For the television markets, the total number of views was estimated by dividing the total number of minutes spent watching a feature film by the average duration of the film. Only feature films that had a theatrical release were considered in this analysis.

Figure 22 shows that DVD rentals were on the rise with a market share increase from 1.8% in 2006 to 2.9% in 2010.

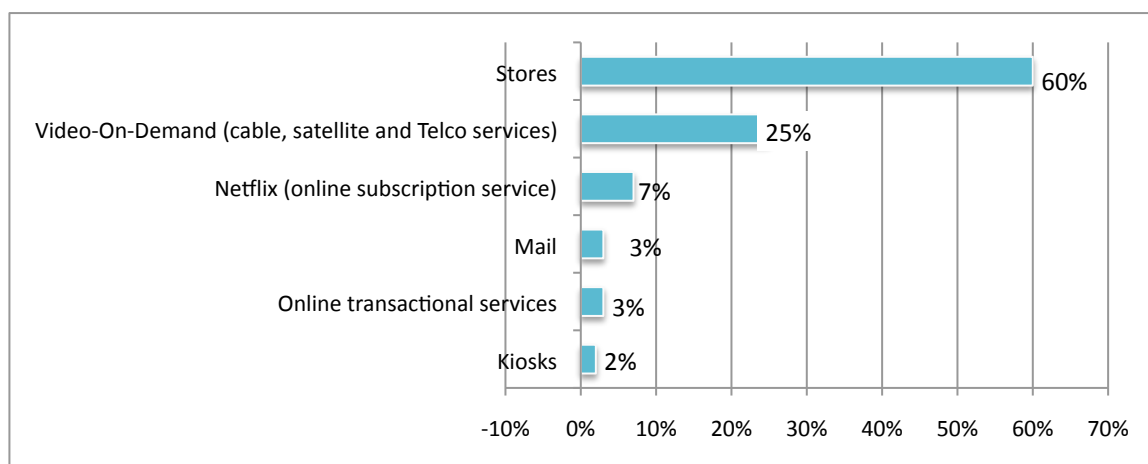
<sup>91</sup> Physical media refers here to the purchase or rental of movies on physical media, i.e. Blu-ray Disc (BD), DVD, Video CD (VCD) or VHS cassette.

#### 4.1.1 Movie Rental Kiosks in Canada

The Canadian video rental market has been estimated to have been worth \$1.1 billion in 2011.<sup>92</sup> One observer notes that the transformation of the Canadian rental market is taking place within the context of closure of key video stores and the rapid rise of movie rental kiosks in Canada.

In 2011, movie rental kiosks represented 2% of all revenues being generated in the Canadian video rental market. As a point of comparison, online transactional services (iTunes) captured 3%, Netflix (online subscription service) captured 7% of revenues and VOD services (cable, satellite and Telco services) 25% of the market. (see fig. 23)

Figure 23: The Canadian Video Rental Market in Canada



The closure of Blockbuster Video and Rogers Video Stores, which at their heights had approximately 1000 stores combined, is expected to reduce the home video rental window's prominence within the overall theatrical film-viewing market.

Redbox, an American company that specializes in the rental of DVDs, Blu-ray Discs, and video games via automated retail kiosks has already begun to move into the Canadian market. A very significant player in the US DVD market, Redbox is an industry leader with more than 34,400 kiosks in 28,000 locations. Redbox had revenues of approximately \$520.5 million in 2011.<sup>93</sup> Redbox is planning an aggressive roll-out in Canada with a goal to achieve 2,500 operational kiosks within the next few years. At the time of this report's publication, the company already had 57 movie kiosks in Canada having opened its first operations in the first quarter of 2012. Redbox will charge Canadians \$1.50 for a standard new release or \$2 for a Blu-ray copy.<sup>94</sup>

Other companies are operating kiosk businesses in Canada. Electronics retailer Best Buy with operations in Alberta, British Columbia and Ontario has 160 kiosks. Other companies

<sup>92</sup> Convergence Consulting Group, cited in "Redbox DVD Vending Machines Coming to Canada," in *Hollywood@Home*. Feb 20 – March 18, 2012.

<sup>93</sup> Chris Tribbey, "Coinstar Profit, Revenue Up Sharply on Redbox Growth," in *Home Media Magazine*, February 6, 2012.

<sup>94</sup> Ibid.

include DVD Play, Zip.ca and Movie Magic with 111, 94 and 87 kiosks respectively.<sup>95</sup> The pace at which kiosks are being set up in Canada illustrates the volatility of the rental market in Canada.

## 5. Summary Observations: National and International Trends

### 5.1. The Big Screen

Total Canadian box office surpassed more than CAD \$1 billion in 2011, demonstrating that Canadians love to watch movies on the big screen. Global box office for all films released around the world reached USD \$32.6 billion in 2011.<sup>96</sup> According to *Screen Digest*, Canada was one of the 2010 top 10 markets.<sup>97</sup>

*Screen Digest* estimates that Canada is in fact the third-largest movie spending market per capita when measured in five key world regions.<sup>98</sup>

It is anticipated that consumer spending on movies worldwide will continue to grow, reaching \$69 billion by 2015 and suggesting that the theatrical window will remain a key window for some time to come.<sup>99</sup>

The European Audiovisual Observatory identified a similar trend, noting that EU box office returns recorded in 2011 were EUR 6.4 billion, the highest level on record.

Interviews conducted for this study reveal that stakeholders believe that the theatrical market will continue to be a significant platform for the distribution and exhibition of films.

When Canada is compared globally in terms of the number of screens available, we note in figure 24 that it ranks eleventh. We note that countries such as Russia and Japan are significantly under-screened, using population as a basis to measure screen density. Canada fares well compared to other countries, as illustrated in figure 24. This is important as Canada is not considered under-screened when compared to other countries. Exhibitors interviewed for this study explained that screen access is not an issue in Canada in terms of access by Canadian films. Rather, the challenge with Canadian films and in particular English-language films is that the content of some films does not appeal to audiences.

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<sup>95</sup> Steve Ladurantaye, “As DVD Stores Fade into the Sunset, Fringe Providers Grab Centre Stage,” in *The Globe and Mail*, April 23, 2012. <http://www.dvdinfo.ca/Kiosks/KioskMap.php>.

<sup>96</sup> *Theatrical Statistics Global 2011*, Motion Picture Association of Canada, 2012.

<sup>97</sup> *Global Box Office Exceeds 31 bn in 2010*, Op. Cit.

<sup>98</sup> *Overview of the DVD and Blu-Ray Disc Market*, Op. Cit.

<sup>99</sup> Ibid.



Figure 24: Cinema Screens Around the World, 2010

Country	Population	Number of Screens	
		2009	2010
USA	309,975,000	39,233	39,547
India	1,184,639,000	10,070	10,020
China	1,339,190,000	6,323	7,831
France	65,447,374	5,470	5,478
Mexico	108,396,211	4,480	4,818
Germany	81,757,600	4,734	4,699
Spain	46,951,532	4,083	4,080
Italy	60,340,328	4,016	4,033
UK	62,041,708	3,696	3,741
Japan	127,380,000	3,396	3,412
Russia	141,927,297	3,335	3,360
Canada	34,207,000	2,691	2,691

Source: *Screen Digest and World Atlas*, <http://www.worldatlas.com/>

According to the European Audiovisual Observatory, the number of digital screens in the EU reached 15,910 by the end of 2011. This represents an estimated 54% of the EU's total screen base, compared with the Canadian average, which was 67% in 2011.<sup>100</sup> Of all the European countries, France has the largest digital screen base.

The transition to digital screens is not yet yielding lower distribution costs as distributors in Europe and in North America are paying exhibitors the virtual print fee as a contribution towards the cost of conversion to digital.

Generally, according to exhibitors, the English-language market should not be compared to the French-language market. Success in Québec is attributed to a “formula” based on factors such as the French language, the fact that Quebecers consume home-made films and that the content of films is generally more accessible to audiences. As one exhibitor explained, “Québec producers and distributors have realized that they have to make commercial and accessible films.”

The market share captured by Canadian films, when measured within the independent film market, was 20% in 2011. Two Canadian films, *Starbuck* and *Le Sens de l'humour* ranked within the top 10 independent films for 2011. Nine of the top 10 Canadian films for 2011 broke the \$1 million mark in box office receipts.

It is important to note that since the launch of the feature film policy in 2000, funders, industry stakeholders and the federal government have recognized that the success of Canadian films should be seen within the context of the independent film market. Canadian filmmakers are niche players who lack the budgets to compete directly with Hollywood but strive to succeed with smaller titles.

<sup>100</sup> *Focus 2012*, European Audiovisual Observatory, 2012.

Canada's market share of 20% compares with the market share of European films in 2011, which was estimated to be higher at 28.5%. Like Canada, however, Europe's top ten films were dominated by US sequels.<sup>101</sup>

The Standing Committee on Canadian Heritage in its 2005 report, *Scripts, Screens and Audiences: A New Feature Film Policy for the 21st Century*, recommended that criteria currently being used to define a film Canadian should be made more flexible, in particular to filmmakers in the English-language market so that more favourable conditions can be created for the production of English-language Canadian films with the potential to attract larger audiences.<sup>102</sup> The Committee explained that: "These changes would... recognize the fundamental point that if Canadians make it, it is Canadian. There is little to be gained by attempting to make a film "distinctly Canadian" for policy purposes. The goal...should be to help Canadians make films that Canadians and others want to see."<sup>103</sup>

On the level of individual European markets, theatrical markets, which performed particularly well, were France and Italy. France had an impressive 40.9% market share and the independent distribution company Gaumont ranked in third-place in the 2011 rankings with a 9.9% market share just behind Warner Brothers and Paramount (both at 10%). Italy too had an impressive 37.5% market share and the independent distribution company Medusa Film had a market share of 26% compared to Warner Brothers, which had a 17% market share.<sup>104</sup>

Of the types of films popular with Canadian audiences in 2011, drama, comedy and science fiction categories were the most popular. In Europe, locally produced comedies were particularly popular, responsible for the comeback of European films in 2011.

One of the issues that has been raised by the distribution association, Europa Distribution, is that the length of time in which European films are exhibited in theatres has been decreasing with a stay sometimes as limited as one week. The implication of this is that there is no time for word-of-mouth to develop, and audiences no longer have the opportunity to see films, so rapid is their turnaround. Canadian feature films by contrast stayed in theatres for an average of seven weeks in 2011.

Overall, it is anticipated that theatrical distribution of feature films will maintain its relative importance in the value chain domestically and internationally for some time to come.

## 5.2 Feature Film Exhibited on Television

Television is a significant platform for the exhibition of Canadian films, in particular for English-language films.

In the English-language market, Canadian films attained a higher share of total views of feature films on conventional, specialty television and pay television platforms than they attained in the theatrical window. In the French-language market, the opposite has been the case in recent years. Canadian films' share of the total views to feature films on conventional, specialty-television and pay-television platforms has consistently been much less than the box office share achieved by Canadian films in the theatrical window between 2006 and 2010.

Of all the television platforms, pay television is the most important for the exhibition of Canadian feature films.

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<sup>101</sup> Ibid.

<sup>102</sup> *Scripts, Screen and Audiences: A New Feature Film Policy for the 21<sup>st</sup> Century*, Op.Cit.

<sup>103</sup> Ibid.

<sup>104</sup> Ibid.

Stakeholders interviewed for this study expressed their perspective that there has been declining support for English-language feature films as demonstrated in the licence fees offered by the pay services in favour of made-for-pay television sitcoms. In a presentation made to the CRTC in 2011, the CAFDE noted that in the last two years, the average annual licence fees paid by the pay services owned by Corus and Astral to Alliance for Canadian films had dropped by approximately 50%.<sup>105</sup> The overall implication for the Canadian feature film distribution sector is significant in that it impacts on the ability of the sector to continue to support Canadian feature films. (This is discussed in greater detail in section 3.1.)

Like Canada, member countries of the EU are facing a similar challenge in that there has been a gradual disappearance of film slots from national television channels, and a drastic fall in acquisition prices. As it has been pointed out by Europa Distribution, “European films are rarely shown, poorly presented, broadcast at the same time as other programs on other channels that are difficult to compete against (football matches, American series, etc.), and concentrated primarily at night and in the summertime. All of these factors – irrespective of the films themselves – partly explain the current stagnant audience for films on television.”<sup>106</sup> In some countries, pay television is a dominant player because of output deals with the six major Hollywood studios so that the acquisition of films for conventional services is not as much as a priority.

In the case of Italy, lower demand for audiences on television has resulted in a decrease in the acquisition of films. In Spain, broadcasters blame rampant piracy for a decrease in licence fees for the acquisition of films for broadcast.

This situation is apparent in all European countries, and it has a direct effect on the export of European films. Because European distributors no longer have any guarantee that these films will be bought by national television stations, they are increasingly reluctant to buy them. As a result, according to the European Audiovisual Observatory, in 2005, conventional channels broadcast less than 10% of non-national European films in Spain, Italy, the United Kingdom, Poland, Denmark, and the Netherlands.<sup>107</sup> France is unlike other European countries in that conventional broadcasters must devote 3.2% of their revenues from the previous year to the production of European films and within this, 2.4% must be put into the production of French films.

The decrease in European films broadcast by conventional channels is also seen to be impacting on the emergence of new talent because opportunities by independent distributors for reinvestment are increasingly limited.

Member countries of the EU are facing a similar challenge for the exhibition of European films on television. In the UK, there were 3.7 billion views across all television platforms in 2010 excluding pay television, which is 20 times more than the number of cinema admissions.<sup>108</sup> While British broadcasters do not pay as much as they did ten years ago, they are still an important source of revenue for distributors. The strength of event drama mini-series and reality competition series and a plethora of TV -on-demand and subscription-on-demand video-on-demand services have lessened the appetite for feature films and resulted in lower licence fees being paid. One of the challenges is “that scheduling a movie in a Saturday

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<sup>105</sup> Presentation by Canadian Association of Film Distributors and Exporters to the CRTC on the development of a regulatory framework for the French language television markets, December 8, 2011.

<sup>106</sup> *Europa Distribution Platform Assessment and Proposals*, Op. Cit.

<sup>107</sup> *Focus 2012*, Op. Cit.

<sup>108</sup> Andreas Wiseman, “European Pictures,” in *Screen International*, March 27, 2012.

night slot is not the event it used to be because consumers by that stage have either rented it, bought it on DVD, seen it on pay-per-view or bought it on iTunes.”<sup>109</sup>

### 5.3. Rental and Sales of Films on Physical Media

In order to provide a point of reference for the trends on the market share of copies of Canadian films rented and sold, an overview of the general trends in the home video market in Canada is helpful.

According to Screen Digest’s analysis of Canada’s video market (including DVD and Blu-ray Disc), it is being forecast that consumer spending on DVDs and Blue-ray Discs will decrease from \$873 million in 2012 to \$586 million in 2015.<sup>110</sup> In terms of the retail market in Canada, the number of DVDs sold to consumers is expected to decrease from 42 million units in 2012 to 24.1 million units in 2015. The Blu-ray Disc is expected to increase from 9.9 million units in 2012 to 16.8 million units by 2015.<sup>111</sup> (see fig.25)

Figure 25: The Retail Market in Canada for DVD and Blu-ray Disc (in millions) 2012-2015

Format	2012	2013	2014	2015
DVD units sold to consumers	42	36.5	29.9	24.1
Blu-ray Disc units sold to consumers	9.9	13.1	15.1	16.8

Source: Screen Digest

Screen Digest also forecasts that the rental market in Canada for DVDs will decline from 138.8 million transactions in 2012 to 53.4 million transactions whereas Blu-ray rental transactions will increase from \$75.6 million in 2012 to \$149.5 million in 2015.<sup>112</sup> (see fig. 26)

Figure 26: The Rental Market in Canada for DVD and Blu-ray Disc, (in millions), 2012-2015

Format	2012	2013	2014	2015
DVD rental transactions	138.8	101.7	78.1	53.4
Blu-ray rental transactions	75.6	107.3	128.9	149.5

Source: Screen Digest

One of the causes in the decline of the home video market is piracy. According to CAFDE, an Ipsos MediaCT study on the economic consequences of movie piracy in Canada found that direct consumer spending losses in Canada in 2008 due to the consumption of pirated films represented \$895 million. The same study reports that \$1.8 billion and 12,600 full-time equivalent jobs were lost across the entire Canadian economy in 2009-2010 as a result of movie piracy.<sup>113</sup>

One observer explained the changes taking place in the home video market as “the sector going through reinvention” because spending in traditional forms of distribution (DVD) is increasingly being replaced by new formats such as Blu-ray Disc and new distribution mecha-

<sup>109</sup> Ibid.

<sup>110</sup> *Overview of the DVD and Blu-Ray Disc Market*, Op. Cit.

<sup>111</sup> Ibid.

<sup>112</sup> Source: *Overview of the Video Market*, Screen Digest: April 12, 2012.

<sup>113</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit.

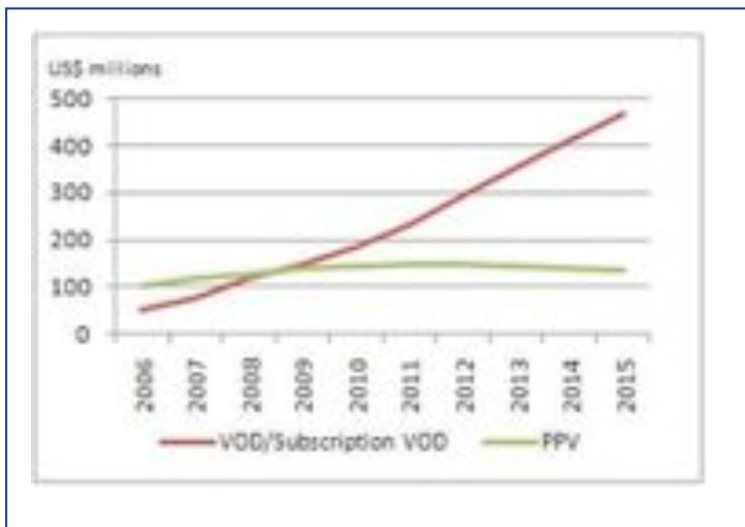
nism such as kiosks and digitally distributed options such as video-on-demand.<sup>114</sup> For example, the introduction and rapid deployment of \$1-a-night rental kiosks in North America since 2007 has lowered the average price paid by consumers to rent movies on physical formats. Kiosks are increasingly becoming an option for audiences for the viewing of films.

#### 5.4. Video-On-Demand and Digital Platforms<sup>115</sup>

Presently, the Department of Canadian Heritage is not able to track the views to Canadian films on video-on-demand and on-line video through streaming or downloading services.<sup>116</sup>

All major cable companies in Canada now offer VOD, and certain specialty channels also have associated VOD channels. In 2009, the number of VOD services licenses by the Canadian Radio-Television and telecommunications Commission (CRTC) rose from 25 to 33.<sup>117</sup> According to PricewaterhouseCoopers, Canada's VOD revenues are expected to reach US \$469 million by 2015, which represents a doubling since 2011 when they were US \$232 million.<sup>118</sup>

Figure 27: Forecast VOD and PPV Revenues, (US millions)



Source: PricewaterhouseCoopers, in *CRTC Navigating Convergence II Charting Communications Change and Regulatory Implications*, 2011

This growth in revenues is a significant indication of the increasing importance of VOD for the consumption of content. VOD revenue is being driven, in part, by increases in digital cable and Internet Protocol TV subscriptions. In Canada, PricewaterhouseCoopers projects that the number of VOD households will reach 8.8 million in 2015.

<sup>114</sup> John Hazelton and Andreas Wiseman, Op. Cit.

<sup>115</sup> Digital media refers here to purchase or rental of movies via non-physical platforms.

<sup>116</sup> Peter Grant and Michel Houle, *Broadcaster Support for Canadian Feature Films, Expanding the Audience on Television Platforms*, Telefilm Canada, 2009.

<sup>117</sup> *Navigating Convergence II, Charting Communications Change and Regulatory Implications*, CRTC, June 2011, page 44.

<sup>118</sup> Ibid.

However, it should be noted that at present more than 90 percent of VOD views are available at no additional cost. The provision of free VOD is considered to be a critical service for retaining subscribers. It also works to introduce potential subscribers to the service, potentially creating interest in paid VOD. As digital cable and IPTV penetration increases, PricewaterhouseCoopers expects that VOD revenues will grow.

In terms of the importance of the VOD platform for the exhibition of Canadian feature films, the CAFDE noted in a CRTC intervention that revenues from VOD have now become critical and can, on certain films, represent over one-third of the revenue from all broadcast sources.<sup>119</sup> Our interviews with distributors confirm that the VOD platform is an important one, although revenue shares from VOD are generally lower than from DVD.

According to a CRTC study, VOD penetration (among digital cable and IPTV subscribers) for the Canadian English-language television market stood at approximately 30% in both 2007 and 2008. This is a slight increase versus the 24% penetration rate of 2005. However, in terms of the total 18+ English-language population, Canadian VOD penetration stands at 9%. Where Canada's 18+ French-language television market is concerned, VOD penetration among cable and telecommunication company subscribers is slightly higher, increasing from 28% in 2005 to 39% in 2008. However, in terms of the total 18+ French-language population, VOD penetration stands at 12%.<sup>120</sup>

While VOD (including Pay VOD) services are experiencing growth, pay-per-view (PPV) services are not. A major disadvantage to PPV is that it does not allow consumers to choose the broadcast times of programs. The number of licensed Canadian PPV services decreased from 13 to 11 in 2009. PricewaterhouseCoopers predicts that PPV revenues in Canada will begin to decline in 2012, after peaking at US \$148 million in 2011. However, PPV is likely to remain popular for sports or other live events.<sup>121</sup>

A number of trends point to an evolution towards digital platforms for content in Canada. There are 7.3 million devices in Canada that enable over-the-top (OTT) content viewing, including six million game consoles, while the penetration rate of connected television is increasing, as is OTT viewing on mobile devices.<sup>122</sup> In addition, Astral intends to launch its HBO Go app to mobile device users in order to compete more effectively with Netflix; Rogers has unveiled its 'NextBox 2.0' service and replaced its 'Rogers on demand' service with the 'Rogers Anyplace TV' service, while Radio-Canada television programs are now offered on Illico and Illico web, following an agreement with Quebecor.

Interviews conducted with Canadian distributors reveal that Canadian feature films are being sold to iTunes. Though revenues are growing, they have not yet replaced the revenue declines from the DVD and Blu-ray Disc market. Canadian distributors confirm in interviews that the sell-through and rental market is becoming important for Canadian films including sources such as iTunes and X-Box, Sony PSN and Playstation network, and Google/YouTube.

Canadian distributors also sell Canadian films to Netflix. According to a CBC-commissioned survey, ten per cent of Canadians now use the Netflix service.<sup>123</sup> One of the issues of con-

<sup>119</sup> *Broadcasting Regulatory Policy CRTC 2010-190: Regulatory framework for video-on-demand undertakings*, CRTC, Ottawa, 29 March 2010.

<sup>120</sup> *Navigating Convergence II*, Op. Cit.

<sup>121</sup> *Ibid.*

<sup>122</sup> *November Industry Consultations: Over-the-Top Services*, CRTC, May 16, 2012.

<sup>123</sup> "Netflix reaches 1 in 10 Canadians: But so far, 'cord-cutting' among subscribers is minimal," CBC, March 20, 2012, <http://www.cbc.ca/news/canada/story/2012/03/20/technology-netflix-tv.html>.

cern among Canadian distributors is the impact of making Canadian films available on Netflix which, over a long period of time, may reduce the value of a film.<sup>124</sup> For some distributors, it is clear that Netflix, with an estimated one million subscribers in Canada, is a competitor to pay-television services. Another issue is the role that Netflix is increasingly playing in the acquisition of rights to films that Canadian distributors may be interested in. Interviews with Canadian distributors confirm that digital platforms are becoming increasingly important. One estimate puts the total revenues represented by the combined platforms of VOD, PPV, iTunes, Netflix and other digital platforms at as much as 15% of all revenues generated from Canadian feature films in a given year.<sup>125</sup>

The projected growth for video on demand (VOD) as demonstrated above is a reflection of the consumer trend for access to greater “on-demand” consumption of content by consumers who wish to see what they want when they want it.

#### 5.4.1. International Trends

The European Audiovisual Observatory reports that there has been a rapid rise of video-on-demand in member European states, which is available on different networks (the Internet, IPTV, cable, satellite broadcasting and digital terrestrial television) and via different models (rental, purchase, subscription, etc.). In February 2012, the Observatory counted 381 dedicated online VOD services established in Europe, with most of these services providing a catalogue of films.<sup>126</sup>

The different business models for VOD services include permanent download (download-to-own) and temporary download (streaming). The streaming model is divided between one-off purchases (standard VOD), a monthly fee for a slate of films, (subscription VOD or SVOD), and free VOD (either advertising-funded VOD or 100% free VOD on generalist platforms (YouTube, for example). It is anticipated that in Europe, VOD will primarily make inroads in the pay-TV and DVD markets.

*Screen Digest* predicts that by 2015, digital platforms will account for 11% of movie consumption spending.<sup>127</sup> Apple is considered the largest player in individual digital film transactions and the main driver of the global digital movies business (online home). In Europe, iTunes movie stores are open in 30 EU countries with iTunes so far being the pan-European global digital outlet. Part of the reason for this is that iTunes is able to sell multi-lingual packages.<sup>128</sup>

Apple now generates more money for the Hollywood studios than many traditional cable operators including Time Warner cable. It is expected that by 2014, iTunes will surpass Comcast as the largest provider of video-on-demand.<sup>129</sup> iTunes, for example, has become a nascent distribution point for movies unable to attract a decent offer from a traditional outlet. Edward Burns' *Purple Violet*, a \$4 million feature that premiered at the Tribeca Film Festival, was the first to bypass the cinema circuit in favour of an iTunes premiere. It is anticipated

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<sup>124</sup> Streaming content over the Internet involves the licensing of rights with the license periods, terms and conditions of such licenses varying between one film and another.

<sup>125</sup> Source: CAFDE.

<sup>126</sup> *Focus 2012*, Op. Cit.

<sup>127</sup> *Overview of the DVD and Blu-Ray Disc Market*, Op. Cit.

<sup>128</sup> Caroline Nataf, *Fifth Europa Distribution Annual Conference Festival Lumière*, The Biz and Tech Lab, Lyon, October 6-9, 2011.

<sup>129</sup> *Ibid.*

that Google will join the fray of high-tech video aggregators for a Netflix style subscription service in the near future.<sup>130</sup>

Increasingly, Internet and VOD platforms are seen to provide alternative distribution platforms for independent films. These new distribution channels are giving production companies the ability to distribute their own films.<sup>131</sup> By some accounts, video-on-demand and digital downloads will become more significant revenue streams in the future for producers who wish to self-distribute.<sup>132</sup>

The distribution of films by producers is however, not a viable option according to the interviews conducted with stakeholders. The producers interviewed for this study were of the view that the self-distribution model is not ideal for films that are seeking broad appeal. The self-distribution model may work well for documentaries, which often have clear target audiences.

There is no doubt that the digital revolution has increased the supply of films on the market. Digital film has made it much more affordable and easier for more people to make films. The Sundance Film Festival, one of the hottest markets for films made outside the studio system, typically approximately receives 5,000 submissions for consideration per year. Of these only about 100 or 2% end up receiving theatrical distribution. One observer noted that, “most of the films [submitted] are flat-out awful.”<sup>133</sup>

According to one observer, one of the challenges facing independent filmmakers is “that increasingly, indie filmmakers find themselves caught in a glutted marketplace with too few theaters to handle all the movies, and the basic laws of supply and demand have depressed the prices they can fetch.”<sup>134</sup> While the self-distribution approach may not be ideal, it may be the only route for some films.

In the last couple of years, a number of on-line services have emerged for the distribution of films. One example is Fandor which is an on-line, on-demand service (a subscription streaming model) offering consumers a wide selection of independent and international films from around the world. This service is only available in the US.

In the UK, there is Curzon which is similar to Fandor in its offerings, except it is an on-demand service (per-transaction) instead of subscription.

Prescreen is another example of a service that offered per-transaction, first-run films. After only eight months in operation, this service ceased operations. This is but one example of the potential lack of the commercial viability of self-distribution.<sup>135</sup>

A number of services have also been introduced in Europe for mainstream films. A pay-per-view service called Filmflex, owned by Disney and Fox, has been launched in the UK as well as Blinkbox that has deals with the studios and numerous independent distributors.

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<sup>130</sup> Ibid.

<sup>131</sup> Peter Broderick, “First Person: Welcome to the New World of Distribution, Part 1,” in *Indie Wire*, September 2008.

<sup>132</sup> Ibid.

<sup>133</sup> Mark Gill, “Yes, the Sky Really is Falling,” in *Indie Wire*, June 22, 2008.

<sup>134</sup> John Anderson, “No Film Distributor? Then DIY,” in *New York Times*, July 30, 2008.

<sup>135</sup> Rip Empson, “Timing is Everything: Indie Movie Discovery Platform PreScreen to Close its Door,” in *techcrunch.com*, May 31, 2012.



While a number of services are available, a standard business model has not yet emerged and new models will be tested in the years ahead. It should be noted that as technologies continue to disrupt the traditional model for home entertainment distribution, one size will increasingly not fit all. There is no magic formula for the home release of a movie given the multiple routes to the customer. The future for feature film distribution in the home entertainment revolution is slated to continue to be fragmented across all windows.<sup>136</sup>

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<sup>136</sup> Arash Amel and Laura Aquilera, *Op. Cit.*

*“The cycle is not complete until a film meets its audience.”*

- Dale Martin, *Core Think Tank Group Seville: Film Distribution Strategies for the New Value Chain*<sup>137</sup>

### III. The Canadian Feature Film Distribution Sector in Review: Challenges, Policies and Market Developments

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#### 1. Preamble

In this section, we identify the challenges, policies and market developments that impact on the Canadian feature film distribution sector's success in both attracting Canadian audiences for Canadian films and generating revenues for the sector. Here we include the perspectives of various stakeholders interviewed for this study as well as lessons learned from the US and member countries of the EU insofar as they informed the Canadian context.

#### 2. Marketing and Promotion of Canadian Feature Films

##### 2.1. Marketing and Promotion Costs

The “A” (advertising) portion of a P&A campaign represents the largest costs for a marketing campaign launched by a Canadian distributor. A significant challenge in today's environment is to create awareness for a film in a world where consumers have an array of entertainment choices everywhere they look. There is a greater supply of products than there has ever been.

One observer noted that, “To survive in the Canadian film distribution industry, a firm must possess three things: a steady stream of product to sell to exhibitors, a diverse portfolio of film properties in order to reduce risk, and an ability to market their film properties with minimal expenditures.”<sup>138</sup>

In contrast to the majors, Canadian distributors do not have the capital to mount expensive campaigns to promote their releases. Promotional programs designed for the US market are easily transplanted to the Canadian market and there is spill-over due to the proliferation of American media in Canada.

According to a CAFDE submission made to the CRTC, the Association pointed out that: “Hollywood films are among the most heavily promoted and marketed products of any kind in the world. The average Canadian advertising budget for a Hollywood film's release in this country is higher than the average production budget of a Canadian film. In addition Hollywood films benefit from the enormous American publicity campaigns that spill into Canada. These

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<sup>137</sup> Dale Martin, *Core Think Tank Group Seville: Film Distribution - Strategies for the New Value Chain*, Think Tank on European Film and Film Policy, November 6-8, 2008, page 7.

<sup>138</sup> Anthony Leong, Lara Kalins, Oren Levy, Marion De Marcillac, and Annekatrin Scholze, Op. Cit.

films are widely promoted in American magazines that have wide circulation in Canada and on American talk and magazine television shows that are widely watched in Canada."<sup>139</sup>

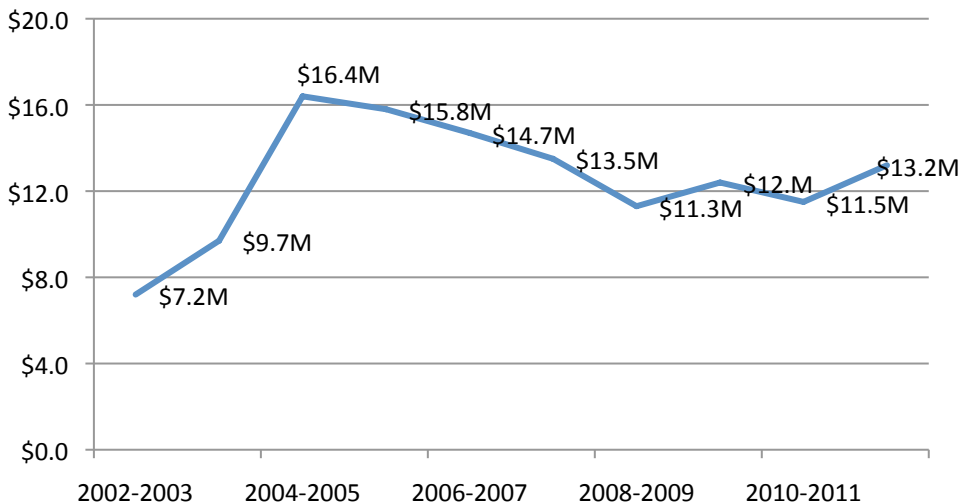
As an industry veteran indicates, three main factors are dampening the Canadian film distribution forecast: an excess of supply over demand; piracy (which leads to less consumption); and the introduction of services such as Netflix.<sup>140</sup>

The other issue is that, "as television and the Internet become one, television buying will become less of a reliable source of revenue. Prices have come down considerably and more rights/revenue streams are impacted when prices are higher such that the Internet is affected. And nothing but a change in supply can change any of this because technology is certainly not going backwards."<sup>141</sup>

The most daunting challenge is opening the film: Canadian distributors have to create a recognized brand name that lasts a long period of time and do it in a couple of weeks with no second chances to correct. Marketing efforts made in this market may then benefit exploitation in all release windows. Canadian distributors explain that there will continue to be a need to create the initial brand awareness in the theatrical window. As a famous advertisement often reminds us, "You never get a second chance to make a first impression." With movies, it is an impression that lasts a lifetime."<sup>142</sup>

When we examine the resources provided to Canadian distributors to support the marketing and distribution of Canadian feature films, we note that in the last 10 years, between 2002-2003 and 2010-2011, an average of \$12.4 million annually was available for marketing and distribution from Telefilm Canada for films supported by the CFFF. (see fig. 28).

Figure 28: Telefilm Canada's Marketing Support to Canadian Distributors, 2002-2003 to 2010-2011



<sup>139</sup> *Submission Re Broadcasting Notice of Consultation CRTC 2012-81, Call for Comments on a Revised Licensing Framework for Pay-Per-View Services*, CAFDE, May 30, 2012.

<sup>140</sup> Parks, Stacey, *Insiders Guide To Independent Film Distribution, Second Edition*, Elsevier and Focal Press: Amsterdam and Boston, May 1, 2012.

<sup>141</sup> *Ibid.*

<sup>142</sup> *Ibid.*

In 2011-2012, Telefilm Canada financed the marketing and promotion of Canadian feature films with a total commitment of more than \$13,076,086 dollars, of which \$8,447,841 was spent on marketing and promotion of English-language films and \$4,552,154 on French-language films. Of the total, \$6,516,676 was given out through distributor performance envelopes and \$7,787,018 through the selective component.<sup>143</sup>

In terms of the marketing budgets for individual films spent by Canadian distributors, we note that average marketing budgets were \$610,026 for English films compared with \$387,018 for French films in 2011. A total of 31 films received marketing and promotion support, 14 English-language and 17 French-language. (See fig. 29)

**Figure 29: Average Marketing Budgets for Canadian Films, 2011**

	Average marketing budget	Number of Films Supported (in marketing and production)
English	\$610,026	14
French	\$387,018	17

Source: Telefilm Canada

When compared with marketing and promotion budgets of US studios, Canadian budgets are petite.

The average Prints and Advertising (P&A) spend for major releases topped \$37 million in 2010, the highest number since 2003, when the six largest studios spent an estimated average of \$39.5 million on P&A in North America.<sup>144</sup>

Since 2003, domestic P&A has accounted for 34% --37% of combined production and domestic releasing costs for movies released by the six big studios. In fact, the domestic P&A has been about \$100 million each for “tent-pole films”, with 2009 hitting \$102.3 million, up from \$87.9 million in 2008.<sup>145</sup> Looked at another way, for every dollar spent on producing a major film, the studios have been spending between 51 cents and 58 cents to release and market it in the United States and Canada.

The connection between production budgets and P&A spend is repeated at the individual studio level: in 2009, Paramount had the highest average cost (\$87.7 million) and highest P&A average (\$50 million a release); Universal had the lowest average cost (\$51.7 million) and lowest P&A (\$30.4 million).<sup>146</sup>

The “tent-pole” releases typically involve 4,000 screens and include promo campaigns featuring giant billboards and a long list of complementary media buys, with the overwhelming portion of the spend targeted at television advertising.

Even for a film that has a budget of \$20 million, the P&A costs can be higher than the production budget. These films are often romantic comedies or children’s movies which, while they are inexpensive to make, still need a lot of promotion. For a film that costs between \$35

<sup>143</sup> Telefilm Canada provides funding support to Canadian distributors through two vehicles: performance based envelopes, which are generated according to criteria developed by Telefilm Canada and on a selective basis.

<sup>144</sup> Larry Gerbrandt, “Does Movie Marketing Matter?” in *Hollywood Reporter*, June 10, 2010.

<sup>145</sup> Ibid.

<sup>146</sup> Ibid.

million and \$75 million to make, the P&A budget will most likely be at least half the production budget.<sup>147</sup>

The rising costs of marketing and promotion costs are also said to be a challenge in some member countries of the EU. The marketing budgets of independent distributors range from \$320,000 to \$820,000 USD.<sup>148</sup>

### 2.1.1 The Use of the Internet in Promotion

The more limited and medium release movies on fewer than 500 screens are relying more on social media to create awareness, given the Internet's lower ad rates, massive inventory and the ability to target key demographics.

One observer identified one of the challenges of using the Internet for promotion: "The Internet remains "a text-driven medium, and usage is so fragmented across tens of thousands of sites that it is difficult to buy the massive tidal wave needed to create overnight brand awareness -- which is where TV outshines all other media, albeit for a premium price."<sup>149</sup>

One of the big issues facing Canadian distributors is the impact that the decline in the shortening of the DVD window is having on their marketing and promotion strategies. The practice has been to have a large spend on the opening theatrical window, which was justified by the "afterglow" effect lasting into the DVD and even PPV/VOD windows. This was further justified by steady shrinkage of the theatrical-to-DVD window, lessening the need for a second big spend to promote the home video release. With the shortening of the DVD window, a large spend on the opening theatrical window does not seem justified anymore.

One of the issues that has been raised in our interviews with Quebec-based independent distributors is the cost associated with the transition to digital screens which is being partly financed by distributors. Distributors are of the view that this is a burden but exhibitors explain that these costs will disappear in a few years as the transition to digital screens is completed.

## 2.2. Audience Research

A number of distributors and exhibitors interviewed suggested that little research is being done by producers of Canadian feature films aimed at understanding the tastes of audiences for Canadian films. Many expressed the concern that in order to increase audiences for Canadian films, the content of the films has to be more appealing to audiences.

Canadian distributors report on the need to create awareness for a Canadian film in a crowded marketplace of content. Many stakeholders point out too many English-language films are not commercially viable. Distributors explain that about 10% to 15% of films should not be released theatrically but they are released anyway because of contractual agreements with the producer.

One Canadian distributor stated that the appetite for movies is there but the challenge is reaching the audience.<sup>150</sup> He explained that unlike the release of other products, a movie faces a singular challenge: It must create near-instant, national brand-name recognition

<sup>147</sup> Charlie Jane Anders, "How much money does a movie need to make to be profitable?" in *Box Office Wizardry*, January 31, 2011.

<sup>148</sup> *Independent Distribution in Western Europe*, Op. Cit.

<sup>149</sup> Ibid.

<sup>150</sup> Geoffrey Macnab, "The Hard Sell", in *Screen International*, February 23, 2012.

within a span of a few days to a couple of weeks. He noted that the only way to do this, especially with a highly visual product like a film, is with a well-crafted TV campaign.

According to interviews conducted for this study, the challenges facing the feature film industry are a need for greater promotion and the need for more commercial films to be made that appeal to a broader audience.

Some exhibitors are able to track trends in the attendance and tastes of their consumers and note that this information is significant in assisting them in how to promote the film. As product offerings proliferate across many platforms, it is vitally important to increase our understanding of audience preferences.

For its part, Telefilm Canada recently announced its intention to study consumer trends in the film industry and is conducting a study on the brand attributes associated with Canadian cinema as well as Canadians' consumer habits regarding Canadian cinema.<sup>151</sup>

A UK study observed that box office success is not determined solely by the marketing efforts of the distributor but is influenced by “the interplay of the decisions taken by distributors, exhibitors and audiences. Distributors decide how much to invest in promoting the film. Exhibitors, in negotiation with distributors, decide how many screens to allocate to showing the film. Audiences decide whether or not to attend the film, influenced by its promotion and its accessibility at cinemas, among other things.”<sup>152</sup>

A report commissioned by the British Film Institute in 2011 on the state of British films found that, “If British films are going to be successful, filmmakers need to think from the outset about the audience...if we’re ever going to crack this conundrum we have to ensure that filmmakers understand and think about their audience, at the same time as they strive to express their creativity.”<sup>153</sup>

The Film Distributors’ Association in the United Kingdom commented that one of the shortcomings of film policy in the decade after 1997 had been the lack of collaboration between producers and distributors. The Association explained it as follows: “Overwhelmingly, government-backed measures to date have boosted the supply side of the industry, without necessarily making any connection with audiences. Whilst it is vital to nurture supply-side creativity, this imbalance is arguably both incoherent as a long-term industrial policy and not in the broader interest of audiences with hundreds of millions of pounds of public money at stake.”

The EU is also reviewing its policies regarding the distribution of films with a goal of expanding audiences beyond each nation's own borders to the neighbours beyond. One of the issues that has been documented is that European films are mostly seen by the “50-year-old” generation. Another issue is that the audiences for European films tend to be limited to national markets and rarely circulate outside these markets.<sup>154</sup>

European independent distributors point to the importance of tailor-made campaigns for each film. For certain target groups, television advertising is described as being absolutely neces-

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<sup>151</sup> Telefilm Canada, “Telefilm Canada and HEC Montreal Announce Research Partnership”, May 31, 2012.

<sup>152</sup> Tony Robertson, *Advertising Effectiveness in UK Film Distribution*, UK Film Council, 2003.

<sup>153</sup> *A Future For British Film*, Op. Cit.

<sup>154</sup> *Public Hearing: Future of the MEDIA and MUNDUS Programs*, European Commission, Brussels, March 18, 2011.

sary even though it may require most of the available budget for advertising.<sup>155</sup> This finding is similar to the Canadian context in that television advertising is considered to be the most effective for reaching audiences.

Canadian distributors state that online marketing and social networking websites have become significant elements in many campaigns. Distributors are using websites to showcase trailers and exclusive footage from films ahead of their theatrical releases. However, this strategy generally works better with larger-budget films and cannot replace a television campaign, still the most effective way to promote a film.

European independent distributors echo the difficulty of marketing smaller budget films without a brand name and the challenge of finding an audience.

A particular challenge for independent films is an ongoing shift in the nature of cinema audiences. As one observer put it: “It used to be that a distributor could count on a solid base of movie lovers for independent films around the world. These people have aged and have been replaced with a new generation with a very different relationship to cinema who do not necessarily follow directors.”<sup>156</sup>

In Spain, the theatrical exhibitors have a database of customers and analyze viewing preferences and habits. For example, a recent survey in Spain revealed influences on choosing films (such as genre, story, cast), favourite genres (comedy at 57%, suspense at 42%, action at 41%, and drama at 10%); and shone a spotlight on perceived weaknesses of Spanish films (negative perception, don’t meet audience needs, not escapist, and themes are repetitive).<sup>157</sup>

An exhibitor interviewed for this study confides that companies are increasingly using consumer information on theatre audiences to gain a better understanding of the demographics of filmgoers.

One observer has pointed out that independent cinema is not “trendy” enough and that marketing strategies should be used to rebrand independent cinema – making it more attractive to younger audiences.<sup>158</sup> Netflix, for example, is identified as understanding consumers very well because the service conducts analysis of consumers, which explains why it’s able to outperform other players. Netflix uses consumer information to develop a strong marketing approach.<sup>159</sup>

### 2.3. Best Practices in Promotional Campaigns

Canadian distributors interviewed for this study say the most important best practice in a promotional campaign is to begin early to promote a film. While distributors point out that every campaign is different and the marketing strategy is determined on a case-by-case basis, distributors identified advance planning as being key to a successful release. One distributor commented that, “innovative marketing is when the marketing has begun even before the film is shot.” Canadian distributors described *Goon* and *Hobo with a Shotgun* as exam-

<sup>155</sup> Martin Blaney, “Flying Concorde”, in *Screen International*, March 3, 2011.

<sup>156</sup> Geoffrey Macnab, Op. Cit.

<sup>157</sup> Michael Gubbins, *Digital Revolution: Engaging Audiences*, prepared by MGC Film and Media for Cine-regio, February, 2011.

<sup>158</sup> Ibid.

<sup>159</sup> Ibid.

ples of how to use advance planning in releasing the films. Both of these films are described as being box office hits, profitable and having generated US sales.

Canadian distributors described the marketing process with the film *Hobo With a Shotgun* as beginning after casting was completed and the lead performer Tweeted that he had been selected to star in the film. This represented the “kick-off” by the distributor for the film and afterwards, information about the film was released on an on-going basis according to a very strict schedule during pre-production, production and the release of the film. By the time the film was released, brand awareness had been created among the targeted audience well before the television campaign was launched. As the distributor pointed out, “we already had an audience that was helping to amplify the message to go see the film.”

The promotion of *Goon*, although a higher budget film than *Hobo with a Shotgun*, also began early with journalists, exhibitors and bloggers invited to the production set. While the film was shooting, the marketing team developed promotional shots based on concepts for posters and on-line material. The targeted demographic built awareness over time and this became “evangelical” so that word of mouth created a buzz for the film. The distributors also held promotional screenings, which created a network of awareness across the country. Finally, the film was launched at the Toronto International Film Festival with the distributor conducting parallel marketing alongside the Festival. After the film made a sale to the US, the release strategy went into full gear with a traditional campaign of trailers, banners, celebrity premieres and television spots.

Canadian distributors commented that what used to be a six-week campaign leading up to 10 days of intense promotional activity has now become a months-long or even a year-long campaign for larger budget Canadian films.

Telefilm Canada has in the past conducted post-mortems on the marketing campaigns of Canadian films supported through its marketing program. One area identified by Telefilm Canada as a critical element of successful campaigns is the degree of collaboration between the producer and distributor. When the distributor, producer and director work together on creative marketing, from advertising to the film’s launch, the film has a better chance of performing well.

Another area examined by Telefilm Canada is the alignment between the web and marketing campaign. One best practice that has been identified is the extent to which an online campaign for a film can fit well with a film’s theme and the conventional media marketing campaign. Contrary to the traditional one-way promotion and advertising methods, online marketing to moviegoers demands interactivity.

The possibilities offered by the Internet are evolving but it is clear that the recipe for online success requires constant monitoring because the Internet environment changes at lightning speed. Many of the distributors interviewed pointed out that they are also using social networks within their marketing campaigns to create a buzz among potential audiences. Unlike traditional marketing, digital marketing requires promotion of the film over longer lead times to grow networks and to create appetite for the final product. It also requires persistence in terms of feeding the network, to keep audiences interested and to eventually persuade them to go see the film.

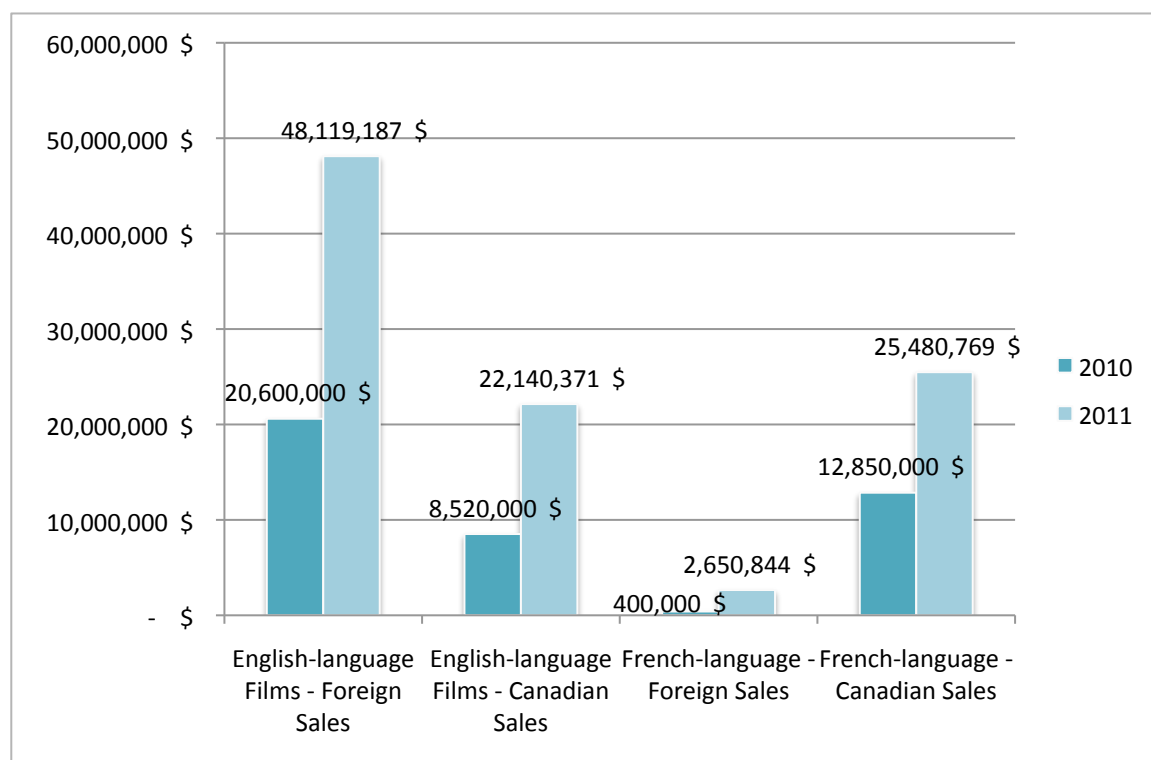


### 3. Sales of Canadian Feature Films

#### 3.1 Trends in Sales of Canadian Feature Film

The types of agreements made between the producer, distributor, and exhibitor, as well as the share of revenue allocated to the distributor will vary, depending on the channel of distribution. Telefilm Canada collects data on the gross sales of CFFF-supported films. Gross sales include all the revenues generated by a Canadian feature film over a number of years. According to Telefilm Canada, typically, the bulk of sales of films takes place in years two, three and four after financing has been granted to a Canadian distributor by the CFFF. In fact, this three-year span accounted for 89% of total sales in 2010-2011.<sup>160</sup> We note in figure 30 that sales of English-language films are significantly higher in international markets than they are for French-language films. Total gross sales in 2010 for international markets for CFFF-supported English-language films were approximately \$26 million. This compares with approximately \$400,000 in gross sales generated by French-language films.

**Figure 30: Gross Sales for CFFF-Supported Films in Canada and in Foreign Territories by Linguistic Market for 2010 and 2011**



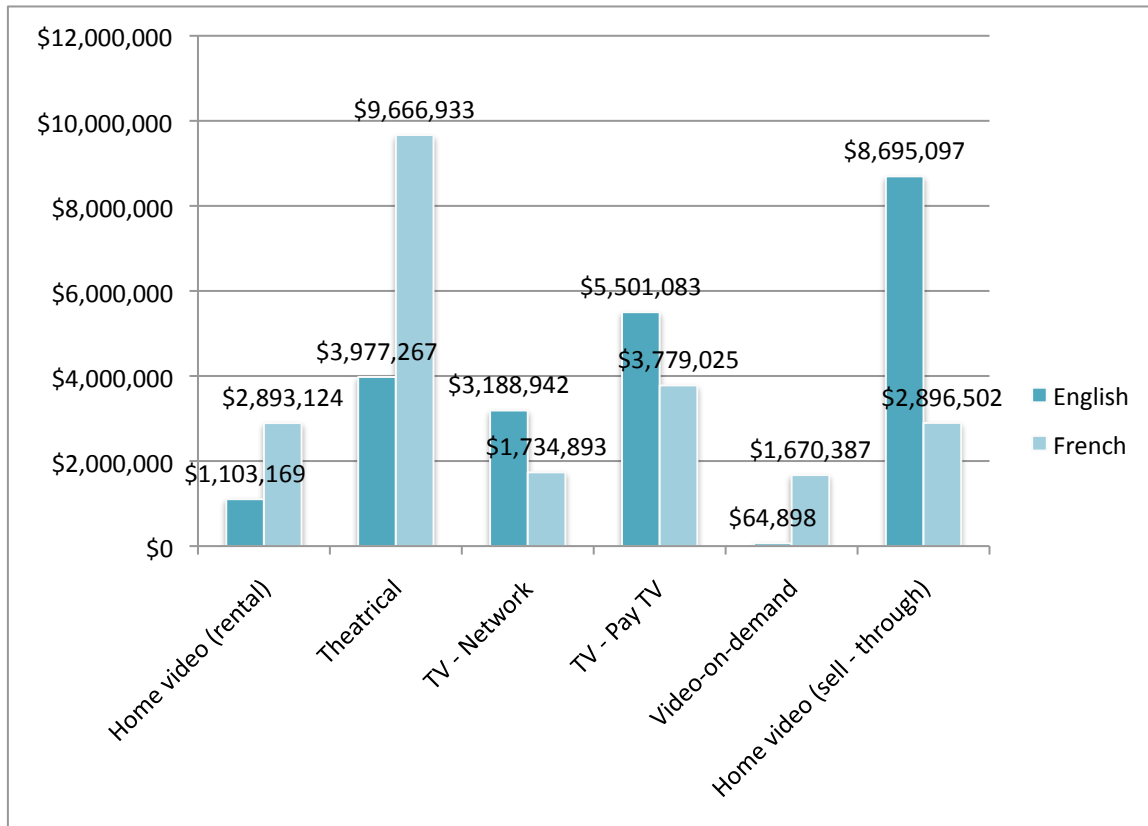
Source: Telefilm Canada

We also note in figure 30 that there has been a dramatic increase in gross sales of CFFF-supported films in 2011 with sales of English-language films generating revenues of more than \$48 million. According to Telefilm Canada, this increase is exceptional and is explained by the sales generated by a small select number of films. The sales of French-language films in international markets in 2011 was 2.6 million, significantly less than for English-language

<sup>160</sup> *Fostering Cultural Success: Telefilm Canada's Corporate Plan, 2011-2012 – 2014-2015*, Op. Cit.

films. Within the domestic market, English-language CFFF-supported feature films are generating their greatest sales in the home video sell through market and the television market. Total sales of English-language films made in the home video sell-through market represented 39% of all sales for the English-language market in 2011 compared to the 38% of all sales made in the television market (pay television, conventional and specialty combined). (See fig. 32)

**Figure 31: Domestic Gross Sales of CFFF-Supported Films for 2011 by Linguistic Market and Platform**

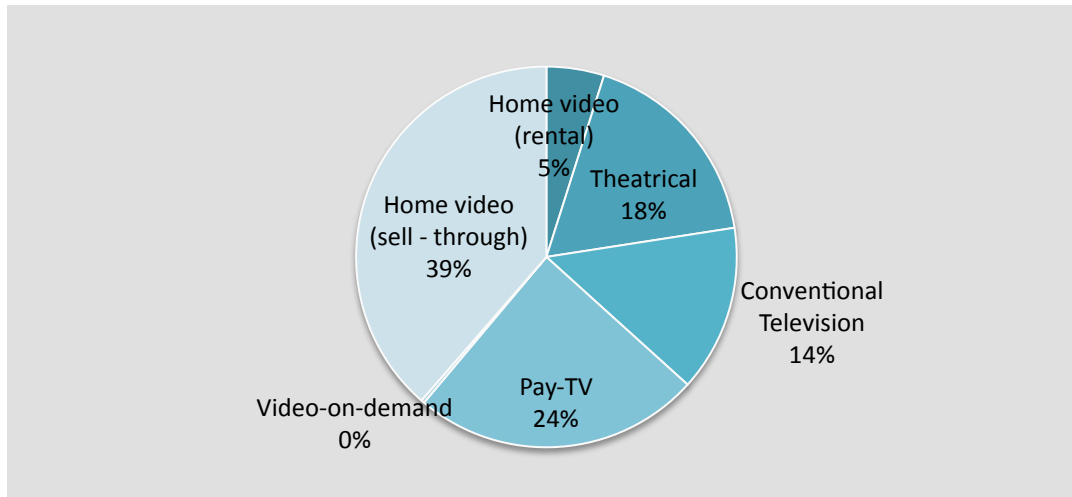


Source: Telefilm Canada

Note: In 2011, producers reported an additional \$2,449,819 in sales in other media, accounting for 5% of sales.

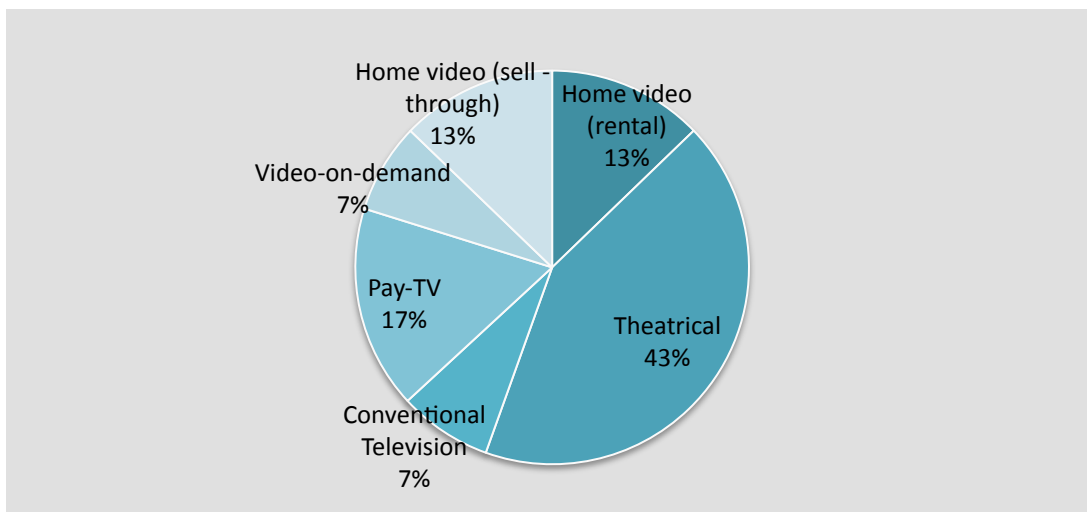
The gross sales of English-language films made to the theatrical market represented 18% of all sales. Gross sales to the home video rental market represented a mere 5% and sales in the VOD market represented less than 0.2% of total sales. (See fig.32)

Figure 32: Domestic Gross Sales of CFFF-Supported Films by Platform, 2011 English-language Market



Sales of French-language films in 2011 show that the theatrical market was the most important with sales to this market representing 47% of all sales. Television sales were the second largest market representing 24% (conventional and pay TV combined) followed by home video rental and home video sell through with each market representing 13% of all sales. (see fig. 33)

Figure 33: Domestic Gross Sales of CFFF-Supported Films by Platform, French-Language Market



Canadian distributors interviewed for this study expressed their concern that there is a trend towards the gradual disappearance of film slots from television and a decrease in the license fees being paid by broadcasters to distributors for the acquisition of films. This has an impact on both the viewership of Canadian feature films and the revenues that are generated for the sector.

A report conducted by PriceWaterhouseCoopers (PWC) entitled *Study of Canadian Feature Film Sales to Canadian Broadcasters* revealed that pay television represented 67% of all

television revenue from English language broadcasters and 61% from French language broadcasters. This study reveals that licence fees for Canadian films paid by the pay television services have remained relatively stagnant during a time period when subscriber numbers have increased dramatically.<sup>161</sup>

Since this study was published CAFDE members report that the average licence fee paid by The Movie Network for Canadian films has decreased significantly. In a presentation made to the CRTC on December 8, 2011, the CAFDE noted the following: “The recent drop in support for both the number of films and the level of financial commitment comes a time when these services are experiencing record profits and subscriber levels. Their plummeting support is a serious issue for...the entire movie making industry in Canada. In fact in the last two calendar years, the average annual licence fee for Alliance’s Canadian films offered by the pay services owned by Corus and Astral have dropped by 49% and 56% respectively.”<sup>162</sup>

The CAFDE went on to note that: “some of the best and most successful movies struggle to find a place among the imports and made-for-pay sitcoms that populate much of their daily schedule. This is inexplicable and if allowed to continue will threaten the very existence of the Canadian homegrown feature film industry.”

A more recent study prepared by the Canadian Media Producers Association (CMPA) entitled *Canadian Television Broadcasters’ Financial Participation in the Production of English-language Theatrical Films Supported by Telefilm Canada Under the Main Program of the Canada Feature Film Fund* reveals “direct financing from television broadcasters, and particularly from pay television services, decreased between 2003-2004 and 2010-2011.”<sup>163</sup> The report underscores the degree to which direct financing from television broadcasters, and particularly from pay television services, has decreased over the last 8 years. Total financing from broadcasters decreased by 79%, from a high of \$16.3 million 2003-2004 to just \$3.3 million in 2010-2011.<sup>164</sup>

### 3.2 Growing Importance of Other Platforms

Currently, Canadian distributors are exploiting new digital platforms including downloads, streaming, subscription video on demand (“SVOD”) and pay per view. With improved technology and increased availability of affordable hardware, these platforms will increasingly become a growing part of any title’s ultimate earnings.

The deals that Canadian distributors have made with iTunes have underpinned the growth of their digital businesses. Deals with Netflix in Canada highlight the importance of content, including new releases and older content.

A report released in 2010 on the digital rights market for Canadian producers found that: “Due to the relative simplicity of the independent film distribution model, the business of digital rights exploitation for feature films has proceeded on the frontlines as new platforms have launched. As a result, digital distribution of film titles is proceeding in a more orderly fashion – and largely as an extension of the well-established DVD distribution business. Whether in a streaming, download-to-rent or download-to-own model, the digital version of the feature film

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<sup>161</sup> *Study of Canadian Feature Film Sales to Canadian Broadcasters*, prepared by PricewaterhouseCoopers for the Canadian Association of Film Distributors and Exporters and Canadian Media Production Association (formerly the CFTPA), January, 2011.

<sup>162</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit.

<sup>163</sup> Ibid.

<sup>164</sup> Ibid.

is finding its digital sea-legs across many platforms and, perhaps most impressively, through iTunes.”<sup>165</sup>

One study noted that services like Netflix – with SVOD streaming offerings – can bump into pay-TV windows and upset the traditional value chain of rights exploitation. The study found that: “The onslaught of new cable VOD services is also playing in or straddling the same window – and rights holders must remain mindful of how services overlap and of how jumping or circumventing windows may undermine maximum revenue generation for a particular title.”<sup>166</sup>

The distributors interviewed for this study point out that their strategy when acquiring films is to maximize the extent of the rights they own across the different media available to consumers. This ensures that they are well positioned to mitigate the impact of changes in technology, which drive how consumers enjoy content.

#### *4. Policies Impacting the Canadian Distribution Sector*

##### *4.1. The Federal Government Distribution Policy*

Stakeholders interviewed for this study support the federal government’s Distribution Policy with one stakeholder describing it as “vital” to the continued success of the Canadian feature film sector.

Stakeholders, in particular producers interviewed, support the current federal government policy, which requires that Canadian feature films be distributed in Canada by Canadian-owned and -controlled distribution companies. Producers are of the view that this policy should be maintained and enforced by all major public funding sources for the production of Canadian feature films as a condition of obtaining funds.

They are in agreement with Canadian distributors that the Policy could benefit from updating to reflect digital distribution technologies.

In a document prepared by the CAFDE, the Association expressed the position of Canadian distributors vis-à-vis the Distribution Policy: “In order for the Distribution Policy to be effective in the 21st century it needs to be modernized to encompass digital distribution technologies like the Internet and wireless networks. Digital distribution will also have a significant impact on the Canadian broadcast sector. In the years ahead, Canadian consumers will enthusiastically embrace new business models that offer an increasingly wide variety of digital content. These new business models will initially enhance and eventually replace the current film distribution and broadcast structures.”<sup>167</sup> The document goes on to describe the implications that an unregulated digital distribution environment would have on Canadian broadcasters and film distributors: “The ongoing viability of both Canadian broadcasters and film distributors is linked to their privileged access to non-Canadian content. This access allows Canadian broadcasters and film distributors to build the financial strength and stability needed to invest in new high quality and competitive Canadian productions.”

Canadian distributors interviewed for this study point out that without access to the release of non-Canadian films, their businesses would not be viable. This access allows them to subsi-

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<sup>165</sup> *Towards a Framework for Digital Rights*, Op. Cit.

<sup>166</sup> *Ibid.*

<sup>167</sup> *Maintaining a Strong Canadian Owned and Controlled Market*, Op. Cit

dize the investments they are making in the financing of minimum guarantees and in the promotion and marketing of Canadian feature films.

Overall, stakeholders support the Distribution Policy and believe that access to public productions funds should continue to require that a Canadian distributor distribute Canadian films.

#### 4.2. Canada's Feature Film Policy

Stakeholders interviewed for this study express the view that the federal government's feature film policy-- and its objective to achieve a 5% theatrical box office market share for Canadian films -- is not an accurate reflection of the way Canadians view Canadian films.

In 2005, the Standing Committee on Canadian Heritage in its report on the state of Canada's feature film sector entitled, *Scripts. Screens and Audiences: A New Feature Film Policy for the 21st Century*, recommended that "feature film policy... look at the changing environment within which people view films....[since] many more Canadians watch movies at home than in the cinema."<sup>168</sup> The Committee acknowledged the importance of theatrical audiences for Canadian films, and recommended that a revised film policy recognize the importance of measuring audiences for the viewing of Canadian films in the many non-theatrical contexts where films may be watched.<sup>169</sup>

The federal government's response to the Committee's recommendation, contained in a 2006 report entitled *Enhancing the Canadian Feature Film Policy*, recognized the importance of measuring a film's ability to reach audiences through a variety of distribution platforms and stated that the Department would work towards establishing an effective means of tracking and analyzing performance data in existing and emerging marketplaces.<sup>170</sup>

#### 4.3. Telefilm Canada's Marketing Program

Telefilm Canada currently provides Canadian distributors with support for the marketing and promotion of Canadian films through the CFFF's Marketing Program which has a goal to increase Canadian audiences in theatres for Canadian feature films. Financing is available for theatrical release costs at various stages, including for the creation of materials such as posters, teaser trailers and test screenings, test marketing and campaign creation, prints and advertising (P&A) and on-line marketing activities (services and tools) designed to reinforce the film's promotion and marketing. Telefilm Canada's financing is in the form of a repayable non-interest bearing advance of up to 75% of the eligible Canadian marketing costs for the release of a film.

Canadian distributors argue that this Program is critical to support the releases of Canadian films theatrically and must continue to be available to Canadian distributors. Canadian distributors also noted that the budget allocated to Telefilm Canada's Marketing Program should not be reduced as it continues to be vitally important for the promotion of Canadian feature films. Many distributors suggested that Telefilm Canada make modifications to the Program by modifying the current recoupment policy, which acts as a disincentive for those Canadian distributors who spend higher amounts than the current maximum 75% that is eligible to distributors for theatrical releases. Because the Program caps support at a maximum of 75% of

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<sup>168</sup> *Scripts, Screens and Audiences: A New Feature Film Policy for the 21st Century*, Standing Committee on Canadian Heritage, 2005, page 104

<sup>169</sup> Ibid.

<sup>170</sup> *Enhancing the Canadian Feature Film Policy*, Department of Canadian Heritage, page 8.

total costs, those distributors that spend higher amounts are not rewarded. Whatever amounts surpass the 75% cannot be reimbursed in a way that is beneficial to the distributor.

#### 4.4. The Role of the CRTC

##### 4.4.1. The Promotion and Exhibition of Canadian Feature Films in Canadian Broadcasting

A number of studies in the last few years have called on the CRTC to develop a policy to better support the promotion and exhibition of Canadian feature films on television.

In 2005, the Standing Committee on Canadian Heritage, in its review of the state of the Canadian feature film sector found there was “the...absence of a broadcasting policy to support the promotion of Canadian feature films” and that the Government of Canada should direct the CRTC to develop a policy that supports the promotion as well as the viewing of Canadian feature films.<sup>171</sup>

Later, in 2009, a report commissioned by Telefilm Canada found that the Canadian broadcasting system should better support Canadian feature films in helping to advance the objective of Canada’s Feature Film Policy to build larger audiences for Canadian feature films. The study pointed out that the *Broadcasting Act* already provides a strong basis for the CRTC to require broadcasters to increase their support for Canadian feature films on conventional private and public television, pay-TV, and video-on-demand. By doing so, the CRTC would be furthering the government’s feature film policy to build audiences for Canadian films.<sup>172</sup>

In 2011, the Canadian Media Production Association called on the CRTC to launch a specific public proceeding to examine the role of television broadcasters in supporting Canadian English-language theatrical films. In a news release, the Association stated that, “The CMPA has sounded the alarm bell on the issues facing Canadian feature films in various proceedings over the past several years...[and on] the need to examine this issue in a public proceeding. It would be a forum where all stakeholders can share their ideas on how to improve the success of Canadian feature films in our television system, particularly in English Canada where the competition for audiences is so fierce.”<sup>173</sup>

In February 2011, the CAFDE appeared before the CRTC as part of the group-licence renewals of English-language broadcasters. The central issue put forward for the CRTC’s consideration by CAFDE and CMPA was the declining support by conventional broadcasters for English-language feature films and the impact this has on the promotion and marketing of Canadian feature films.

As was stated by a CAFDE member: “Television licences provide a significant source of revenue and the broadcasts are invaluable in expanding the audience of the film...[but] the declining support for Canadian films from broadcasters has led to distributors paying less for the rights and being more cautious about their marketing spends. Reduced advances from distributors make Canadian films harder to finance. In some cases it means some films are not getting made that could have been financed.”<sup>174</sup>

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<sup>171</sup> *Scripts, Screens and Audiences: A New Feature Film Policy for the 21st Century*, Op. Cit.

<sup>172</sup> Peter Grant and Michel Houle, Op. Cit.

<sup>173</sup> *New Studies Support Independent Producers’ Call for CRTC Proceeding on Canadian Feature Film*, Canadian Media Production Association, September 27, 2011.

<sup>174</sup> *Presentation to the CRTC Group-based Licensing Renewal for English-language Broadcasters*, CAFDE, 2011.

A similar issue was raised by CAFDE in the context of licence renewals for French-language broadcasters. CAFDE identified a trend of declining support from the pay-television services in Canada in the licence fees paid to Canadian distributors for Canadian films. The CMPA and many other interveners echoed these concerns.

Our interviews with stakeholders confirm that the issue of exhibition of Canadian films on conventional television and on pay-television needs to be addressed as a policy by the federal government and the CRTC.



*“The more screens people own, the more content they want. Content is the constant. It’s what keeps people coming back. It’s what drives an ever-increasing appetite for product. And it is what makes it absolutely necessary... to respond to that appetite by providing new and innovative options.”*

- Sen. Chris Dodd, Chairman and CEO, Motion Picture Association of America<sup>175</sup>

## IV. Concluding Observations

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### 1. Overview

The Canadian-owned and-controlled feature film distribution sector is perhaps facing its greatest challenge in its history because of the dramatic pace of new technologies. The impact of digital technologies is disrupting the foundational window model that characterizes the release of a feature film.

Fragmentation of audiences, windows and revenues are the new realities facing Canadian distributors. In this new environment, marketing and promotion is a particular challenge with distributors no longer just focused primarily on reaching one aggregated audience but instead having to target a collection of micro-audiences. Marketing and promotion costs have also risen considerably in the last few years driven by dramatic increases by the American studios in supporting their films.

The Canadian distribution sector has adapted to the technology-driven changes of the past decades such as the licensing of pay-television and specialty services in the early eighties and then the explosion of home entertainment choices, first with VCRs, then DVDs and Blu-ray. The quickening pace of change will dramatically increase as consumers are offered more and more ways to access feature films on a greater number of platforms on which to view them. This will significantly shift consumer viewing habits and expectations.

Canadian distributors are embracing the challenges of the new environment head-on as they confront an era like no other in which audiences have high expectations of being able to access content on their own terms. Furthermore, over-the-top services such as Netflix are developing rapidly but are not regulated by the CRTC which means that these services are not making a contribution to the Canadian broadcasting system and do not have to meet Canadian content conditions. With more than 26 million streaming members in the United States, Canada, Latin America, the United Kingdom and Ireland, Netflix is the world’s leading Internet subscription service for movies and TV programs.<sup>176</sup> Unregulated services like Netflix will potentially compete with Canadian distributors for the acquisition of films in the future. Netflix is already acquiring exclusive rights to television series in the territories to which it steams its service.

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<sup>175</sup> Lew Harris and Cassie M. Chew, “MPAA’s Dodd: Hollywood’s Blue-Collar Workers Hurt Most by Piracy,” in *The Wrap*, May 3, 2011.

<sup>176</sup> [www.netflix.com](http://www.netflix.com).

For the Canadian distribution sector to continue to play a vital role in the release, financing marketing and promotion and sales of Canadian feature films, funders, policy-makers and the industry may consider the following as possible directions for the future.

## 2. Directions for the Future

### 2.1 Experimentation in the Release Strategies of Canadian Films

While trends show that experimentation in the window model is taking place in the US and in member countries of the EU, this is not the case yet in the Canadian context. These experiments provide lessons for the Canadian distribution sector. Canadian distributors are open to experimenting with release strategies of Canadian films but an industry-wide collaboration may be needed to include the participation of exhibitors, producers, distributors and funders.

The need for industry-wide collaboration has been addressed in the past, most recently in 2005, when the Standing Committee on Canadian Heritage published the results of its review on the state of the Canadian feature film sector in a report entitled *Scripts, Screens and Audiences: A New Feature Film Policy for the 21<sup>st</sup> Century*. The report called for the development of a national strategy to market, promote, distribute and create screen space for Canadian films. The need for this strategy is as important today as it was when it was first recommended by the Committee seven years ago.

In 2009, a report commissioned by Telefilm Canada entitled *Broadcaster Support For Canadian Feature Film: Expanding the Audience with Television Platforms* made a recommendation that industry-wide action be taken on increasing the exhibition of Canadian films on television. As the report stated, "The key point to make is that if our feature film policy is to succeed, it needs the support of all relevant platforms, not just movie theatres...the Canadian broadcasting system has not supported Canadian filmmakers to the degree that is necessary. In that sense, the government's feature film policy is operating in a silo of its own, instead of being integrated with and supported by our broadcasting system. This needs to change."<sup>177</sup>

In this context, an industry-wide strategy should be developed that would lead to Canadian broadcasters playing a greater role in the marketing and promotion of Canadian films on the Canadian broadcasting system. The goal of such a strategy would be to give Canadian films greater visibility. It is important to note that the large Canadian broadcasters also own VOD services and it is these services that are seen to be experimenting with the release strategies of films in the US and in the EU.

### 2.2 Increased Focus on Understanding the Audiences for Canadian Films

An increased focus on understanding the audiences for Canadian films by funders, producers and exhibitors would benefit the development of relevant marketing and promotion strategies for Canadian films and in the long-run help achieve the policy objective of Canada's feature film policy - that is, to build larger audiences at home and abroad. Now more than ever, with consumers having access to a myriad of entertainment offerings, understanding audience preferences for films is critical.

The degree to which research can support better-targeted films will be a pivotal factor in assuring greater success for Canadian distributors, exhibitors and broadcasters as they promote and market films.

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<sup>177</sup> Peter Grant and Michel Houle, Op. Cit.

One of the best practices identified in this report, concerning the success of Canadian promotional campaigns for Canadian films, is the extent of collaboration between producers, distributors, broadcasters and exhibitors. The degree to which this collaboration can be strengthened will increase the chances of success in building larger audiences for English-language films.

The development of a metric which measures audiences to Canadian films on all distribution platforms and reflects the consumption patterns of Canadians is a welcome initiative. In this regard, the Department of Canadian Heritage's development of a 'total view' metric which will measure total viewership of Canadians to Canadian films will provide a truer picture of the consumption of films by Canadians. As digital distribution platforms evolve and become part of the viewing experiences of Canadians, it would be important to track viewership on these platforms as well.

To the extent that Canadian feature films are viewed by Canadians, Canadian distributors are seen to be helping to meet the objectives of Canada's feature film policy. The degree to which this performance can be measured will provide a vehicle by which to measure the performance of Canadian distributors in meeting the policy objectives.

### 2.3 Government Policies in the Digital Age

The federal government's Distribution Policy is seen as integral to the viability of a Canadian feature film sector. In order for the Distribution Policy to be effective in the 21<sup>st</sup> century it needs to be modernized to encompass digital distribution technologies like the Internet and wireless networks. In the context of the entry of foreign over-the-top services such as Netflix in Canada, the need to maintain a Canadian-owned and- controlled distribution sector that promotes and markets Canadian films takes on an added urgency.

Another area that merits review is the lack of regulatory oversight by the CRTC over services such as Netflix. The lack of regulation of such services raises important questions about the ongoing ability of the Canadian distribution, production and broadcast sectors' to acquire, finance, market and promote Canadian programming including Canadian feature films.

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## Annex 2: List of Stakeholders Interviewed

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1. Hussain Amarshi, President, Mongrel Media.
2. André Béraud, Director, Drama Series and Feature Film, Radio-Canada.
3. Nuria Bronfman, Executive Director, Motion Picture Theatre Associations of Canada.
4. Jeremy Butteriss, Director, Strategic Partnerships, Google/You Tube.
5. Zoé Crabtree, Director, Programming, Astral Télé Réseaux.
6. Louis Dussault, K Films Amerique, President of the Regroupement des distributeurs indépendants de films du Québec (RDIFQ).
7. Pierre Even, Producer, item7.
8. Niv Fichman, Producer, Rhombus Media Inc.
9. Mario Fortin, Président-Directeur général, Cinema Beaubien.
10. Ariane Giroux-Dallaire, Head of Distribution, Métropole Films Distribution.
11. Jennifer Jonas, Producer, New Real Films.
12. Michael Kennedy, Executive Vice President, Filmed Entertainment, Cineplex Entertainment LP.
13. Mark Musselman, Executive Producer, Vice-President, Serendipity Point Films Inc.
14. Raffaele Papalia, President, Cinentreprise.
15. Victor Rego, Vice-Président Marketing & Distribution, Seville Pictures Inc..
16. Patrick Roy, President and CEO of Alliance Vivafilm.
17. Mark Slone, Senior Vice-President, Alliance Films.
18. Michael Smith, Vice- President, Television & Digital Sales, Entertainment One.
19. Robin Smith, President, Kinosmith Inc.
20. Josee Valée, Producer, Cirrus.
21. Marcel Venne, Président, Les Cinémas RFGM.
22. Robert Wales, Vice-President, Film Programming, Empire Theatres Limited.

### Annex 3: About the Consultant

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**Maria De Rosa** is President of Communications MDR, a boutique consulting company specializing in mandates for both private and public-sector clients in the broadcast, cultural, arts and digital media sectors.

A graduate of Carleton University's Mass Communication Program, throughout her career, Maria has played a key role in the development of policies and programs for the industry and government. She has helped shape policies for the industry's key funding programs for the former Canadian Television Fund, the Canada Feature Film Fund, the Canada New Media Fund, the Music Entrepreneur Program (MEP) and the Canada Media Fund.

She has contributed to noteworthy government reports including: *Canadian Content in the 21st Century: A Matter of National Identity*, and *Fading Away; Strategic Options to Ensure the Protection of and Access to our Audio-Visual Memory* as well as having been a special policy advisor to a government led task force examining convergence, *Convergence: Competition and Cooperation*.

Her years of experience as a senior Director of Corporate Affairs and Communications at Telefilm Canada, as a policy advisor in the Department of Communications in Ottawa, her mandates at CBC Radio and the National Film Board bring considerable public policy analysis and strategic positioning to her consulting practice.

She has designed groundbreaking programs such as the *Aboriginal Filmmaking Program* which helped spur on Aboriginal filmmaking in Canada. She has pursued screenwriting and creative writing endeavours and has to her credit a television documentary and numerous publications. She has been involved in specialty service applications for children and youth, Asian television and Aboriginal broadcasting.