

CHAPTER 4

The exhibitors

4.1. The Commission's report published in 1966 noted that the outstanding feature of the film industry's structure is the fact that it is effectively dominated by two companies, ABPC and Rank¹, and it is still the case that these two companies or their successors account for some 60 per cent of the market defined in terms of film hire payments to distributors. The remaining 40 per cent of the market is represented by several sizeable cinema chains such as Classic (recently acquired by the Cannon Group), Star and (in Scotland) Caledonian, as well as a large number of small independent exhibitors having only one or two cinemas. The latter include cinemas belonging to local authorities and institutions, and 'art houses' showing mainly foreign and other minority interest films. In addition, there are considerable numbers of film societies which do not operate commercially and are outside the terms of reference of this inquiry.

EMI Cinemas Ltd

4.2. In our previous report we gave an account of the origin and early history of Associated British Picture Corporation Ltd (ABPC).² ABPC was acquired in 1969 by Electrical and Musical Industries Ltd (EMI), and EMI in turn was taken over in 1979 by Thorn Electrical Industries Ltd and became part of the Thorn EMI Group. EMI Cinemas Ltd is the company within the group which is responsible for the management of the group's cinema business.

4.3. The principal developments affecting EMI Cinemas and other companies within the group concerned with related activities which have taken place since we reported in 1966 can be summarised as follows:

- (a) In January 1968 EMI acquired about 25 per cent of the issued ordinary share capital of ABPC from Warner Brothers-Seven Arts Inc, and completed the acquisition in June 1969.
- (b) ABPC has acquired a 74 per cent interest in Anglo Amalgamated (Film Distributors) Ltd in 1967. In 1970 ABPC, now part of EMI, acquired the remainder of the share capital of this company, which was merged with Associated British-Pathé Ltd, changed its name to Anglo-EMI Distributors Ltd and undertook the distribution of the group's films outside the United Kingdom.
- (c) In October 1970 Associated British Cinemas Ltd, which ran the group's cinemas, was re-named EMI Cinemas & Leisure Ltd, later changed to EMI Cinemas Ltd. On 30 December 1970 ABPC was re-named EMI Film & Theatre Corporation Ltd.

¹ The Monopolies Commission. *Films: A Report on the Supply of Films for Exhibition in Cinemas*. Paragraph 195.

² *Op cit.* Paragraphs 60 to 66 and Appendix 5.

- (d) Anglo-EMI Distributors Ltd, re-named EMI Film Distributors Ltd, became responsible for the distribution of EMI films in the United Kingdom following the termination of a joint distribution arrangement with MGM.
- (e) In August 1976 EMI acquired the British Lion Films Group. British Lion's extensive catalogue of films was transferred to EMI Film Distributors Ltd which later changed its name to EMI Films Ltd to reflect the fact that its responsibilities included production as well as distribution.
- (f) EMI Films joined the Columbia-Warner distribution organisation in 1978 as an equal partner in a new company, Columbia-EMI-Warner Distributors Ltd (CEW). EMI Films remains responsible for distribution outside the United Kingdom.
- (g) In 1979 EMI was taken over by Thorn Electrical Industries and became part of Thorn EMI Plc.

4.4. EMI Cinemas Ltd is a wholly-owned subsidiary of EMI Film & Theatre Corporation Ltd (formerly ABPC); the ultimate holding company is Thorn EMI Plc. For management purposes EMI Cinemas forms part of the Cinemas and Social Centres Division of Thorn EMI. There is also a Films Division which embraces EMI Films Ltd (production and distribution) and EMI Elstree Studios Ltd. The group has a 30 per cent interest through EMI Cinemas in Technicolor Ltd which operates a film processing laboratory.

4.5. EMI Cinemas operates 119 cinemas with 308 screens in Great Britain:

TABLE 4.1 EMI Cinemas: numbers of cinemas and screens

	<i>Number of screens</i>					<i>Total</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
Cinemas	19	24	66	7	3	119
Screens	19	48	198	28	15	308

Source: EMI.

This compares with over 400 cinemas in the early 1950s and 267 cinemas (all single screen) in 1966.

4.6. An extensive programme of conversion to multi-screen operation was carried out during the 1970s when 101 cinemas were converted and 149 additional screens were brought into use.

4.7. EMI Cinemas, like other exhibitors, practises barring, and we were given details of the bars normally sought to be included in film exhibition licences for each of its cinemas and the modified bars sought in the case of films being distributed as television releases.

4.8. EMI Cinemas is aligned (through UIP (UK)) with Paramount, Universal and MGM, and (through CEW) with EMI Films and Warner. EMI Cinemas is also aligned with a number of other distributors including Brent Walker and Sunn Classic. EMI's arrangements for assessing and booking films are as follows. Each film is seen by a viewing panel, the members of which prepare reports on it, and most films are also seen by the Managing Director, or the

Booking Manager, or both. When a decision has been made to negotiate for a film, the timing and method of release envisaged by the distributor, the number of prints intended to be made available, and any proposals by EMI Cinemas as to the best method of marketing the film, are discussed, and any special terms of film hire are negotiated. The booking department then works out the detailed arrangements and bookings for the film, and the distributor is invited to submit an appropriate licence agreement.

4.9. EMI Cinemas told us that it was a member of the CEA and complied with its resolutions and with the machinery for the allocation of product.

4.10. The principal suppliers to the group's cinemas in the calendar year 1980 were CIC (UK) and CEW who together accounted for almost 70 per cent of total film hire paid:

TABLE 4.2 EMI Cinemas: film hire payments, 1980

	<i>Film hire payments by EMI Cinemas</i>	<i>Percentage</i>
	£'000	
CIC (UK)	5,424	38.2
United Artists	378	2.7
CEW	4,354	30.7
Other distributors	4,028	28.4
	14,184	100.0

Source: EMI

Payments to CEW included £563,300 in respect of EMI films.

4.11. The total payments made by EMI Cinemas to distributors in the six years 1976 to 1981 are set out in the following table, which also shows the total payments by all exhibitors, as reported in the Business Monitor.

TABLE 4.3 EMI Cinemas: market shares based on film hire payments, 1978 to 1981

	<i>Payments by EMI Cinemas</i>	<i>Payments by all exhibitors</i>	<i>Payments by EMI Cinemas as percentage of total</i>
1978	13,031	41,300	31.5
1979	12,841	41,000	31.3
1980	14,184	42,200	33.6
1981	13,268	41,100	32.3

Source: EMI and Business Monitor.

EMI's average market share over the same period in terms of admissions came to just under 30 per cent, and in terms of box office takings to just over 30 per cent.

4.12. EMI supplied us with copies of management accounts for their United Kingdom exhibition activity covering the two years to 30 June 1979, the nine months to 31 March 1980 and the two years to 31 March 1982. The figures include the results of two cinemas in Dublin and one in Belfast, a total of 12 screens. Details of average net operating assets were also supplied. In Table 4.4 below we show turnover and profit before interest and taxation and express the

profit as returns on turnover and on net operating assets. For the purposes of the return on assets the figures have been adjusted to include some rent receivable but to exclude Irish business and the associated net operating assets.

TABLE 4.4 EMI Cinemas Ltd: Trading results on exhibition 1977-78 to 1981-82 (excluding rent receivable)

	1977-78	1978-79	1979-80*	1980-81	1981-82
<i>Historical cost</i>					
Turnover (£m)	33.95	46.87	45.87	48.61	47.03
Profit before interest and taxation (£m)	3.29	5.93	4.76	3.58	1.51
Return on turnover (per cent)	9.69	12.65	10.38	7.36	3.21
Return on average net operating assets (per cent)	10.40	20.10	17.40	11.60	5.00

Source: EMI.

* The 1979-80 figures are 9 months to 31 March 1980 actuals grossed up to 12 months.

4.13. For EMI Cinemas, 1978-79 was a particularly good year, with paid admissions exceeding those of 1977-78 by nearly 30 per cent. By 1981-82 paid admissions had fallen to about 60 per cent of the 1978-79 figure.

4.14. EMI supplied figures for the financial performance of the individual cinemas in its circuit. These showed that in 1981-82 about 20 per cent of its cinemas were in loss before rent, extraordinary repairs and zone, head office and central costs.

Rank Leisure Ltd

4.15. The history of The Rank Organisation Plc to 1966, and its organisation and activities at that time, were described in the Commission's previous report.¹

4.16. Since 1966 there has been a major change in voting structure, and hence in the control of The Rank Organisation. At that time (as described in Appendix 6 of the 1966 report) the controlling interest (53 per cent of the voting shares) was held by Odeon Cinema Holdings Ltd, the ultimate owner of which was Film Development & Research Ltd (now The Rank Foundation) whose income was distributed to the J Arthur Rank Group Charity and the 1963 Rank Group Charity. Film Development & Research Ltd was able, by its Articles of Association, to ensure that its membership and therefore control were at the discretion of its Directors. By 1976, however, the proportion of non-voting shares to the total equity of the Rank Organisation had increased to 82 per cent, and the scope of the company's non-film interests had expanded to such an extent that only 5.5 per cent of trading profits were derived from film activities in Great Britain. It was therefore decided to enfranchise the non-voting shares, with the result that the voting interest of Rank Group Holdings in The Rank Organisation fell from 53 per cent to 10.2 per cent. The group's structure had already been simplified by redeeming the debentures and preference shares held by the public in a number of holding companies within the

¹ *Op cit*, paragraphs 79 to 98 and Appendix 6.

group and transferring the assets of these companies to The Rank Organisation.

4.17. The position now is that the overall holding company of the group is The Rank Organisation which owns directly all of the shares in the principal operating subsidiaries engaged in film production, distribution or exhibition in Great Britain. The Rank Organisation is also a trading company owning film studios, cinemas and other assets which are operated on its behalf by its subsidiaries, Pinewood Studios Ltd, Rank Advertising Films Ltd, Rank Film Distributors Ltd and Rank Leisure Ltd. The internal organisation of the group takes the form of a divisional structure in which each division embraces for management purposes one or more subsidiaries, and is headed by a divisional managing director reporting to the group Managing Director. The divisions and major subsidiaries concerned with film activities in Great Britain are as follows:

Film and Television Services Division

Pinewood Studios Ltd	Operates the studios as agent for The Rank Organisation.
Rank Advertising Films Ltd	Sells cinema screen advertising, produces cinema and television commercials and acts as a poster advertising contractor.
Rank Film Distributors Ltd	Acquires and distributes films. Stores, checks and transfers prints to despatch depots on behalf of film distributors.
Rank Film Laboratories Ltd	Provides film processing and ancillary services for cinema and television.

Leisure Division

Rank Leisure Ltd	Undertakes leisure activities including management of the Rank cinema circuit as agent for The Rank Organisation.
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4.18. The authorised and issued share capital of The Rank Organisation is made up as follows:

TABLE 4.5 Rank Organisation: share capital

	<i>Authorised</i> £	<i>Issued</i> £
6.25 per cent Cumulative Preference Shares of £1	10,000,000	9,996,014
8 per cent Second Cumulative Preference Shares of £1	3,000,000	2,601,787
Ordinary Shares of 25p	57,000,000	50,498,698
	70,000,000	63,096,499

Source: Rank.

4.19. The turnover and profit of each of the group's film activities in Great Britain in the year ended 31 October 1981 were as follows:

TABLE 4.6 Rank Organisation: film activities

	<i>Turnover</i>	<i>Profit</i>
Film exhibition	43,371	928
Film distribution	7,960	7
Film processing	19,064	1,185
Film production	—	528
Film studios	4,267	50
	74,662	2,698
Total		

Source: Rank.

The figures include some of the group's television film activities, but these are not separately identifiable except in the case of film processing where about 36 per cent of the total turnover of £19,064,000 related to the processing of film for television or commercials.

4.20. In December 1982 Rank Leisure was operating 89 cinemas with 225 screens in Great Britain:

TABLE 4.7 Rank Leisure: number of cinemas and screens

	<i>Number of screens</i>					<i>Total</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
Cinemas	18	12	55	2	2	89
Screens	18	24	165	8	10	225

Source: Rank.

This compares with over 500 cinemas in the early 1950s and 330 (all single-screen) in 1966.

4.21. The contraction of the Rank circuit continued in 1981 and 1982. In October 1981, Rank ceased to operate 27 cinemas with 32 screens, resulting in a reduction in the seating capacity of all Rank cinemas from 145,000 to 113,280. In 1982 Rank ceased to operate a further four cinemas with 11 screens, and the effect of these and other changes was to reduce the total number of seats available to 108,898.

4.22. An extensive programme of conversion to multi-screen operation was carried out in the early 1970s and has continued on a reduced scale since then. Seventy-eight cinemas have been converted since 1972 and 139 additional screens have been brought into use.

4.23. We were given a schedule of the bars exercised by and against each of the group's cinemas.

4.24. The booking of films for all the group's cinemas in Great Britain is handled by Rank Leisure's Booking Controller. There is a viewing panel consisting of at least three employees, and usually comprising the Booking Controller and two or more of his assistants. Where a film is rejected for extensive exhibition, the distributor may be offered a test engagement, any subsequent bookings being dependent upon the success of the test. On the basis of the views of the booking panel, the Booking Controller then negotiates with the distributor on matters such as terms, playing dates and the cinemas in which the film is to be shown. In these negotiations he has regard to the public demand for films such as the film in question, the number and quality of alternative films available, the need to ensure programme balance and meet seasonal demand in particular locations, and the statutory quota requirements. Any agreement on playing dates and cinemas is highly flexible; changes are negotiated almost daily to take account of reaction to the film or to meet competition from other cinemas, and a film may be moved between screens in a multi-screen cinema, be held over or have its run cut short.

4.25. Rank told us that, as a member of the CEA, it complies with the Association's rules and recommendations.

4.26. Rank Leisure is aligned with certain distributors including (through CEW) Columbia, (through UIP(UK)) United Artists, and (through UK Film Distributors) Twentieth Century-Fox and Disney. There is no obligation on any of those sources to continue the arrangement, but Rank Leisure would expect to be informed beforehand if any change were contemplated.

4.27. The principal suppliers to the group's cinemas in 1981 were as follows:

TABLE 4.8 Rank Leisure: film hire payments, 1981

	<i>Film hire payments by Rank Leisure £'000</i>	<i>Percentages</i>
Rank Film Distributors:		
For Twentieth Century-Fox	1,193	10.4
Others	102	0.9
	<hr/>	<hr/>
Columbia-EMI-Warner	1,295	11.3
CIC	2,412	21.1
United Artists	611	5.4
Other distributors	3,169	27.8
	3,928	34.4
	<hr/>	<hr/>
	11,415	100.0

Source: Rank.

The agency agreement between Rank Film Distributors and Twentieth Century-Fox was terminated as from 5 December 1982 (see paragraph 3.30).

4.28. The total payments made by Rank Leisure to distributors in the four years 1978 to 1981 are set out in the following table, which also shows the total payments by all exhibitors, derived from the Business Monitor:

TABLE 4.9 Rank Leisure: market shares based on film hire payments, 1978 to 1981

	<i>Payments by Rank Leisure £'000</i>	<i>Payments by all exhibitors £'000</i>	<i>Payments by Rank Leisure as percentage of total</i>
1978	12,179	41,300	29.5
1979	10,169	41,000	24.8
1980	10,916	42,200	25.9
1981	10,153	41,100	24.7

Source: Rank and Business Monitor.

The figure for payments by Rank Leisure in 1981 differs from that shown in Table 4.8 because it is based upon film hire payments made by Rank Leisure in respect of its cinemas open at the end of the year, whereas Table 4.8 includes film hire for all cinemas that were operating at any time during the year. Rank's average market share over the period is much the same whether it is calculated in terms of film hire payments, admissions or box office takings.

4.29. Rank supplied us with management accounts for the Theatre Division, covering the five years of account to 31 October 1982. These accounts included statements of average net operating assets. In Table 4.10 below, we show turnover and profit before interest and taxation for each of these years of account and express the profit figures as returns on turnover and on average net operating assets.

TABLE 4.10 Rank Leisure Ltd: Trading results on United Kingdom exhibition 1977-78 to 1981-82 (excluding rent receivable)

	1977-78	1978-79	1979-80	1980-81	1981-82
<i>Historical cost</i>					
Turnover (£m)	38.58	38.77	41.85	42.68	35.99
Profit before interest & taxation (£m)	3.28	1.89	0.92	0.68	0.95
Return on turnover (per cent)	8.50	4.87	2.20	1.59	2.64
Return on average net operating assets (per cent)	21.10	13.50	6.80	6.40	10.40

Source: Rank.

4.30. The year 1977-78 was an above average year for Rank, with paid admissions exceeding the previous year by nearly 19 per cent. By 1981-82 paid admissions had declined to about 45 per cent of the level achieved in 1977-78.

4.31. Rank supplied us with figures showing the financial performance of all the individual cinemas in its circuit. The figures showed that, in the year ended 31 October 1981, about 16 per cent of its cinemas were in loss before head office and central costs were taken into account. This followed the closure of over 30 cinemas. The corresponding proportion for the year ended 31 October 1982 had increased to just over 26 per cent of Rank's cinemas.

Cannon Classic Cinemas Ltd

4.32. The Classic Cinemas chain originated in the 1930s when Capital and Provincial New Theatres (C & P) opened two cinemas in the London area. C & P expanded gradually, and by 1960 it was running 30 cinemas. A new company was formed in 1961 called The Classic Cinemas Ltd which took over the C & P chain and added to it in 1968 by acquiring 47 cinemas from Rank. In 1970 Classic Cinemas was taken over by the Tigon Group, and this was followed shortly by the acquisition of the Essoldo chain, adding a further 48 cinemas. In 1979 the Classic Cinemas chain was acquired by Associated Communications Corporation (ACC). It has now been sold to the Cannon Group.

4.33. The chain consists of 61 cinemas with 129 screens. Of these, nine cinemas are in the West End and 21 in the Home Counties, while the remainder are spread through the rest of Great Britain. Many of those outside London are in solo situations and can play either the EMI or the Rank release, while others are in competition with one of the circuits but can show releases of the other. A number avoid direct competition with the circuits by offering 'adult entertainment'. Classic's market share in 1980 was 8 per cent.

The Star Group of Companies Ltd

4.34. The Star Group was founded in 1931 with the acquisition of a cinema in Yorkshire. Other cinemas were progressively acquired in the North and Midlands, the expansion continuing over the years and including the West End of London from 1965. The Cinecenta chain comprising 11 cinemas with 24 screens was acquired in 1979. Star now has a total of 49 cinemas with 126

screens, and a market share (in 1980) of 6.3 per cent. With the exception of the Cinecenta units and a few other cinemas, all cinemas in the Group operate under the 'Studio' name.

Caledonian Associated Cinemas Plc

4.35. This company is the only important competitor of EMI and Rank in Scotland, to which its cinema activities are confined. It owns four cinemas in the suburbs of Glasgow and 11 elsewhere in Scotland with 26 screens in all. It also handles bookings for a three-screen cinema in the centre of Glasgow which is owned by an associate company, Glasgow Photo Playhouse Ltd.

The financial results of some exhibitors other than EMI and Rank

4.36. Our questionnaire sent to all independent exhibitors (see paragraph 2.19, footnote) included a request for information on financial results for 1979 and 1980. Usable information was received from 90 respondents ranging from single-screen cinemas with sole proprietors to multi-screen cinemas, some of which were owned by distributors, and cinema-owning groups. The returns covered 167 cinemas with a total of 235 screens. The largest operator owned some 20 cinemas with a total of 27 screens. The total income of individual cinemas in 1980 ranged from under £5,000 to over £1 million. Losses in 1980 were reported by 23 individual cinemas and by six groups owning 46 cinemas between them. It is not known how many of these 46 cinemas individually made losses in 1980. The profits and losses of individual cinemas, whether owned by sole proprietors or by cinema-owning groups, vary very considerably, as do the profits and losses of cinemas owned by the circuits included in the sample. Whilst the aggregation of the results of these respondents cannot be expected to produce a statistically sound sample, it does provide an indication of the overall profitability of the independent sector for comparison with the profitability of the two major circuits. The aggregated results are set out below.

TABLE 4.11 Total income, box office takings and profits of independent exhibitors

	Total income (net of VAT and levy)		Box office takings (net of VAT and levy)		Profit £'000	
	1979	1980	1979	1980	1979	1980
Aggregated results	16,313	16,646	13,148	13,567	1,335	801
Profit as percentage of total income					8.18	4.81
For comparison:						
EMI (financial periods 9 months to 31.3.80 and year to 31.3.81)					10.37	7.37
Rank (financial years to 31.10.79 and 31.10.80)					4.87	2.19

Source: MMC study.

4.37. The above comparison with EMI's and Rank's results is no more than broadly indicative of the general situation, because of uncertainties about the basis on which the profits of the independent exhibitors are presented. The figures imply that the same downward trend between 1979 and 1980 applies to independent exhibitors as to EMI and Rank, and that the aggregated financial performance of these independent exhibitors was nearer to that of EMI than that of Rank.