On the Globalization of the Film Industry

Lorenzen, Mark

Creativity at Work:

On the Globalization of the Film Industry

By Mark Lorenzen

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Abstract

The paper presents stylized facts about the economic organisation of the film industry, arguing that while we know a lot about production, specialization and internationalization, the complex processes of globalization are still under-researched. The paper concludes with a research agenda of how to address globalization.

Keywords

Film, cultural industries, organization, internationalization, globalization, social networks

Author

Mark Lorenzen is Associate professor in the Department of Department of Innovation and Organizational Economics, Copenhagen Business School, Kilevej 14A, DK-2000 Frederiksberg, Danmark. E-mail: ml.ivs@cbs.dk

1. What We Know About Specialization and Internationalization of the Film Industry

We know an impressive lot about the film industry. Not only have media scholars and anthropologists probed into films, film making, and filmmakers for at least a century, economists, sociologists, geographers, and management scholars have also taken to study this, the biggest of the commercial cultural industries, with gusto. Highly simplified, the latter literatures have made two main observations about the industrial and institutional dynamics of the film industry.

The market size for films

The first observation is that because feature films have high development costs, they also have a relatively large minimum *market size* for making profit (Vogel, 2003; Caves, 2000; Wasko, 2003; Eliashberg et al., 2006). The small home markets for e.g. European films mean that even when producers here hold production budgets down by opting for low production values, the production of most films hinges upon state subsidies (Moran, 1996; de Turegano, 2006). The countries that have become specialized in film production, i.e. those with a high annual number of non-subsidized feature film releases, are countries with vast home audiences, such as India (1041 film releases in 2005), USA (599 releases in 2006), Japan (417 in 2006), and China (330 in 2006)(figures from European Audiovisual Observatory, 2007). Of course, what matters for such specialization is not merely the size of a home consumer base, but also its purchase power. During the first half of the last century, Hollywood became the world's largest producer of films on the basis of an increasingly wealthy US population that at the time depended mostly on cinema for mass entertainment. Consumer preferences also matter: In the latter half of the century, India, where the audience remains hugely attached to cinema going, overtook USA as the World's largest film producer, even if India's population is smaller than that of China, and its purchase power smaller than USA, Japan, and China. Countries with sizeable home markets are also relatively protected against imports. Due to consumer stylistic and language preferences, imported films generally suffer from liabilities of foreignness, and smaller countries exporting to larger markets are at a disadvantage compared to larger countries exporting to smaller markets (Hoskins and Mirus, 1988; Oh, 2001). For that reason, the countries that capture most of their home markets are India (with a home market share of 94.1% in 2005), USA (93.4%) and China (60%) (ScreenDigest, 2006).

The demand uncertainty for films

The second main observation made by economists, sociologists and other analysts of the film industry is that when the market size increases, so do *demand uncertainty* and the importance of *scale economies*. As for most cultural industries, consumer tastes for films are unpredictable, and it is difficult to foresee any film's success or failure at the box office. Whereas the markets for niche films are small and demand varies on a relatively predictable scale (Cameron, 2003), uncertainty grows with market size, and there is potentially infinite revenue distribution on mass markets for commercial mainstream films (Sawhney and Elishberg, 1996; de Vany and Walls, 1997; Walls, 2005). Due to such uncertainty, on mass markets, there are scale economies in production of films, as the use of expensive stars and high production values have proven to be important factors, albeit not guarantees, for capturing mass audiences (de Vany and Walls, 1996; 1999; 2004; Elberse and Eliashberg, 2003; Elberse, 2006). More notably, on mass markets, there are significant scale economies in marketing of films, as large-scale advertising is the industry's most efficient means of competing against other forms of mass entertainment, and as marginal costs of marketing (as well as distribution) decrease with size (Prag and Casavant, 1994; Chisholm, 2003; de Vany, 2004; Deuchert et al., 2005; Eliashberg et al., 2006; Lee and Waterman, 2006).

Horizontal integration

Such uncertainty and scale economies on mass markets for feature films hugely influence the organization of the film industry. Rather than convergence, these factors have propagated quite notable organizational heterogeneity, at firm level, as well as national and other geographical levels. Some national film industries or film clusters that serve mass markets have developed a high degree of *horizontal integration*. In the beginning of last century, such integration took place in production processes, where large studios mass-produced films through employing creative and technical labour on long-term basis. However, in the last 50 years, outsourcing of creative and technical processes of production has proved more flexible as well as fruitful for product innovation, which is why most production companies are now in effect system coordinators, focusing upon the planning and finance of films and taking advantage of large pools of freelance labour and specialized suppliers for actual production of them. Mass market film producers in USA, India, and European countries such as France and Denmark share this history of early horizontal integration and later disintegration of production processes (Faulkner and Anderson, 1987; Storper and Christopherson, 1987; Storper, 1989; Chisholm, 1993; 2003; Robins, 1993; de Vany and Eckert, 1991; de Vany and Walls, 1999; Blair, 2001). By contrast, horizontal integration in marketing and distribution of films, which also happened from the early stages of the film industry, took place on a much larger scale in Hollywood than in Europe and Asia, and has since persevered here (Wildman and Siwek, 1988; Wildman, 1995). That US film producers were first movers in sinking endogenous costs into large-scale marketing and distribution meant that Hollywood became and stayed comparatively efficient at serving mass markets (Bakker, 2005).

Vertical integration

Another dimension of organizational heterogeneity in the film industry is *vertical integration*. Ceteris paribus, integrating exhibition channels ensures a film production company sales of its products, and hence compensates for the effects of demand uncertainty. During the first half of the last century, when cinemas were the dominant form of film exhibition, mass producers of films in the USA, but also to some extent in e.g. France and India, owned cinemas, or, an alternative widespread in the USA, owned powerful distribution companies that would secure film sales through imposing block booking arrangements upon cinema owners (Donahue, 1987; Caves, 2000; Hanssen, 2000; Epstein, 2006). Just as Hollywood at an early stage sunk more costs than film clusters in other large film producing countries into large-scale marketing and distribution, it was also Hollywood companies that went furthest in integrating production, marketing, distribution and exhibition into Chandlerian corporations (Hoskins et al., 1997). After the advent of other exhibition channels for films (TV, home video, and now the Internet) and other sources of revenue arising from films (merchandize as well as royalties from film-related copyrights used in other media, such as music, games, and publishing), Hollywood companies integrated these new exhibition channels and media in stead of cinemas, in effect becoming multi-media corporations (Litman, 1998; Schatz, 2000; Wasko, 2003; Scott, 2005; Epstein, 2006; Flew, 2007). Yet again, this organizational form is most widespread in the USA, as film companies in Europe and Asia have been comparatively slow in diversifying.[1]

Internationalization

The above two main observations on the industrial dynamics of the film industry mean that we also know a great deal about the *internationalization* of the industry — i.e., the growing export of films beyond their country of origin. While internationalization serves to expand markets for films and hence should provide growth opportunities for small film-producing countries, in reality, the last century's internationalization of the film industry has been a tale of the dominance of a very limited number of countries on export markets. The explanation is simple: Export entails even larger demand uncertainty and importance of scale economies, because consumer tastes on diverse global export markets are even more unpredictable than at home, and liabilities of foreignness in the guise of diverse stylistic and language preferences are massive. From early in last century, Hollywood sank high costs into large-scale marketing and distribution, overcoming liabilities of foreignness through being present with local distribution and locally adapted marketing campaigns on a high number of export markets, dubbing films, and, on some export markets, creating cultural preferences for Hollywood-style aesthetics and narrative, as well as English-language films rather than other foreign films (Hoskins and Mirus, 1988; Hoskins et al., 1997; Papandrea, 1998; Oh, 2001; Elberse and Eliashberg, 2003). As US film companies moved early in building scale on export markets, Hollywood created and sustained export advantage compared to other big countries specialised in film production: India, China, Japan,

[1] Unless, of course, we consider that French, Japanese and Australian business conglomerates now own shares of the Hollywood multi-media corporations.

Russia, Spain, France, and UK — even if the latter benefited from the stylistic and language preferences on world markets created by Hollywood. India, Russia and China have so far not sunk enough costs into marketing or distribution to be able to export to any notable extent[2], and after some 40 years of presence on world mass markets, European films fell under the almost total dominance of Hollywood in the 1930s (Bakker, 2005).[3] Today, apart from a few UK films (often co-produced with or distributed through Hollywood) and a rare French, Indian, Korean or Chinese film, non-US films are generally exported only to niche markets, where very few of them collect notable revenues.

2. What We Need to Know About Globalization of the Film Industry

There are, of course, aspects about the film industry we know considerably less about, and one notable such is *globalization*. Globalization is often defined as a process beyond that of internationalization. It encompasses not just the spread of products, people or practices from one or few countries, it also entails interconnectedness between a multitude of countries, leading to their integration into one (or several) global economic, cultural, and to some extent also political, systems or networks (Held et al., 1999; Friedman, 2000; Stiglitz, 2002; Amin and Cohendet, 2004; and see a recent special issue of *Industry and Innovation* on *Knowledge Geographies*, vol. 12, issue 4, 2004).

Let us consider a selected few aspects of globalization of the film industry, namely globalization of 1) involvement in filmmaking; 2) film consumption; 3) film production; and 4) organization of filmmaking.

Globalization of involvement in filmmaking

The first aspect is quite straightforward: Filmmaking is rapidly becoming a much more *globally ubiquitous activity*, as the number of feature films produced for cinema, TV and other exhibition channels is growing outside USA. Such growth includes the large countries hitherto specialized in film production — for example, China and India, where the annual release numbers have grown steadily for more than a decade, propelled by growing purchase power and investments in cinemas and other exhibition channels (Lorenzen and Taeube, 2008). Film production has also grown in smaller state-subsidized film countries, where the film industry has been supported by new policies and funding opportunities (as analysed by Kaiser and Liecke (2007) and Morawetz et al. (2007), respectively). In Europe, for example, Denmark, Switzerland, and Iceland have attracted attention by not only up-scaling their production, but

[2] There are signs that India is now finally undertaking such investments and up-scaling exports (Lorenzen and Taeube, 2008)

[3] World War II as well as strategic US trade during and after the Marshall Aid is also estimated to have had adverse effects for European film exports (Segrave, 1997; Ulff-Møller, 2001; Bakker, 2005; Scott, 2005)

also winning home market shares from Hollywood. And last but not least, film production is on the rise in a range of relatively new filmmaking countries — spanning from the growing art film scenes in Korea and Mexico to Brazil's and Nigeria's booming video industries — facilitated by new exhibition channels and cheaper production technologies.

Globalization of consumption

The second aspect of globalization is the rise of global consumer tastes and *global consumption*: Not only are the global mass markets ever expanding, film producers can also now reach niche audiences — be that art aficionados, Kung Fu experts, Manga lovers, or ethnic Diasporas — in several countries simultaneously. This means that film export is shifting in nature from being step-by-step internationalization of films produced for home audiences and released in subsequently windows abroad, to being a global phenomenon, where products produced for global audiences are released on many national markets simultaneously. Even if Hollywood seeks to take the lead in this process, to a growing extent, it includes film producers elsewhere. Film export patterns are rapidly becoming increasingly complex, even if it still remains to be seen if the general rise in exports from India and China are sustainable, and whether the periodical export successes of e.g. Korea and Spain indicate any lasting potentials. The globalization of consumption is facilitated by new distribution and exhibition forms (satellite TV, DVD, Internet) able to reach niche audiences around the world. For example, whereas art, Kung Fu, and Manga films now reach cult audiences crossing demographic borders, Indian films thrive on now being able to reach the growing Indian Diasporas in UK, USA, and Canada. Film producing countries in e.g. Japan and India have been more aggressive in utilizing new technologies for distribution and exhibition than has Hollywood (see Currah (2007) for a discussion of Hollywood's dearth of strategies in this respect). Hence, globalization of consumption is ultimately propelled by film companies in a range of countries finally sinking sufficient costs into production, marketing, and distribution, thus taking minute steps in catching up to the early investments and scale economies of Hollywood.

Globalization of production

The third aspect of globalization is that of film projects crossing national borders: *Global productions*. Cross-border co-productions have been around for a century, but are experiencing a recent boom, and many Asian, Canadian, and European film productions now cross borders (for an example, see the analysis by Kaiser and Liecke (2007) of co-productions in German filmmaking). As noted in the Norbert Morawetz et al. (2007), many such global co-productions may be undertaken for purely creative reasons (for example, to include a particular location or unique set of expert skills), or in order for production companies in different countries to pool creative as well as financial resources. However, many are designed mainly to take advantage of national film-promoting policies and tax incentives. This development is of some concern to Hollywood observers (Wright, 2006), but Hollywood corporations are not inferior to e.g. Indian film companies in scanning the world for regional or national film funds that offer fiscal incentives in order to attract shooting and other activities from abroad. Hollywood also leads another kind of globalization of production, namely outsourcing of "runaway" production tasks to other film clusters that offer competitive costs (Coe, 2001; Wasko, 2003; Coe and Johns, 2004; Scott, 2005; Flew, 2007). The impact upon the film clusters around the world that get thus included in the globalization of film production may be qualitatively different from clusters that maintain their own production of films, or offer unique skills rather than cost benefits — as evidenced in Vang and Chaminade (2007.

Global organization

The fourth and final aspect of globalization we shall discuss here is the emergence of *global forms of organization*. The most conspicuous such global organizational form is the emergence of global corporations. As mentioned above, as Hollywood production companies internationalized their operations, integrated horizontally, and diversified into multi-media corporations, several of them were acquired by or merged with French, Japanese, and Australian business conglomerates. The multi-media corporations originating in Hollywood (as well as a few second-tier media corporations originating in Europe or Japan) are globally owned and globally operating — financing, marketing, and distributing films as well as related media on a range of national markets. However, the advance of such global corporations is geographically uneven. In a high number of countries (with e.g. India as notable exception), the global corporations are strongly present with efficient distribution and marketing subsidiaries, offering global (i.e., typically US) products to the local market. In a limited number of countries, the global corporations are also present with local production companies (such as film and TV companies, record companies, and publishing companies) in financing and distributing relatively low-budget local products purely for the local market. And finally, the global corporations also scan a modest number of countries for talent and products that may be developed into having global sales potential — for example, through co-producing high-budget films with local production companies, with the purpose of ultimately distributing them globally. Apart from global corporations and ownerships, globalization also entails a less conspicuous global organizational form. Because product innovation in the film industry is undertaken in temporary projects (Lundin and Söderholm, 1995; Hobday, 2000; Lorenzen and Frederiksen, 2005), the industry rests upon intricate and informal social relations of people who know each other through previous projects, and who often re-use previously built trust for future collaborations. With a greater number of film productions spanning globally, and with higher mobility of talent between countries and film clusters, such social relations now also increasingly span globally.

3. Future research on Globalization of the Film Industry

To some extent, we know relatively little about the ongoing globalization of the film industry because our vision has been blurred by what we know about the role of minimum market sizes, demand uncertainty, and scale economies for specialization and internationalization. Because of the success of the US film industry, there has quite simply been a dearth of studies looking beyond Hollywood. At the most general level, then, we need to theorize — and quantitatively test — whether minimum profitable market sizes, demand uncertainty, and scale economies may be shifting under globalization. For example, we do not yet know whether the advent of new distribution and exhibition technologies in the guise of DVD, pay-per-view TV, and Internet streaming might allow film distributors to access and profit from the small niche audiences constituting the "long tail" in the scale-free distribution of demand for different film products (Hesmondhalgh, 2002; Anderson, 2006).

Furthermore, if globalization is a process of emerging global networks, we need to know more about these networks. A first network component that we should subject to scrutiny is linkages. The linkages in the global networks are represented by the global organization forms described above — i.e., global corporations, representing highly formal network linkages, and social relations, representing informal linkages. While case studies seem appropriate for studying the histories and pathways vs. barriers to global operations of corporations, the study of social relations lends itself to several methodological approaches. The study of local linkages among film people within a cluster or country, and how the structure of networks constituted by such linkages impact product innovation and project performance, is becoming mainstream among film economists and sociologists who take advantages of data bases on film projects and participants (e.g., Baker and Faulkner, 1991; Soda et al., 2004; Delmestri et al., 2005; Sorenson and Waguespack, 2006). However, studying non-local linkages between clusters and countries, and how linkages are stretched as people move between clusters and countries, would offer some data challenges. A supplement to statistical methods could be case studies of global careers that span several film clusters (Morgan, 2001; Saxenian, 2002).

We also need to more carefully study the other component of global networks, i.e. their nodes. There is little doubt that film industry is currently becoming a global network, but there is some dispute among scholars on whether the nodes in this network — i.e., film clusters — are becoming less important relative to the linkages. For example, while Bakker (2005), Epstein (2006), and Currah (2007) suggest that clusters are becoming less important due to the emergence of global networks, Scott (2000; 2005), Flew (2007), and Cooke and Lazzeretti (2007) maintain that in the cultural industries, a new global division of labour is emerging in which global corporations as well as clusters have equally important roles to play (an argument also supported by the broad claims about labour markets made by Florida (2005)). To gain more knowledge and facilitate theory building on the roles of the nodes in the emerging global networks in the film industry, we need more case studies of demand shifts, changes in export and performance, organizational transformations, and policies in strong film clusters and countries — in India, China, Taiwan, and Korea, to name a few.

While the agenda of addressing the many aspects of the ongoing globalization of the film industry is huge, one empirical strategy seems highly appropriate for us to continue to build knowledge: We need to look beyond Hollywood. In other words, we need to study and compare national film industries spanning from the commercial to the state-subsidized, the small-scale to the large-scale, and the integrated to the disintegrated. For example, Hollywood and Bollywood are both commercial and large-scale, but differ in their degree of integration; Denmark and Korea are both small-scale and disintegrated, but differ in their degree of state involvement; and Iceland and France are both state-subsidized and disintegrated, but differ in their scale. In order to begin to understand global linkages between people and places, and the emergence of new, global practices and networks that may ultimately change the known patterns of specialization and organization of the film industry, it is necessary to take this growing global diversity of the film industry seriously.

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