

Titel/Title:

Autor*innen/Author(s):

Veröffentlichungsversion/Published version:

Zeitschriftenartikel/Journal article

Empfohlene Zitierung/Recommended citation:

Verfügbar unter/Available at:

(wenn vorhanden, bitte den DOI angeben/please provide the DOI if available)

Zusätzliche Informationen/Additional information:

Global networks of the motion picture industry in Los Angeles/Hollywood using the example of their connections to the German market

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Accepted for publication in 'European Planning Studies'

Abstract

The motion picture industry is one pillar of the so-called 'cultural industries' which are highly concentrated in large urban agglomerations. Personal connections to the various informal networks found in these locations play an important role in facilitating information flows and reproduces these clusters' competitive advantage. However, the clusters and their markets do not exist in a vacuum: creative content, capital and creative talent are also traded and connected in global networks, bridging the physical gaps between these creative clusters. Against this background, this paper addresses the issue of how network relations beyond cluster boundaries and across large spatial, social and cultural distances are coordinated in a branch of the cultural industry such as motion picture production.

1 Introduction

Since the second half of the 1990s in particular SCOTT (1996, 2000) has drawn attention to the fact that growth and increasing employment rates in the developed countries are not only connected to the high-tech sector or the knowledge-intensive business services (KIBS). Some branches with their growth base in the field of personal talent and creativity were gaining enormous growth rates too (Florida 2002, Throsby 2001). Consequently, sectors whose field of activity is the production and distribution of cultural products and services are recently being characterised as the 'cultural product industries' or 'cultural industries'.

In addition to the so-called 'fine arts' (e.g. theatre, literature, painting, music), the entertainment and media industry, publishing and printing, as well as advertising, are considered to be cultural industries. Some studies include architects, designers, jewellers, (← p. 43) artists and craftsmen, or even fashion or furniture designers, as professionals concerned with image-producing activities (Krätke, Power 2003, Scott 1996, 2000). An exact separation is impossible and common data sources and statistics do not differentiate between parts of a branch that are concerned with design (e.g. fashion and haute couture) and standardized mass production (e.g.

clothing industry in general). The motion picture industry is undoubtedly a central part of the cultural industries and is a suitable object of analysis for research into the cultural industry in the context of economic geography.

The particular interest in the branches of cultural industries results from the above-average economic growth rates and the positive effects of increasing employment in recent decades. SCOTT (2000: 175f.) has documented an employment rate in 1996 that was 2.5 times greater than in 1962 (166,199 compared to 412,392). POWER (2003) calculated for the period 1997 - 2000 an employment growth for the Scandinavian countries Sweden, Norway, Finland and Denmark of between +7.63% (Finland 1997-1999) and +15.53% (Sweden 1997-2000). In Germany the turnover of the cultural industries increased at an above-average rate of +42.0% between 1994 - 2002 compared to an increase in the gross national product of just +21.6% for the same period (Mossig 2005).

An important difference to other growth sectors such as the high-tech industries or the knowledge-intensive business services (KIBS) is that the produced cultural goods and services are not so much used for a certain practical application but rather can be characterized by their aesthetic, symbolic or expressive function. In the case of a technological product, the effect of innovative processes can be demonstrated for example by improvements in efficiency, while cultural products and services are more subject to the snap decisions and momentary preferences of consumers. Due to the importance of popular styles, trends and the 'zeitgeist', markets are very uncertain and subject to rapid transformations. This results in a special characteristic of the cultural industries, namely that specialized knowledge for the production and distribution of cultural goods and services becomes necessary. These distinguishing features have contributed to the development of certain organizational structures in the cultural industries sector with regard to input- and output relations as well as special channels of distribution and markets. In the case of the international motion picture industry, a powerful distribution system is seen as a major success factor (Aksoy/Robins 1992, Nachum/Keeble 1999) and will be analyzed in detail in this paper.

Much literature has pointed out that the cultural industries are highly concentrated in large urban agglomerations and are located in certain districts within the metropolitan areas (Boggs 2005, Grabher 2001, Krätke/Taylor 2004, Mossig 2004a, Nachum/Keeble 1999, Power 2003, Power/Hallencreutz 2005, Scott 2000, 2002). The formation of these clusters can be explained

by the advantages of the ease of interaction und communication due to the spatial proximity of the persons engaged. These advantages play a decisive role in cultural industries. The examples of the media clusters in Munich and Cologne have shown that the personal integration of the players into the informal networks at these locations, as well as their participation in the communication flows within the clusters, are very important for obtaining what can be a decisive lead in the acquiring of information (Mossig 2004a, 2004b, Sydow/Staber 2002). Important informal information - such as that concerning who is preparing a new film project and could be the next employer or concerning a person's reputation as being reliable or not - is exchanged particularly at personal meetings. Face-to-face contact is the most effective form of informal and formal information exchange (Storper/Venables 2004). This, together with one's own presence on the professional scene and the chance to have meetings at some of the cultural events, are the decisive factors for gaining access to the important informal communication flows in a cluster. (← p. 44)

Against this background the question that will be addressed is how network relations beyond cluster boundaries and across large spatial, social or cultural distances can be coordinated in a branch of the cultural industries such as motion picture production. Much literature on globalization highlights the role of transnational enterprises and their networks of subsidiaries as a major link between the local nodes (Dicken 1998, Grabher 2001, Krätke/Taylor 2004). But linkages between these nodes exist in decentralized forms of coordination as well. First of all, the question will be addressed as to what degree the networks of the international motion picture industry are coordinated within the structures of the large transnational media enterprises and their subsidiaries. How significant are the decentralized coordinated mechanisms that exist in parallel? What importance do communication processes, personal relations and the resultant institutions (such as trust or reputation) have in decentralized structures of the global economy? How could they develop without the often-cited advantages of spatial proximity, resulting in excessive transaction costs? And is it possible to identify special locations where personal meetings take place, gaining a control and command function within the decentralized networks?

These questions will be answered based on the example of the motion picture industry in Los Angeles/Hollywood, through an analysis of the connections to the German market, in order to discover how the coordination of network structures takes place across large spatial and cultural distances. This article is structured as follows: the next chapter, Chapter 2, deals with the

emergence of the motion picture cluster in Los Angeles/Hollywood and the most important developments in recent years. It will be shown that because of rapidly increasing production costs for movies a growing need for consistent commercialization on a global scale has arisen. The global dominance of the motion picture industry in Los Angeles/Hollywood will be demonstrated in Chapter 3. Using the example of the German market, the superiority of Hollywood movies compared to domestic film productions will be shown. Chapter 4 constitutes the main part of this paper. In that chapter the distribution system of the movies from Los Angeles/Hollywood and the associated network relations will be analyzed in detail. In accordance with the previously addressed aims, the coordination mechanisms steering the network relations beyond cluster boundaries will be discussed and the paper will conclude with a brief résumé.

The empirical basis consists of 26 guided interviews with experts working at the interfaces between Hollywood and the German market, carried out during a three-month research assignment in Los Angeles. Furthermore, in order to quantify the significance for the German market of motion pictures from Los Angeles/Hollywood, all movies which received considerable public attention in Germany were collected into a database over a one-year period, using data from the specialist magazine SCREEN INTERNATIONAL (no.1411 - 1468). The data was gathered for 136 movies which were premiered in Germany between July 1st 2003 and June 30th 2004.

2 Development of the motion picture industry in Los Angeles/Hollywood

The origin of the motion picture industry (see for this chapter Hozic 2001, Quigley 2004: pp. 618ff., Schröder 1995, Scott 2002, 2004, Storper 1997, Storper/Christopherson 1987, Wilson 1998) goes back to the inventor Thomas Alva Edison. Edison produced the first 'movable pictures' in 1889 and shortly after that he took out a patent for a first film camera. The motion picture industry came to California in 1907 due to the persistently bad weather in Chicago. Chicago had been selected as the location for the shooting of the movie 'The count of Monte Cristo', but it was shifted to Santa Monica near Los Angeles. (← p. 45) Producers soon recognised the advantages of the prolonged periods of dry and sunny weather and in the subsequent years more and more film productions moved to Los Angeles/Hollywood. Producers on the west coast of the USA soon won the favour of the public by emphasizing that the actors are 'stars' while their competitors on the east coast continued to work with mediocre

actors in order to avoid the higher fees. This was an momentous mistake that secured a decisive advantage for the motion picture industry in Los Angeles/Hollywood and led to its supremacy. At that time in the early 20th century the large major studios were founded, which continue to dominate the international motion picture industry today (see fig. 1).

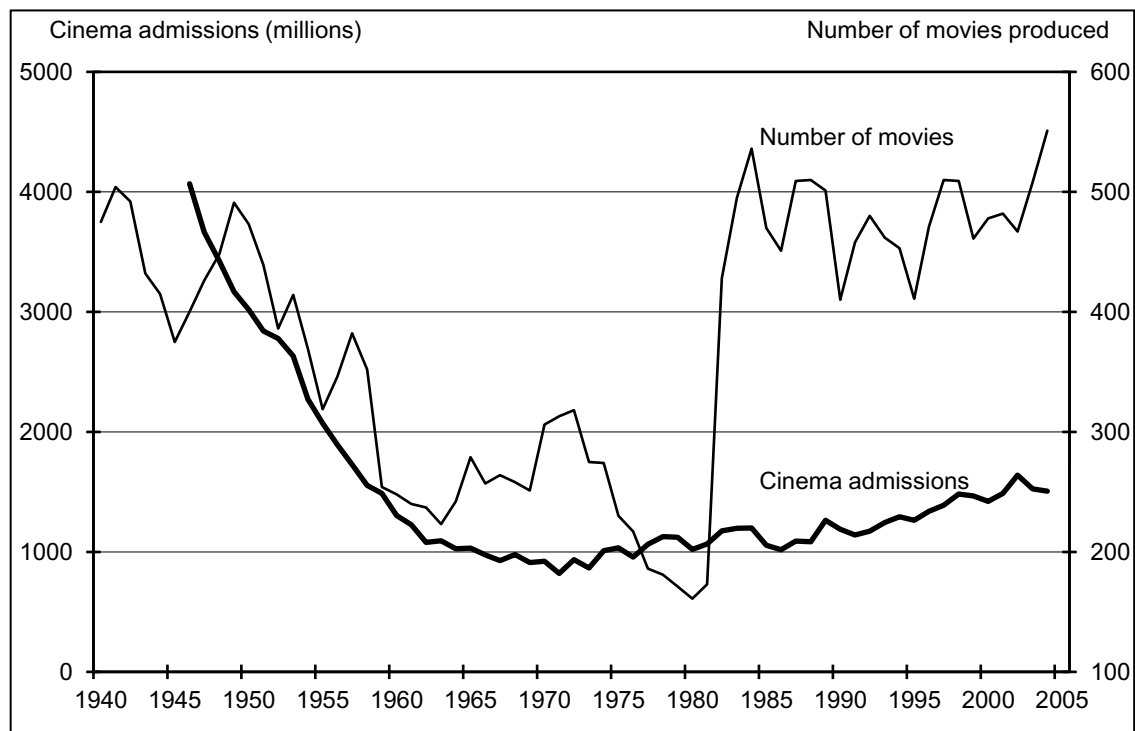
Fig. 1: Major studios according to year of founding, their media corporation owner and the total media turnover in 2004

Major Studio	Global Media Firm	Global Media Turnover (Position)
 1913: Warner Bros.	AOL Time Warner (New York, USA)	33,8 Mrd. € (1.)
 1923: Walt Disney Co.	Walt Disney Co. (Burbank/L.A., USA)	24,7 Mrd. € (2.)
 1914: Paramount	Viacom, Inc. (New York, USA)	18,1 Mrd. € (3.)
 1917: 20 th Century Fox	News Corp. Ltd. (Sydney, Australien)	17,4 Mrd. € (4.)
 1924: Metro-Goldwyn-Mayer  1920: Columbia Tristar	Sony Entertainment (Tokio, Japan)	14,7 Mrd. € (7.)
 1912: Universal	NBC Universal Inc. (New York, USA)	10,4 Mrd. € (8.)

source: Hachmeister and Rager (2005) (← Figure 1 p. 47)

The so-called 'golden age of the studio system' began from the middle of the 1920s. Movies were shot in assembly-line production style in the fashion of the automobile industry. This was made possible by the invention of the continuity script, which allowed a fragmentation of the story into single scenes. This superseded chronological shooting with its necessary reconstructions of the film set. During the heyday of the studio system in the early 1940s the seven major studios produced about 500 movies per year. The end of the golden age of the studio system began in the late 1940s. The number of cinemagoers in the USA dropped by around 80% from over 4 million in 1946 to less than 1 million in the 1960s (see fig. 2). Two causes may be cited for this period of crisis in the American motion picture industry: first of all, the invasion of television into American households proved a powerful competitor for the cinemas. A second reason was the Supreme Court 'Paramount Decision' of 1948, whereby the major studios were forced to give up their cinema subsidiaries, ending the movie distribution monopoly. The major studios reacted to the resultant loss in income by substantially reducing the number of movies they produced and by attempting to reduce costs by outsourcing and flexibility strategies (Storper 1997).

Fig. 2: Number of movies produced in Hollywood between 1940-2004 compared to cinema admission between 1946-2004 in the USA



source: Quigley 2004, pp. 9-12, Storper 1997, p. 87, Scott 2004, p.44, www.boxofficemojo.com

(← Figure 2 p. 48)

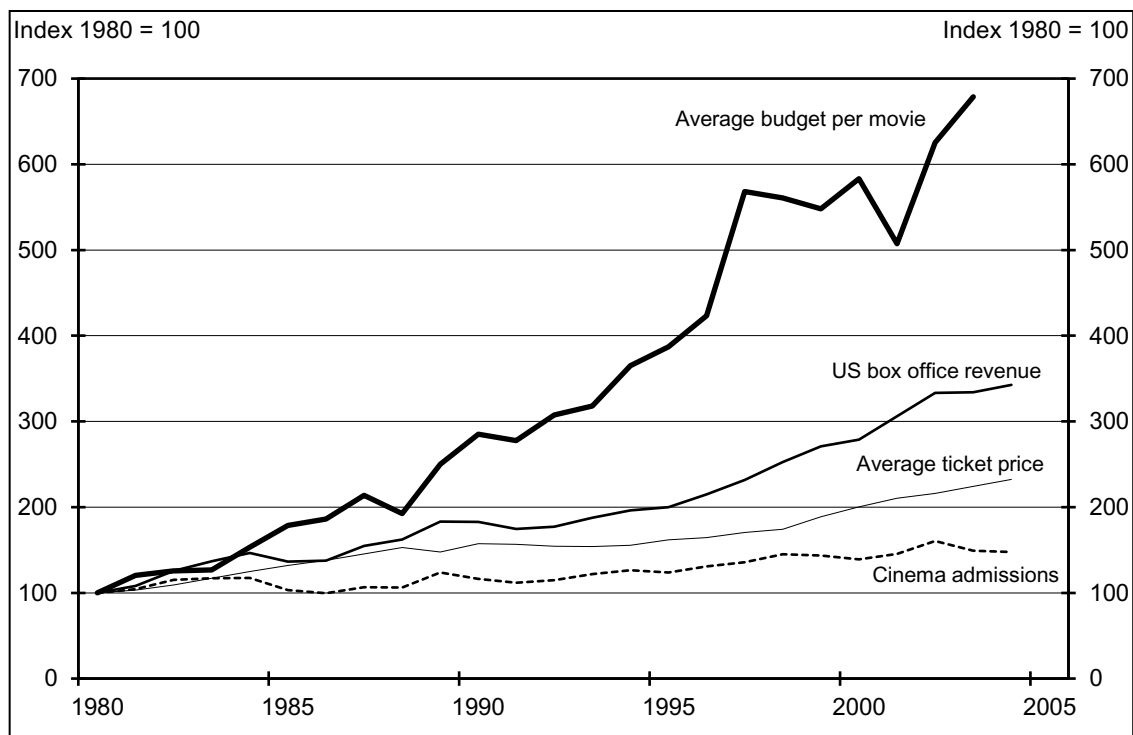
Besides the seven major studios (see fig. 1) the new group of so-called independent producers or 'independents' were formed in the early 1980s. The sharp increase in the number of movies produced since 1980 can be explained by the activities of the independents. Because the large seven studios called themselves majors, every movie that was not produced by a major studio was considered to be a production of the independents. The independents are therefore actually a residual category. But the distinction between major studios and independents is somewhat blurred because some of the independents are 100% subsidiaries of the major studios. With regard to budget, genre and target group, an independent movie does not necessarily differ from a major studio production. Examples of recent successful independent movies include 'Lord of the Rings' and 'The Passion of Christ' as well as teenage comedies such as 'Scary Movie'. The dominance of the major studios, however, continues despite the emergence of the independents. About 75% of the domestic box office revenues in the USA were made by major studio productions. If the independent subsidiaries are included, the market share stands at 90% or more. Yet the distinction between major studios and independents is very important because the international distribution channels, and the subsequent international networks and linkages, are organized and structured in completely different ways.

In the early 1980s the current trend of modern blockbuster cinema arose. Such movies are produced with increasingly expensive special effects and large new cinemas have been built to maximise the advantages of these effects. These innovations have been well received by cinemagoers and the number of cinema admissions doubled in the following period compared to the lowest point in 1971 (see fig. 2). However, production budgets have risen sharply parallel to the increase in the new blockbuster movies. Figure 3 shows that (← p. 46) cinema admissions have risen since 1980 and average ticket prices have risen even more sharply. Nevertheless, box office revenues have not been able to compensate the increasing production budgets for a movie (see fig. 3). As production costs could not be covered by revenues gained on the U.S. domestic cinema market, a growing need for a consistent commercialization on a global scale has arisen. Today more than 50% of revenues gained from an average Hollywood movie are made at box offices outside the USA.

Further developments have been the movement of foreign capital into Hollywood since the 1980s and the positioning of the major studios as central players among the large (← p. 47) media enterprises operating worldwide (see fig. 1). For instance, the major studio Warner Bros. is now part of AOL Time Warner, the leading worldwide media corporation. AOL Time Warner

made a global media turnover of €33.8 billion in 2004. The Walt Disney Co., which runs the major studio of the same name, ranks (← p. 48) second position among the worldwide largest media enterprises (€24.7 billion), followed by Viacom, Inc. (€18.1 billion) and their major studio Paramount (Hachmeister/Rager 2005). The film studios have a key function for the media companies. The movies yield the content for theme and entertainment parks, video games, merchandizing articles and other media products, which are distributed and commercialized worldwide. The refinancing of the increasingly expensive movies requires a consistent opening up of further marketing opportunities.

Fig. 3: Development of production costs per movie at a major studio compared to the development of cinema admission, average ticket prizes and box office revenues in the USA 1980 -2004



source: www.boxofficemojo.com/movies

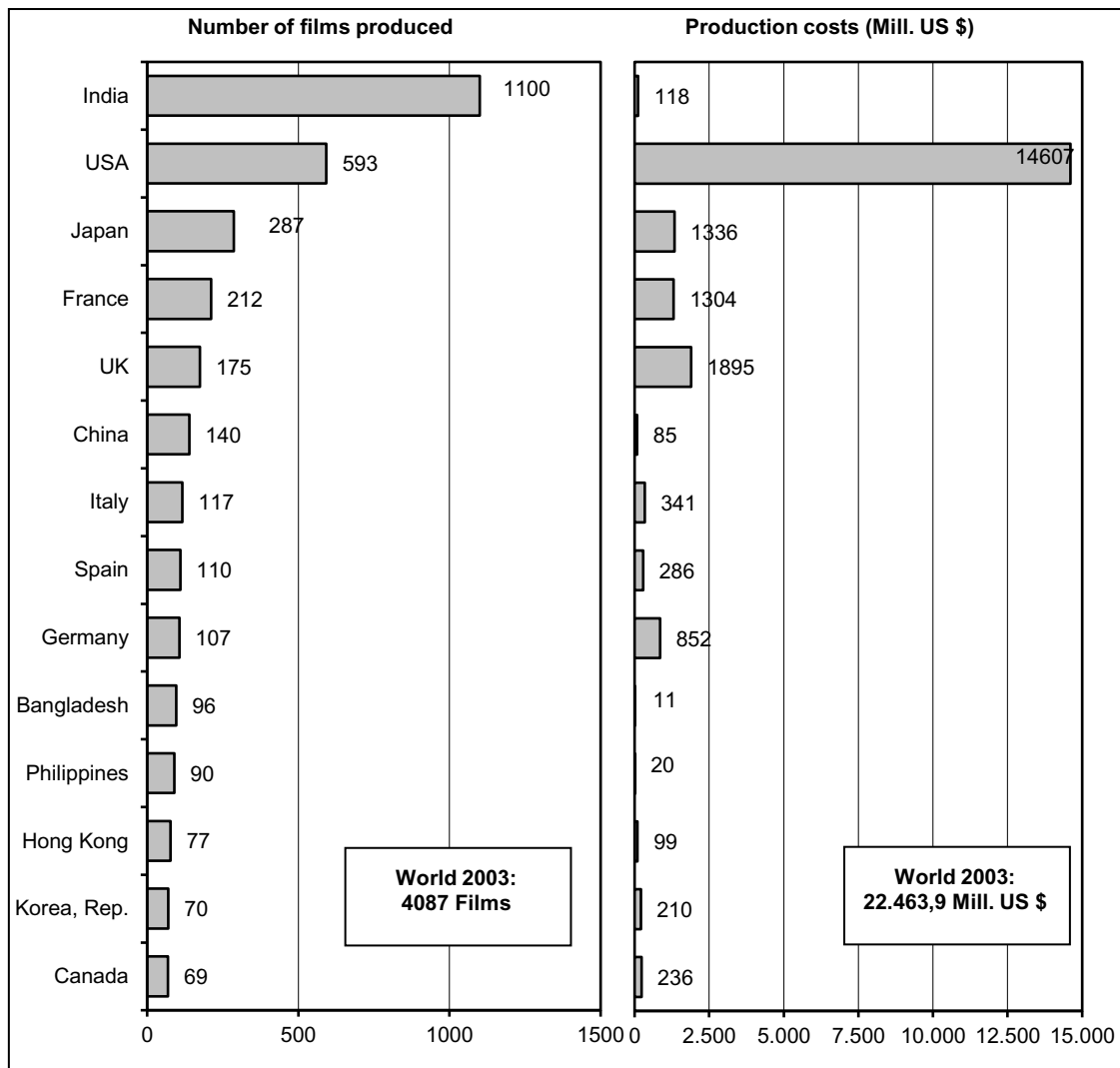
(← Figure 3 p. 48)

3 Dominance of the motion picture industry in Los Angeles/Hollywood in the world market and in Germany

Figure 4 provides an overview of the most important locations of the motion picture industry worldwide. A total of 4,087 movies were shot in 2003 with more than a quarter of these in India (1,100 movies). The USA (593 movies) and Japan (287 Movies) clearly lag behind. In terms of total production costs the USA can be regarded as the most important location for (← p. 49)

motion picture production worldwide. A share of 65% of the budgets for motion picture production worldwide are available only to the producers in the USA (US \$14,607 m. out of a

Fig. 4: Number of movies produced and total budgets for motion picture productions in selected countries 2003



source: Screen Digest (2004), pp. 169 ff.

(← Figure 4 p. 49)

total of US \$ 22,464 m. worldwide). The lion's share of this sum goes to the producers in Los Angeles/Hollywood. The total budgets and relative share of the the film industry in other countries are very modest compared to the USA. Great Britain (US \$1,895 m./share worldwide 8.4%), Japan (US \$1,336 m. / 5.9%), France (US \$1,304 m. / 5.8%) follow behind. Germany (US \$852 m. / 3.8%) ranks fifth. Accordingly, US film producers have by far the largest available budgets per film (Screen Digest 2004).

Together with Japan, Germany¹ is the most important market for Hollywood movies. Around 11-12% of box office revenues outside the USA are collected in Germany.

The dominance of US motion pictures on German cinema screens is shown in table 1. In all, 97 of the 136 movies seen by a significantly large German audience during the 12 month observation period (July 1st 2003 - June 30th 2004) were produced in the USA. This corresponds to a share of 71.4%. In comparison only 26 domestic movies (19.1%) were released at German cinemas. The overwhelming dominance of movies produced in Los Angeles/Hollywood can be seen even more clearly when box office revenues are used as an indicator: US movies generated 84.6% of box office revenues (US \$754.5 m.) compared to only 11.7% (US \$102.4 m.) in the case of German movies. The few movies from other countries clearly play a secondary role on the German cinema market (see tab. 1).

Tab 1: Box office revenues in Germany made by movies released between July 1st 2003 - June 30th 2004, by country of origin

Country of origin	movies		box office revenues	
	number	% of total	US \$	% of total
Germany	22	16.2%	73,401,477	8.4%
German co-productions	4	2.9%	28,950,691	3.3%
Germany (total)	26	19.1%	102,352,168	11.7%
USA	90	66.2%	594,617,648	68.3%
USA-UK	5	3.7%	69,866,938	8.0%
other US-co-productions	2	1.5%	89,996,093	10.3%
USA (total)	97	71.4%	754,480,679	84.6%
France	4	2.9%	3,744,949	0.4%
Others (CAN, UK, SWE, TUR, RUS, other co-productions)	9	6.6%	10,401,062	1.2%
Total	136	100.0%	870,978,858	100.0%

Source: Calculations of the author, Screen International Nos. 1411 - 1468, www.boxofficemojo.com

A similar picture prevails in all the relevant markets of the western developed economies. Cinema audiences predominantly consume Hollywood movies or domestic productions. The market share of these domestic movies does vary and ranges between 32.8% in France and 32.6% in Japan to only 17.1% in Great Britain (Screen 2003). As in Germany, movies from other countries play a minor role with a few notable exceptions. (← p. 50) Therefore, it is not only in Germany that cinemagoers have an overwhelming preference for US films.

¹ In international movie statistics Austria is normally regarded as part of the German market and distributional territory because it uses the same language.

A differentiated analysis of the 97 US movies on the German market clearly indicates the dominance of the US major studios compared to the independents. 73 of the 97 US movies (73.2%) were shot by one of the seven major studios from Los Angeles/Hollywood and only 26 movies (26.8%) by a US independent. With regard to box office revenues, the major studios even took a share of 78.1%.

4 Coordination of network relations between Los Angeles/Hollywood and the German market

In the field of economic geography GEREFFI's (1994, 1999, Gereffi/Korzeniewicz 1994) concept of global commodity chains has established itself as a recognised analytical framework analysing global network relations. Earlier, PORTER (1991) in his work on the value chain pointed out that competitive advantages originate in the way enterprises organize their activities along the value chain. Gaining a competitive advantage can only succeed if the single parts of the value chain are seen as an interconnected system from the specific entrepreneurial point of view (Porter 1991).

New arrangements for an international division of labour and the formation of global commodity chains became possible especially after World War II thanks to new transportation and communication technologies. According to GEREFFI (1994) these global commodity chains manifest themselves as a production and distribution system in which certain parts are organized by clearly coordinated transactions. The economic activities of an enterprise are not only executed within the boundaries of one's own firm but in technological or organisational networks as well. These are strategically used by the enterprises to develop, produce and distribute certain goods. The networks are organized on a global scale and can be characterized by four main dimensions:

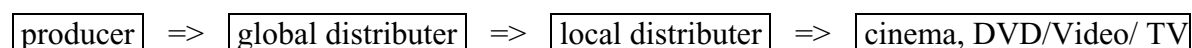
First of all, there is a clear input-output structure revealing itself as a set of products and services linked in sequence as value-adding economic activities. Secondly, global commodity chains possess definite spatial distribution (territoriality) that can be either spatially concentrated or dispersed. Thirdly, they have a governance structure in the form of existing authorities and power relations which determine the way how financial, material and human resources are linked into the flow of the chain. The governance structure is particularly significant for understanding the composition of such a commodity chain and the way it functions. GEREFFI (1994, 1999) differentiates two basic forms: a 'producer-driven commodity chain' and a 'buyer-

driven commodity chain'. Fourthly, the institutional framework that identifies how local, national, and international conditions and policies shape the globalisation process at each stage in the chain (Gereffi 1994, 1999, Hassler 2004).

It should be mentioned here that the concept of global commodity chains has meanwhile been taken up and enlarged by HENDERSON et al. (2002) with their conceptual framework of global production networks. They have argued that the usage of the term 'commodity' generally connotes standardized products which are linked into the chain and proposed the term 'production' instead, as this term is thought to emphasize the social processes which are connected to production processes. Furthermore they have used the term 'networks' to overcome the linear structure of a chain. Basic categories regarding the architecture of a global production network are 'value', 'power' and 'embeddedness'. (← p. 51) These principal elements are filled with content and come alive through the four conceptual dimensions 'firms', 'institutions', 'sectors' and 'networks' (Henderson et al. 2002).

Yet the concept of global commodity chains was fundamental to the empirical work and did not detract from the main arguments with respect to the enlargements.² Thus social relations as an important coordination mechanism will be discussed in detail. According to the interviews with experts, the distribution channel for movies from Los Angeles/Hollywood can be clearly identified as a series of positions overcoming the distances to the German market. Furthermore this research has concentrated as its main goal on identifying and analyzing the distribution of the movies rather than studying the entire production system.

Put in a simplified way, the global commodity chain for movie distribution can be subdivided into the following parts:



4.1 Distribution of movies from the major studios

The most important criterion for differentiating the major studios from the independent producers is that the major studios organise the distribution of their movies within the structure of their enterprises. The first three steps of the commodity chain are transacted 100% by

² The author's attention was not drawn to HENDERSON et al. (2002) until *after* his research assignment work in Los Angeles/Hollywood in the summer of 2004.

subsidiaries so that the processes of negotiation and interaction beyond the boundaries of the enterprise occurs only at the interface between the local distribution subsidiary of the major studio and the cinema groups in the respective countries. Therefore, the interaction processes needed to overcome the spatial and cultural distances take place within the directive structures of the large global media enterprises.

It is not difficult to identify the characteristics of a producer-driven global commodity chain (Gereffi 1994, 1999) in which only a few firms dominate vast parts of the market while securing their oligopoly with strategic alliances and cooperations. In the previous paragraph it was shown that the lion's share of box office revenues is accounted for by the movies of the seven major studios. The major studios strengthen their dominant position by, for example, financing the 'Motion Picture Association of America (MPAA)' as their own influential lobby. The major studios 'Universal' and 'Paramount' have established the joint venture 'UIP' for the worldwide distribution of their movies. For a long time the movies of Metro-Goldwyn-Mayer were distributed in Germany by UIP as well which meant that UIP represented almost half of the major studios of Los Angeles/Hollywood in their negotiations with the German cinema groups. Referring to the power of the major studios local distributors, the chief executive officer of a German cinema group has put it in a nutshell:

"The bigger the local distributor the more powerful he is and, conversely, the bigger and more attractive the cinema locations the more power the cinema group gains. [...] After all, the local distributors have the power on their side because they have the goods the cinema groups need in order to exist."

(Manager, cinema group in Germany)

An attempt at explaining the forming of such an oligopoly by the major studios is based on a specific feature of movies as immaterial products. In common with most media products, movies are subject to what is known as 'non-rivalry in consumption'. This means that the (← p. 52) consumption of such a product does not exclude the simultaneous consumption of it by another consumer. Whereas a pair of trousers can be used by only one person at the same time, a movie can be seen together by a huge crowd of people at many cinemas and therefore possesses the characteristic 'non-rivalry in consumption' (Beck 2002). Multiple consumption leads to only minimal increased costs due to the fact that the production of an additional copy of a movie is infinitely small compared to the extraordinarily high production costs of shooting the initial copy. Thus the average production costs of a major studios movie was US \$64.0

million in 2003 plus a further US \$39.0 million on average for marketing costs (Variety, March 24th 2004). Thus, in the case of movies, non-rivalry in consumption coupled with high production costs means that the degression of fixed costs is extremely high. In contrast to most other types of products, the more a media company disseminates its contents the more favourable will be its revenues even if output is exceedingly high. It naturally follows that media companies have strong incentives to expand the range of their dissemination, so that the argumentation of BECK (2002) on 'natural monopolies' acquires validity.

Let us sum up what has been established so far: large sections of the world and German markets are controlled by the seven major studios in Los Angeles/Hollywood. They coordinate the global distribution of their movies internally through their subsidiaries and function as powerful players in relation to the cinema groups and TV networks in the respective territories.

4.2 Distribution networks of independent movies

In contrast to what has been said of the major studios, the global commodity chain for the distribution of independent movies is connected in quite a different way. The four steps are not coordinated within a company's boundaries, rather the single positions of the commodity chains consist of specialized firms. Therefore a great deal of interaction, communication and coordination is required, especially at the interfaces between the producer and global distributor and between the global and the local distributors in order to overcome the spatial and social distances between Los Angeles/Hollywood and Germany.

The international market for independent movies is characterized by a considerable surplus of movies. Altogether more than 4,000 movies are produced worldwide annually, including the 150 - 180 movies of the major studios (accounting for 70% - 80% of the world market). Less than 50% of the remaining just under 4,000 independent movies have a global distributor and thus a professional access to the world market. But just a fraction of these achieve full utilization on the three platforms cinema, DVD/Video and TV. Only about 25 - 30 Los Angeles/Hollywood independent movies are released at German theaters, competing with the major studios movies as well as the German film productions.

Actually, the first hurdle for an independent producer is to find a global distributor representing the movie professionally on the global market. Due to the surplus of movies, global distributors therefore have an advantage. They can select films according to their own criteria and decide

which movies they want to represent. The decisive criterion is the subjective estimation at what prices the movie could be sold in the respective territories and therefore if a global distribution would be worth the effort. Individual producers are even willing to pay a global distributor as much as 500,000 US \$ for selling his movie in as many territories as possible by using the global distributors contacts. In other (**←p. 53**) words, the producers pay for the contacts the global distributor has. In such a case, any reservations a global distributor may have with regard to the quality of the content of the movie are quickly put aside as shown by the following quote:

"They didn't have anybody selling this movie in Cannes. That's a big problem for them. So you know we did the deal, we took it. We don't really like this movie at all, it's a bad film." (*Executive Vice-President of a medium-sized global distributor*)

Overall there are about 400 global distributors worldwide, but there is a considerable difference with regard to the quality of their contacts and the extent of their influence. A good global distributor knows the local counterparts in the respective territories and their individual priorities, preferences or orientations. That is why the global distributor is able to offer the movies he represents in a purposeful way. He therefore has a special knowledge that the independent producers does not have. This knowledge is essential to overcome distances and position the independent movies from Los Angeles/Hollywood on the German market.

In the end, the main focus of discussion during the negotiations between the global and local distributors is the price for the distribution rights in Germany. In 2003, for an independent movie with a maximum budget of US \$12 million, a sum of US \$300,000 - 700,000 were estimated for an all-rights deal including utilization of the movie rights for a theatrical, Video/DVD and TV release in Germany (The Hollywood Reporter 2003). Against this background the well-known and successful global distributors control the global networks that distribute independent movies with production budgets of less than US \$12 million because they operate as the necessary interface between the independent producers in Los Angeles/Hollywood and the local distributors in Germany. Their dominant position is revealed by the fact that, in ideal situations, successful global distributors collect proceeds at both ends of the global commodity chain without having to risk their own capital investment.

Nevertheless, this power relation shifts as soon as the business involves not the small independent movies, but the bigger independent productions with larger budgets and well-known stars acting in front of the camera and beyond it. These are the movies competing

directly with those of the major studios. The competition for the few big independent movies is enormous because the chances of a commercial success are considerably greater. In these cases, the possibilities of access to this particularly lucrative commodity becomes a decisive factor controlling the power relations within the global commodity chain. An interviewee formulated it as follows:

"Have a good movie, content is absolutely king. You know, you could start out of this business - if you have a movie with Julia Roberts, everybody will contact you. But the thing is, that not everybody has a movie with Julia Roberts."

(CEO of a small global distributor)

As a rule the global distributor is not paid by a producer for his work representing bigger independent movies with production budgets at the level of the major studios. In contrast to the large segment of small independent movies, the global distributor now has to become part of the film project and invest his own capital. Thus he partly finances the budget as a precondition to gain access to such promisingly lucrative proceeds. Generally, (**← p. 54**) therefore, the global rights are already sold in the run-up to production and sometimes just before the start of the shooting of the film. If a producer possesses the rights to a promising script and the signatures of well-known stars, the more powerful position within the global commodity chain shifts forward to the producer. In such cases, the global distributors have to take a financial risk and invest their own capital in order to become part of the promising film project. They attempt to share this risk with the local distributors by selling the national rights to the local distributors as early as possible.

Overall, the governance structure of the global commodity chains distributing independent movies worldwide are determined by the following factors:

- The negotiations at the interfaces between any two parts of the chain are first of all based on the respective individual assessment of the commercial potential of the movies. If a movie is not yet completed, the assessment is made on the basis of the quality of the script, which reveals the content and genre as well as the participating actors and main creators (director, executive producer, cameraman).
- A negotiating party has a dominating position if it possesses sufficiently promising movies or has privileged access to them through his connections and reputation.

- In the course of the negotiations the possibility of reconciliation between the individual assessments are scrutinized. At the same time, negotiation takes place over a market coordination of economic activities especially with regard to the bid and the demanded price.
- But not everybody has access to these negotiations because the economic actors are searching for their business partners for the most part in a very goal-oriented manner. The quality of personal contacts and experiences as well as one's own reputation opens up possibilities for access and can often give one a decisive edge and persuasive power during the negotiations.

Apparently, the networks of the international motion picture business as well are not only controlled by the power of resources (as a rule in the form of available capital), but also by the extent of good connections (Taylor 2000, Bathelt/Taylor 2002, Mossig 2004b). The economic actors have only limited possibilities to make use of their superiority based on the resources they possess without the connections and reputation built up over the years (Glückler 2004). If they do not know important contact persons or do not have any recommendations, they are unable to get involved in the negotiations. The importance of personal contacts and relations is illustrated by the following citations:

"The meetings are absolutely decisive for the chance they give to meet the people face to face."
(Consultant international film distribution)

"I've been doing this for the last 20 years and meanwhile the relationships and acquaintances with business partners has increased. And that is contributing a lot to making things happen."
(Producer, lawyer, international film financing)

"[...] the thing is to detect what is the maximum profit I can pull out of the markets. [...] Therefore it is not important to get presented as much as possible, but whether I can meet someone on the same wavelength."

(International programme scout at a German TV network)

(← p. 55)

In the case of the independent movies the spatial distances can be overcome by the division of the distribution chain and the outsourcing to specialized enterprises. The global distributors occupy the decisive position in this matter and take over the interface function between the location of film production in Los Angeles/Hollywood and the respective national markets. For the economic players of the international film business, as in the case of the localized media

clusters in Munich and Cologne (Mossig 2004a, 2004b), face-to-face contacts as well as personal communications and consultation processes are very decisive. But in contrast to the clusters, the coordination is more complicated because of the absence of spatial proximity as well as the lack of opportunities for 'chance encounters' that exist in a cluster. Thus personal meetings and the important formal and informal exchange of information generally takes place at the film markets and film festivals. The most important meeting point is the two-week Film Festival and Film Market in Cannes which takes place annually in May, and the American Film Market (AFM) in Beverly Hills/Los Angeles in November. All those active in the international motion picture business gather at these events and transform Cannes or Beverly Hills into a temporary one- or two-week long international motion picture cluster. There are other festivals and film markets in addition to these which act as further meeting points, such as the 'Berlinale' in Berlin in February and the festivals in Toronto and Venice, both in September (Langer 2000).

Interviewees have emphasized that these well attended meetings are extremely important for them and preparations for these highlights take place well in advance. But the program of events at the festivals and markets are scheduled very tightly compared to the day-to-day meetings in a cluster. Some of those interviewed have reported that during festival weeks they have meetings every twenty to thirty minutes from 9 a.m. until late evening daily in order to meet as many business partners as possible.

Therefore the film festivals with the associated film markets are the most important locations for overcoming distances. The film markets could be compared to the trade fairs in other branches except that they take place much more often. The proportion of deals closed at the film markets can be rated as high. A dense pool of information is generated when colleagues of the international motion picture industry come together from all over the globe. The behaviour of others at these gatherings is for some of them exemplary and imitation effects arise: interviewees have often reported that customers prick up their ears when hearing of movies that have already been sold in some territories, speeding up their decision to purchase.

5 Conclusion

The motion picture industry in Los Angeles/Hollywood has strong international distribution structures which are especially connected to the seven major studios. Around two-thirds of the entire German cinema market are catered for by the major studios. They coordinate und control

the stages in the global commodity chain through the vertical integration of the global and local distributors through their own subsidiaries. They secure their oligopoly through cooperative agreements in the worldwide movie distribution sector. The major studios are among the largest global media companies and in this way have varied options in terms of commercializing the movies through further platforms. (← p. 56)

German movies have an average share of less than 15% of the domestic cinema market. Foreign movies not originating in Hollywood do not play any significant role and are confined to the rare occasional success. Independent movies from Los Angeles/Hollywood still have a market share of 15 - 20%. The global commodity chain is divided into sections consisting of producer, global distributor, local distributor, and cinema/DVD&Video/TV. These sections are outsourced to individual specialized firms. Intensive negotiations take place at the interfaces and the dominant power positions, as a central part of the global commodity chains governance structure, shift between the producers and the global distributors. The most important determinant for a dominant position in this structure is the possession of potentially successful movies. But since the evaluation of the quality of a movie and its chances of a commercial success are based on subjective judgments, the goal of the negotiations is to find out which potential business partners share similar assessments in order to harmonise the individual interests. At the end of the negotiations the deal is made if a compatible price is found which reflects the agreement of the single assessments.

In this connection the interviewees have stressed that personal contact and personal acquaintances cannot be substituted. Thus the film markets and festivals of the international motion picture industry are the most important meeting points for building and cultivating the personal networks (especially at Cannes in May and at the American Film Market (AFM) in Beverly Hills/Los Angeles in November). These trade fairs are the most significant locations for overcoming the distances within the international independent movie business. At these locations the international deals are made and all those engaged work towards these events.

The interviews conducted with experts have clearly shown that personal relations, trust and reputation arising out of prior common working experiences are of great significance for international business. Thus the mechanisms coordinating and controlling international network relations are similar to those in a cluster. The use of modern telecommunication technologies is estimated to be very advantageous. Nevertheless this is not sufficient for the solving of the

problems related to overcoming distances, as those engaged in the international motion picture industry depend on face-to-face contacts to accomplish their tasks. Unlike in the case of a cluster these personal meetings have to be arranged in another way, namely at the fixed dates and meeting points of the film markets and festivals of the international movie business. Due to the limitation of the fact that these events are packed into just a few weeks of the year, they are tightly organized and closely oriented to the schedules of the players within the motion picture industry.

Acknowledgement

I would like to thank the 'Deutsche Forschungsgemeinschaft (DFG)' for financing this research project.

(← p. 57)

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