

## CINEWORLD/CITY SCREEN MERGER INQUIRY

### Summary of hearing with Odeon Cinemas Limited held on 7 June 2013

#### Background

1. Odeon Cinemas Limited was primarily involved in film exhibition in the UK, the Republic of Ireland and Europe.
2. Odeon also had a joint-venture relationship with Cineworld through Digital Cinema Media (DCM), which worked with media buyers, clients and the creative community to programme advertising on screen. It had briefly had a small distribution arm in partnership with Sky but had not continued in that business.

#### Business aims and performance measures

3. Odeon encouraged people to spend as much time in the cinema as possible on each visit and monitored spend per customer. It took many opportunities to widen and refresh its retail offer.
4. It might commit to increasing advertising or promotion in order to attract people to films or at times where demand was likely to be slacker.
5. Odeon measured its success in relation to any film in terms of share of revenues but also in terms of share of numbers attending. This was assessed against local catchments. Distributors expressed more interest in revenue share than audience share.
6. It was also important how customers rated their experience overall.
7. Advertising revenues normally depended on how many people saw the advertisements.

#### Pricing

8. Many customers were not sensitive to ticket prices for the most popular films. For example, some people would want to see a blockbuster in its first weekend regardless of price. Conversely some would elect not to see certain titles however they were priced. Some customers were prepared to pay more for luxury seats. People might be loyal to their local cinema more than a specific cinema brand. There was no clear evidence of awareness of which chains charged more or less than others.
9. Prices of retail products did not affect the decision to attend the cinema. People believed that these products were expensive but in fact were not very aware of price. [X] It now set its prices broadly in line with its competitors and concentrated on quality, as it had evidence that customers did notice this.

#### Understanding customer behaviour

10. Odeon operated a loyalty card scheme called Odeon Premier Club (OPC). OPC customers earned points when they swiped the card at their cinema. The main purpose of this was to encourage more frequent attendance, and to some extent to encourage attendance at times of the day, week or year which would otherwise not be strong,

for example by offering extra points for certain screenings of certain films. It gave flexibility to make quick decisions in response to changes in local market conditions.

11. The card also provided evidence on customers and their behaviour in individual local markets. Customers' travel time varied markedly by geographical area, for example. In selective London cinemas approximately 40 per cent of customers came from within 5 minutes' drive-time. The average UK drive-time was around 20 minutes. People tended to go to the cinema nearest to their start point. Film choice was important for most people, and all cinemas showed the most popular films.
12. It was no longer as easy to identify a particular 'Odeon film' as it had been in the past. Odeon understood its audience as highly differentiated, for example by age, ethnicity and gender, with the balance varying by location.

## **Programming**

13. There would be a list of the top 20 or so films showing UK-wide in any one week, and customers had an expectation that those films would be showing locally. Programming was a central decision, but made cinema by cinema based on the forecast of film performance and factors such as the local demographics and the number of screens available.
14. Odeon said that it generally did not experience difficulty in getting access to any particular film. This might occur only if a distributor had very specific ideas about how and where to date a film.
15. Odeon said that alternative content was a small percentage of total ticket revenues (about 1 per cent). This included live concerts and sports events, but was mostly opera, theatre and ballet, which had proved very successful. There would be a revenue-sharing arrangement for this material in the same way as films.
16. In other respects, this material was different. In order to secure a particular piece of alternative content in a particular market Odeon would need to persuade the supplier that the demand for that product was there. This contrasted with a film distributor which would want to get its content out as widely as possible.
17. The content suppliers, such as the National Theatre and Metropolitan Opera, limited the supply of that content partly because they believed that it had a limited size of audience. It was better for the providers' reputations if the material was shown in a small, full auditorium than a large, half-empty one. They were also concerned to protect their brand.

## **Developments in the industry**

18. Odeon had been fully digital in every part of its content delivery since 2011. This included alternative content and advertising as well as film. It had eliminated the logistical restrictions created by analogue equipment. It was now easier to change programming and advertise with lower lead times. The full benefits of this had yet to be realized, as there was potential to programme even more flexibly.
19. Distributors had expectations of how their pictures would be shown, what type of deal or what type of screen time they expected that were more appropriate to the pre-digital age. Possibly related to the fact that in some cases distributors had part-funded the digitization, the studios were tending to secure the same exposure for their films as previously, while exhibitors were wishing to programme more flexibly.

## Competition with the merger parties and others

20. Whilst Odeon's main competitors nationally were Vue and Cineworld, competition took place predominantly at the local level. Any cinema operating in that catchment was able to show the same films whether they were large chains or independents and regardless of the number of screens they had. Therefore Odeon would be in competition with all cinemas in the local market for each of their cinemas.
21. Odeon paid attention to what its competitors were showing, and might adjust its programme accordingly, although it would be easier to adjust the number of performances of an existing film than to add a new one at short notice.
22. Picturehouse had grown in the market. It had started by being very selective about the films that it showed, but had now broadened its offering to include more commercial/blockbuster product, as were others that had previously concentrated mainly on less mainstream content, such as Everyman. So everyone played the big films and how cinemas differed was in how they decided to use their fourth or fifth screen. These judgements were made in terms of what would do better in that screen, based on catchment area and audience. Odeon did not believe that there was a typical Picturehouse audience. It said that each cinema designed its offer to suit its local catchment.
23. Cinema admissions had been fairly flat over the past few years and Odeon believed that DVD sales and other content providers such as Netflix and Sky movies might impact upon a person's decision to go to the cinema. It was important continually to improve the offer so that people would see the experience of going to the cinema as superior.

## Market entry

24. Odeon aimed to open [X] new cinemas a year. Its expansion plans included a range of cinemas from the small and luxurious (its Lounges) to the very large, according to what suited the local demographic. New multiplexes were becoming rarer because fewer shopping centres were being built, but retail developers were returning to an understanding that leisure and restaurants were an important part of the mix alongside retail. Odeon would expand where possible into whatever location was suitable.
25. It had opened small cinemas in Llanelli and Dorchester in 2012 and would be opening a seven-screen cinema in Trowbridge in October 2013 and a five-screen cinema in [X] in 2014. The latter would be sponsored by the local authority. Plans were in train to open large cinemas in Milton Keynes and Plymouth.
26. Odeon tended to work with developers or as part of a regeneration or repurposing initiative rather than itself identifying the land and carrying out the build. It was also remodelling the interior of some of its older cinemas as Studios and providing a range of screens and types in order to appeal to its differentiated audience. Odeon would also consider growing through acquisition and it would have been interested in buying City Screen.
27. The cost of building a cinema had reduced a little following digitization, due to the more efficient use of space for the projection booth. The rule-of-thumb cost of fitting out a seven-screen cinema was between £3.5 million and £4 million subject to seat numbers and square metrage.

28. Planning consents presented a hurdle. Odeon gave an example of plans for an out-of-town development not getting the go-ahead because the whole development was turned down due to a local authority wishing to encourage high street shopping.

### **Impact of the merger**

29. The effect of the merger nationally was that Odeon would go from number one to number two in terms of box office revenue. The effects of the merger would, however, be primarily at the local level. Odeon considered that the transaction would substantially lessen competition in the majority of areas in which Cineworld and City Screen overlapped.
30. Odeon assumed that Picturehouse cinemas would probably now seek the same terms for purchase of blockbusters as Cineworld, which might mean that distributors would ask for the same deals, for example requiring that other films were played alongside them. It might lead to a different profile of film choices.
31. Odeon's relationship with Picturehouse's distribution arm might change. If Picturehouse were confident of placing its content in Cineworld cinemas, it might not be so willing to sell it to others. Odeon had already noticed a rise in terms.
32. Odeon noted the stated commitment to keep the merged businesses separate, but thought that inevitably there would be sharing of successful ideas between the two and that over time they would start to look more similar.