

# **A Market Research of China`s Movie industry**

Entertainment and Media: Markets and Economics

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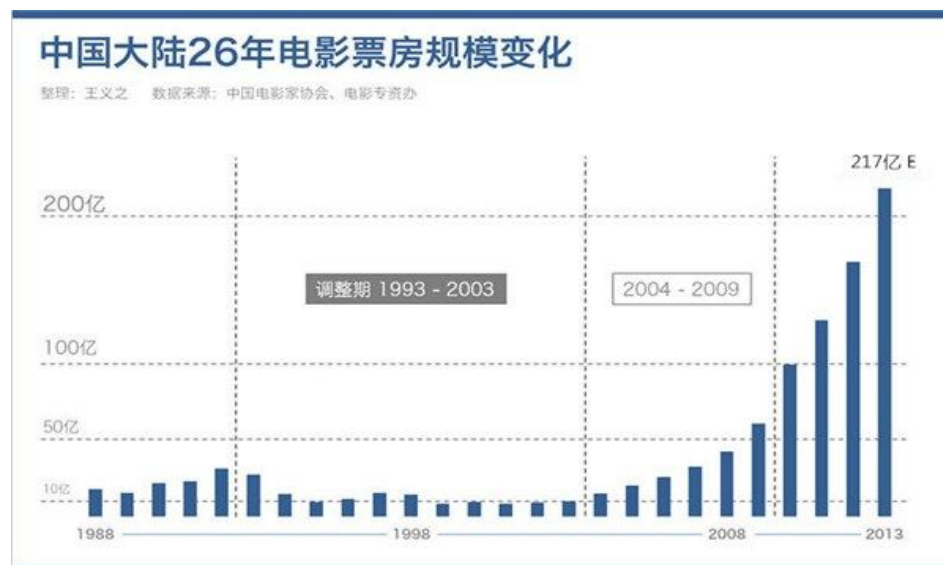
5/7/2015

*Stern School of Business*

## Industry Overview

China's movie industry, as an important sector of the whole entertainment industry, has been growing into double digits on an annualized basis despite of the slowdown of the whole economy in recent years. The development of the industry is growing with the changes of policies. Before 2002, the films in China are mainly propaganda films approved by the government. There is only one main distributor which is China Film Group. It took a long time for a film to be released in theatres from producing.

In 2002, the government loosened the policy restrictions. More distributors emerged and partnered with theatres so that the releasing process was greatly accelerated. As the revenues increased, capital went in and there was a great increase in the number of screens as more and more cinemas were built. The period of 2009 to 2014 was the early developing stage of the industry - China's filmmakers tried to imitate Hollywood production process and they worked closely with investors to make business films. However, the censorship policy and restrictions of imported films still impeded the further development of films from the perspective of contents and aesthetics.



*The Box Office of Mainland China from 1988 to 2013<sup>1</sup>*

<sup>1</sup> 观察者“从产业地产发展与消费方式追溯：中国电影市场究竟是怎样火起来的？” [guancha.cn](http://guancha.cn). Web. 10 January 2014

The leapfrog appeared at the beginning of 2010 when Internet companies became main drivers of China's economy. In 2014 and 2015, the three Internet and E-Commerce giants, B.A.T (Baidu, Alibaba and Tencent) entered the content creation industry. In the meanwhile, there were constant interiorization and acquisitions happening. In 2012, Dalian Wanda Group acquired AMC theatres for 2.6 billion dollars. In 2016, Wanda Group acquired one of the main Hollywood studios, Legendary Entertainment, for 3.5<sup>2</sup> billion dollars.

Although the industry is developing fast with constant capital investment and technological improvement, the film quality is on its way to meet the world industry standard. There are a few of Chinese films in major film festivals and the exported Chinese films only capture a small part of the global film audience - most of them are Chinese abroad. Following the developing path of other Asian countries such as Korean film industry - which is developing fast after changing to film rating system - and Japanese film industry, China's government should consider abandoning censorship system and change it to film rating system.

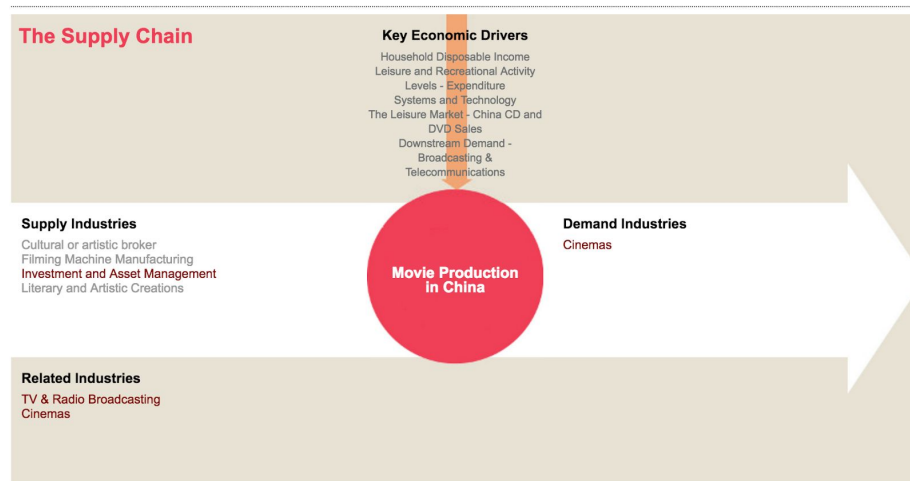
Besides, China's film market is also facing a serious issue of piracy, which is derived from the loose supervision of the government and the excessive demand for good-quality films. The quota to imported films may need to be loosened to bring in more competition.

### Market Structure and Industry Chain

The movie industry in China is in a competitive market which is steadily adapting to the changes from monopoly market ten years ago. The industry mainly includes producers, distributors, retailers, cinemas and suppliers of equipment and skillful personnel. At the buyer side of retailers and cinemas, vertical integration happens throughout the whole supply chain. China Film Group Corporation, the domestic player with largest market share, was co-established by eight companies, integrating movie, distribution, international trade of films and film documents, digital film production and post-film development. However, it is more likely for producers to forward integrate into exhibitors than for exhibitors to backward integrate.

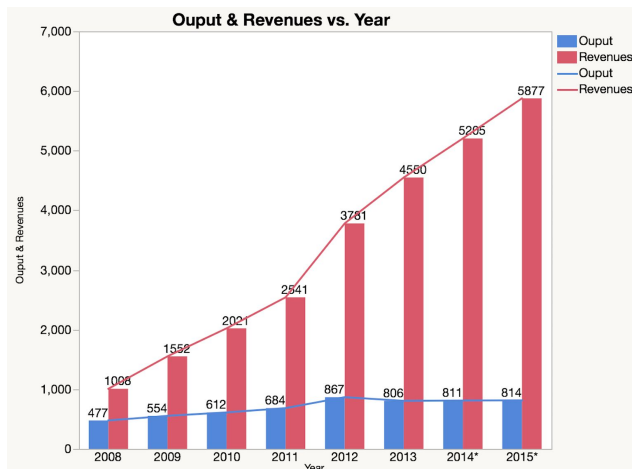
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<sup>2</sup> Person, and Ben Fritz. "China's Dalian Wanda Buys Legendary Entertainment for \$3.5 Billion." *WSJ. Web.* 09 May 2016.



### *The Industry Chain of Movie Industry in China<sup>3</sup>*

#### The Market Breakdown



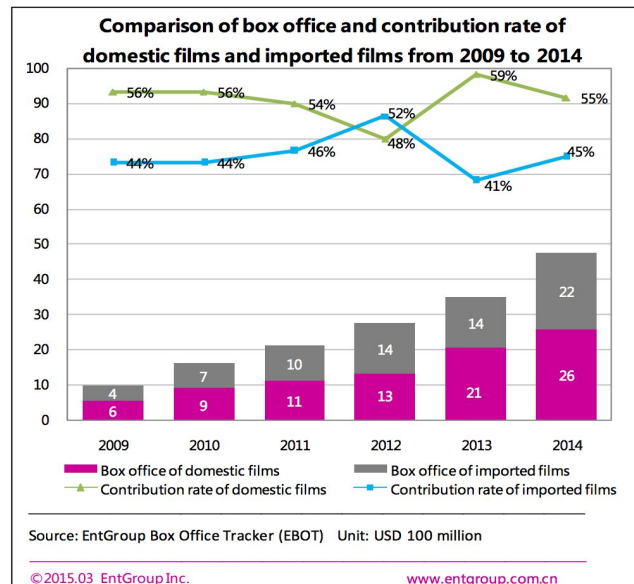
The growth trend is strong for the market. In 2014, the total revenues of the entire Chinese market is 4,878.3<sup>4</sup> millions U.S. dollars, representing a compound annual growth rate of 30.3%. for the past four years, accounting for 22.3% of the Asia-Pacific market value in total. The output from 2008 to 2015 increased by almost 100%, which indicates a larger marginal revenues due to the advent of economies of scale.

However, there is imbalance in different sectors - box office contributed to 94% revenues of the industry while the video industry only contributes to less than 5%.

<sup>3</sup> "Movie Production in China: Market Research Report." Movie Production in China Market Research. Web. 09 May 2016.

<sup>4</sup> "China Film Industry Report 2014-2015 (In Brief)" (PDF). english.entgroup.cn. EntGroup Inc. Retrieved May, 06, 2016.

China's film market is dominated by Chinese-produced films and U.S. films. Because of the annual quota of imported films, the ratio of box office between domestic films and imported films is 3:2.



*The Box Office of Imported Films and Domestic Films*

### Market Trend

The movie market growth is mainly driven by capital investment, technological development and constantly expanding number of customers. The industry is expected to continue growing with more and more smaller companies entering the market because of the boosted entertainment consumption, the expanding market need for niche product and the improved quality of films.<sup>5</sup> The screens will continue to grow with the development of IMAX. The development of virtual reality technologies will also change the layout of the whole industry in a few years. Box office is expected to grow at a high rate as more and more e-commerce websites step into the field of online booking platforms by partnering closely with exhibitors.

<sup>5</sup> "Movie Production in China: Market Research Report." Movie Production in China Market Research. Web. 09 May 2016.

### Merge and Acquisition of the Industry

By middle December 2014, there had been 159<sup>6</sup> M&A cases in the industry. The acquisitions include both vertical and horizontal integrations. For example, one of the main production company, Huayi Brothers acquired GDC Technology Limited to further extended to the theatre side. Enlight Media acquired Bluearc Animation to horizontally expand to the animation field of the movie industry. The M&A will not fade as a result of the rapid development of the industry. Dominated by Dalian Wanda Group, more and more China`s film companies started to acquire foreign assets.

### **Competitive Landscape**

#### Barriers to Entry and Substitutes

In China, film industry is strictly subject to restrictions and censorship, only films that are classed as suitable for all ages will be released. Additional barriers to entry are the need to access distribution and exhibition networks. Big players of international and domestic market have well-established distribution systems in place while small companies need to rely on sale agents. Overall, it is easier for plays to entry the market but it is difficult for these domestic new players to grow into major competitors.

Substitutes to movies happen in the distribution and exhibition part of the chain. Broadband movie market, online home video, DVD-by-mail service as well as online streaming have a great impact on the industry. The move towards online distribution widens the other forms of entertainment that can be substituted.

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<sup>6</sup> "China Film Industry Report 2014-2015 (In Brief)" (PDF). [english.entgroup.cn](http://english.entgroup.cn). EntGroup Inc. Retrieved May, 06, 2016.

## Major Players<sup>7</sup>

### *Production:*

China Film Group Corporation; Beijing Enlight Group; Bona Film Limited; Dalian Wanda Group; Huayi Brothers Media Group.

*China Film Group Corporation* founded in 1999, is a large comprehensive film group integrating movie and TV production, distribution, international trade of films and film documents, digital film production and post-film development with 15.3% of market share. The company has built a national digital film production base, which was put into operation in 2008, and has an annual production capacity of 80 feature films, 100 digital films and 500 episodes of TV dramas. China Film Group has established relationships with more than 400 film companies in over 100 countries and regions. Currently, it has set up overseas offices in Los Angeles, China Film Import & Export (L.A.) Co. Ltd., and Paris, China Film Paris Office.

*Bona Film Group*, founded in 1999, is a multimedia company engaged in movie and TV production, movie theater management and artist brokerage. In June 2008, the group established an overseas distribution company. In addition, it has 15 five-star multiplex theaters in Beijing, Shanghai, Shenzhen, Tianjin and Chongqing. Since 2003, PolyBona Film has invested \$79.2 million in producing movies. By 2012, it had released more than 150 foreign and domestic films, with cumulative box office revenue of over \$237.7 million. PolyBona Film benefits from being engaged in a number of entertainment-related industries. Its movie theater, advertising and artist management strengthen its influence, brand awareness and distribution scale. Its annual revenue and growth rate from 2011 to 2015 are shown in the table below.

### Distribution

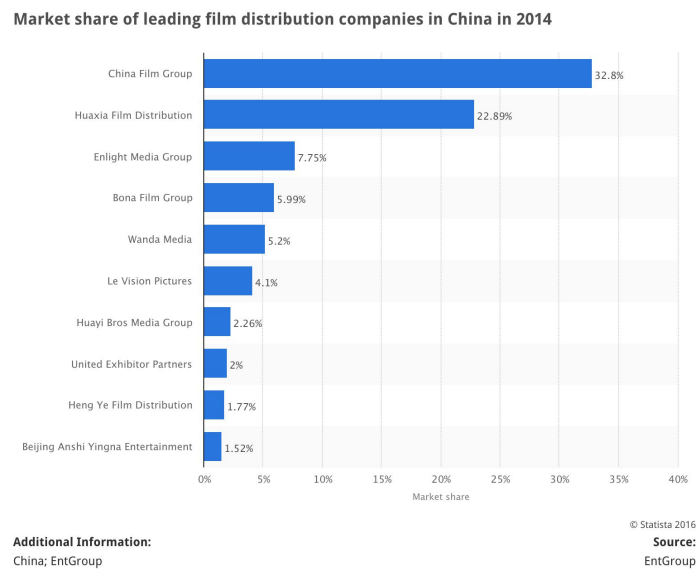
Main distribution companies include China Film Group, Huaxia Film Distribution, Enlight Media Group, Bona Film Group and Wanda Media. China Film Group takes up the most market share--32.8%, which was followed by Huaxia Film Distribution and Enlight Media Group.

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<sup>7</sup> "Movie Production in China: Market Research Report." *Movie Production in China Market Research*. Web. 09 May 2016.

The privilege of distributing foreign films gives the state-owned China Film Group and Huaxia Film Distribution Corporation an incomparable advantage over other Chinese film distributors. In 2014, Wanda Media was the largest Chinese private film production company and second-largest overall Chinese production company in China by market share, with 3.17%, and the fifth-largest film distributor, with 5.2% of the market.

Secondly, the exclusive right to distribute foreign films also helps the two state-owned corporations to distribute domestic films. In the analog era of theatre exhibition, the number of copies made of each film was limited since the cost of making a copy was high. Therefore, the theatres had to maintain a good relationship with China Film Group and Hua Xia Film Distribution Corporation by accomplishing the quota of screening domestic films and other requirements; otherwise they might not get a copy of the foreign blockbusters so important for their operations.



*Lead Distributors in China, 2014<sup>8</sup>*

<sup>8</sup> "Statista - The Statistics Portal." Statista. Web. 09 May 2016.



## Exhibition

The number of movie theaters is rapidly growing from 2005 to 2014 ( see as the Chart 1 below). China Film Group and Hua Xia Film Distribution Corporation can also take advantage of the theatre chains controlled by them to achieve a privileged position in the film distribution and exhibition market. Until the end of 2011, there were 39 theatre chains in China. As table 2.5 shows, China Film Group was the sole shareholder or main shareholder in seven of them. These seven theatre chains generated 4.54 billion yuan at the box office in 2011, which accounted for about 35 percent of the China theatre exhibition market.

Table 2.5 China Film Group's Share in Seven Theatre Chains

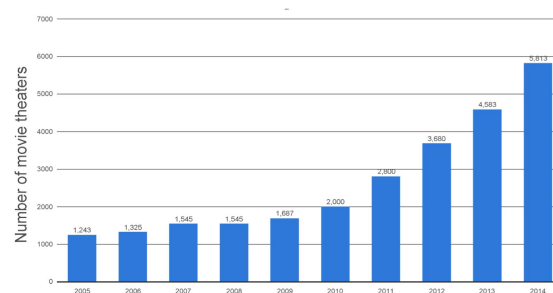
The name of theatre chain	China Film Group's Share
Digital Theatre Chains under China Film Group (中影数字院线)	100%
China Film Stellar Theatre Chain (中影星美院线)	60%
China Film Sothern New Line (中影南方新干线)	56%
Jiangsu Oriental Theatre Chain (江苏东方院线)	51%
Liaoning Northern Theatre Chain (辽宁北方院线)	50%
Sichuan Pacific Ocean Theatre Chain (四川太平洋院线)	50%
Beijing New Film Association (北京新影联院线)	34%

Source: Personal Interview.

### *China Film Group's Share in Seven Theatre Chains*

For Hua Xia Film Distribution Corporation, although it does not own any theatres, as a corporation consisting of the China Film Group, several state-owned studios, and eight theatre chains, it has a close relationship with many theatre chains. Therefore, it is difficult for a private film company to compete with these two state-owned corporations in the distribution and exhibition market. However, what should also be noticed is that the privileged position of the state-owned corporations in the distribution and exhibition market has diminished with the deepening of reform in Chinese film industry and the emergence of digital screening.

Number of movie theaters in China 2005-2014  
Number of movie theaters in China from 2005 to 2014



*Number of Movie Theatres in China, 2005 - 2014*

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[1] "Movie Production in China: Market Research Report." *Movie Production in China Market Research*. Web. 09 May 2016.

[2] "China Film Industry Report 2014-2015 (In Brief)" (PDF). english.entgroup.cn. EntGroup Inc. Retrieved May, 06, 2016.

[3] O'Connor, Sean, Research Fellow, Economics and Trade, and Nicholas Armstrong, Research Fellow. *Directed by Hollywood, Edited by China: How China's Censorship and Influence Affect Films Worldwide*. Rep. U.S - China Economic and Security Review Commission. Print.

[4] "Statista - The Statistics Portal." Statista. Web. 09 May 2016.

[5] Person, and Ben Fritz. "China's Dalian Wanda Buys Legendary Entertainment for \$3.5 Billion." *WSJ*. Web. 09 May 2016.