STOCKHOLM SCHOOL OF ECONOMICS

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Between Past and Future

An exploration of Swedish film distribution practices

Abstract

The film industry has gone through profound changes as of late due to technological advancements, the increase of internet usage, and piracy. This has led to a big shift in the ways films are being consumed, challenging current distribution practices as they are today. In this essay, the authors set out to explore the Swedish film distribution practices through 12 in-depth, qualitative interviews with actors in three stages of the film distribution chain: production, distribution and film institutions. Together with industry reports and literature studies, the Swedish film industry landscape has been mapped, and critical issues and challenges have been discussed with the participants. The authors find that the traditional way of distributing films is being maintained despite being regarded as outdated by many of the industry actors. Factors of change for the distribution practices are identified, and different future scenarios and implications for industry actors are presented. In face of the changing circumstances, it is the authors' hope to acquire insights into the Swedish distribution practices by virtue of this essay in order to secure the future of the Swedish film industry.

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AND AT LAST

OUR FAMILIES – WHO HAVE SUPPORTED AND HELPED US DURING OUR WORK

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1. INTRODUCTION

The ways of media distribution have changed drastically in the recent past, and film distribution is no exception. Today, the global film industry is facing one of its biggest threats in its history from piracy, which holds especially true for the Swedish market that has been described internationally as a "*pirate's paradise* as content has become more and more available online (The Guardian, 2012). This has led to significant reduction in film revenues, unsettling Sweden's producers and distributors (Lenas, 2014). The total producer turnover has decreased from 4.4 billion SEK to 4 billion SEK from year 2012 to 2013, with a negative industry profit margin of minus 2.7% the same year (Film och TV-producenterna 2014). Even in US, experts suggest that illegal downloading costs the national economy more than $20bn annually (BBC NEWS 2006). Debate has been ongoing on how to battle piracy, with the definite conclusion being that filmmakers and distributors alike need to act and adapt to the changing circumstances. Moreover, consumers are changing their way of viewing films (Jackson, 2013). "*I don't think our business models are keeping pace with the changes taking place in consumer behavior*", says Kevin Tsujihara (2015), CEO for Warner Brothers. At the same time, the music industry has had to endure the same competition from piracy. However, downloading services such as Spotify have been proved successful, closing the gap effectively between market demand and supply. Similar services for watching films could thus be a solution to illegal downloading problem (Patil, 2015).

Due to these new circumstances, established distribution practices will need to be reviewed and new ones implemented. One of these strategies might be a change in the timing and sequencing of a film release; Industry actors argue that the timing and sequencing practices of film releases as they are done today are suboptimal in terms of revenues. In this study, the authors set out to examine the strategies and practices that are being employed by Swedish film distributors in order to gain knowledge on the practices in the Swedish motion picture industry.

1.2 BACKGROUND AND PROBLEM FORMULATION

The Swedish film industry has a prominent standing in the global film market and is a promising area for future Swedish export. The interest for Sweden as a creative and innovative nation is increased by own, national film production as well as co-production with other countries (Svenska institutet 2015). However, the media landscape has changed drastically but the way that film is being distributed in Sweden has not. Nessen (2012) concludes in her study that dominant industry actors are conserving the system as it is (Nessen 2012), while another study by Brännmar & Hansson (2012) concludes that there is a desire by producers and distributors to have more flexibility in the ways films are being distributed in Sweden.

The Swedish film industry is unique in many ways when comparing to characteristics of other countries. Firstly, the industry is dominated by the cinema monopoly SF Bio. Secondly, the cinema has unique cultural status in Sweden. Thirdly, the Swedish Film Institute and the SF Bio cinema theatre chain hold dominant positions in the industry which results in an inherent inertia to preserve the system as it is. Together, they "*contribute to conserve the system rather than moving towards a paradigm break*" (Nessen 2012).

The changing consumption patterns and inflexible industry structure give rise to a tension between the market demand and supply, as conventional film distribution strategies are preserved by the industry while the consumers seek novelty. As mentioned, this gap in supply and demand is closed effectively by piracy, a phenomenon that needs to be addressed by the industry as a whole. One of the main issues that are brought to light in face of this problem are the distribution strategies that are currently being employed in the industry. A classical way is a so-called sequential distribution, where a film is released in one channel after the other, starting with the cinema theatre, followed by a DVD rental and purchase release, and later on other channels such as online streaming and television. As of late, distributors have begun experimenting with alternative ways of distribution. One of these methods is called the day-and-date release, which means that a film is released on two or more channels at the same time.

With this background, this study sets out to examine the Swedish film industry and its current practices.

1.3 LITERATURE REVIEW

As of yet, Swedish film distribution practices have only been examined in a study by Brännmar & Hansson (2012) called "*Swedish Film through Windows: Opinions on the Conditions for Film Distribution in Sweden by Actors in the Industry*" (Svensk film genom fönster: åsikter om villkoren för film distribution i Sverige från aktörer i branschen), which evidently explores opinions and thoughts from Swedish producers, distributors, and cinema owners on current feature film distribution in Sweden. The study highlights the significant stand that the cinema possesses and its subsequent influence on the distribution channel - or window - order. The producers, in turn, are dissatisfied with the prevailing system and desire more flexibility in being able to choose through which channels they can distribute their films. Furthermore, the study touches upon different views of digital distribution channels such as video-on-demand, or VOD, about which opinions differ largely between the different participants of the study: some believe that the breakthrough of the VOD will be eluded due to consumer unwillingness to pay for films that could instead be downloaded for free, albeit illegally so; others speculate that it will come and alter the industry irreversibly and dethrone the cinema as the main release distribution channel.

In Nessen's (2012) study, "*Back to the Future - About the Swedish Film Distribution in the Digital Era"* (Tillbaka till framtiden - Om svensk film distribution i den digitala eran) attempts to explore why the digital distribution channel has yet to break through in Sweden. The study compares the film industry to the music industry, where the e-revolution has resulted in a radical restructuring of the industry and the dominance of the digital distributor, Spotify. The findings show that the strong interdependency between the actors in the industry and the control that the largest cinema exhibitors assert over the resources in the network, contribute to preserve the system rather than moving towards a paradigm break such as in the music industry.

Although little extant literature exists on Swedish distribution practices, studies have been made in other countries. In particular, US timing and sequencing of film distribution channels have been examined extensively by for instance Hennig-Thurau (2007); Twilson & Norton (1998); Lehmann & Weinberg (2000); Houston & Walsh

(2006). Also, in a literature review "*The Motion Picture Industry: Critical Issues in Practice, Current Research & New Research Directions*", studies and literature about the US film industry dating back to 1933 are reviewed. Although these comprise studies from all stages of the film value chain: production, distribution, and exhibition, a large number of the studies treat film distribution. For instance, it is concluded that the timing and sequencing of a film release is becoming increasingly important as a film needs to capture media's attention and using this momentum to gain long-term success throughout the different windows. Researchers such as Krider & Weinberg (1998) and Chrisholm (2000) conclude that competing films with the same target audience should be avoided during the film release; Radas & Shugan (1998) look at seasonality as a factor of success and conclude that a film is preferably released during high-season dates when there are more potential cinema visitors; and Einav (2003a and 2003b) looks at seasonality in addition to competition and discovered that observed release patterns are not perfectly aligned with underlying demand, concluding that some releases could be better off by reallocating part of themselves to low-season dates.

Hennig-Thurau (2007) studies the optimal timing and sequencing of channel openings in terms of total film revenues. He further presents a conceptual framework with which to analyze the different factors that affect the distribution timing, order, and pricing. His theories are presented further in chapter 3. Lehmann & Weinberg (1998) study the optimal time to launch a film in the second channel following the first one. They conclude that the longer a movie studio waits to release its video to the next, the more expensive the marketing campaign gets as the awareness of the film title might have faded when it is released in the second channel. Having said that, they also conclude that the sales in one channel can help predict sales for the next channel, an insight that can help distributors in strategic decision making. Furthermore, for a smaller movie, the producer is more likely to benefit by releasing it straight to video, skipping a theatrical release. According to Twilson & Norton (1989), the optimal time to launch a product or a new version of an existing product is to introduce it in an early stage in the product life cycle, possibly even as soon as it is available. Hennig-Thurau and Houston & Walsh (2000) suggest that films released sooner to the second channel than currently can increase their profits. Overall, extant literature suggests that closer window releases to increase film revenues.

1.4 PURPOSE AND THESIS QUESTION

The purpose of this thesis is to describe the timing and sequencing of film distribution in the Swedish film industry. Further, it is to explore the forces of change of the current practices. On this basis, future scenarios and managerial implications to actors in the Swedish film industry will be created.

Thus, the questions that this study aims to answer are the following:

I. What are the general practices of film distribution in terms of sequencing and timing of the release channels?
II. What forces of change can be identified in the Swedish film industry that could change these?
III. Given these, what are the industry's predictions about future distribution practices?

1.5 THESIS DELIMITATION

Considering the time interval as well as the resources that the authors had at disposal, the data collected as well as the interview subjects have been delimited to Sweden only and they might not be fully exclusive. The interview participants are limited to ones that the authors deem to have in-depth knowledge of the Swedish film industry, as well as others that the authors deem be able to provide the study with information of particular interest to the study. These could be people that have been referred to from the primary list of participants.

1.6 INTENDED CONTRIBUTIONS

The main intended contribution of this thesis is to increase and deepen the knowledge about the film industry in Sweden, with the focus on distribution practices but also of the industry in general. As this field is thus far unexplored in academia, it is expected that a foundation and mapping of the film industry will be laid for further studies in Swedish film distribution practice. Moreover, indications of the direction of change for the industry will be provided for academia and industry actors alike. With these indications, the authors hope to be able to provide to industry actors with actionable insights that will challenge commonly held beliefs within the industry. Finally, the authors hope to be able to present managerial and strategic implications on how to better adapt and advance in face of a dynamic industry such as the Swedish film industry.

1.7 Thesis Outline

This thesis starts with describing the methods that are used for the studies in chapter 2. This study consists of a pre-study and a main study. The pre-study aims to generate an initial understanding of the main challenges and issues of the research are, and the main study will then be based on those findings. In chapter 3, relevant theories are presented that will be used to analyze the findings. In the first part of chapter 4, a detailed mapping of the Swedish film industry network will be provided in order to understand the context of the findings. In the second part of chapter 4, the findings of the pre-study as well as the findings of the main study are presented. In chapter 5, the findings are analyzed with the theories presented in chapter 3 in order to gain insights and increased understanding about the research area. These insights are then discussed and concluded in chapter 6 by general discussion, limitations of the study, managerial implications as well as suggestions for future research.

2 Methodology

This chapter begins with describing the choice of method for conducting the study as well as the data collection approach. It then describes the treatment and analysis tools used for the collected data. The data quality is then discussed and the chapter concludes with a reflective commentary of the methodology used.

Saunders et al. (2007) argue that a qualitative method is more useful for discovering detailed insights of a certain topic of interest. It is also useful for investigating dynamic and complex phenomena, such as the Swedish film industry which is constantly changing along with changing circumstances (Melén, 2015). As the purpose of the thesis is to investigate and gain a deeper knowledge within the Swedish film industry and its distribution practices, a qualitative research method was chosen to be able to focus on discovering and understanding the experiences, perspectives, thoughts, and opinions of industry actors (Hiatt, 1986).

2.1 Data Collection

Jacobsen (2010) explains that empirical research means the first time certain information is collected. This can be done by using methods such as interviews, observations and interview questions In this study, empirical research is conducted by qualitative interviews while secondary data has been extracted through observations and previous research on the Swedish film industry. The collection of data from several sources with a so-called triangulation method allows for more reliable and comprehensive results (Esterby-Smith et. al., 2006) See more in section 2.2.1. Data has been collected until the point where additional participants would no longer contribute with a significant addition of information for the analysis and concept creation in chapter 5. Christensen et. al. (2001) calls this phase "*theoretical saturation*", meaning that no hasty conclusions were drawn from the gathered data.

2.1.1 Interview Participants

The interview participants were chosen based primarily on their expertise and relevancy to the topic of interest. All have had numerous years of working experience in the Swedish film industry. Our first list of potential participants were supplied by Mathilde Dedye. As contact was established with them, other participants were referred to by the first participants in accordance with the "*Snowball Effect*" suggested by Bryman (2011).

2.1.2 Secondary Data

As per Jacobsen (2010), secondary data was acquired prior to the study in order to take part of the already existing body of knowledge. Thus, a thorough mapping of the film distribution network was provided in the first part of chapter 4. This is based on previous reports made about the film industry, which include both qualitative and quantitative secondary data. Furthermore, other literature and reports have been used to describe the film distribution chain. Some of these publications contained quantitative data as well as qualitative. A compilation of the secondary data can be found in the chapter 4.5.

2.1.3 Pre-study

An initial study was conducted on two actors in the industry with the purpose of gaining an overview of the current situation and the problem areas in the topic of interest, which eventually led to the formulation of the thesis questions. Moreover, it was to acquire valuable information about industry norms, culture, and general advice regarding which key actors to contact for the main study. The first participant was Mathilde Dedye, an arthouse film producer who had originally initiated the research idea. The second was Cecilia Nessen, author of "*Tillbaka till framtiden*" (2012), who had previously conducted a thorough examination on the Swedish film industry from a business network point of view (see chapter 1.3). The pre-study interviews were made with open questions without a prepared form in order for the participants to elaborate freely on their own opinions and experiences of the industry. Answers that were relevant for the main study were later included into the main findings. From the pre-study, clues were given for which other actors could be contacted for the main study. The findings of the pre-study can be found in the second part of chapter 4.

2.1.4 Main Study

Firstly, a mapping of the film distribution chain is provided in order for the reader of this paper to comprehend the context of the research area. This is a prerequisite for understanding film distribution sequencing and timing of the release channels. The mapping is primarily made by secondary sources such as other studies, articles, literature, and industry reports, but also includes data acquired primarily for the main study. The second part of the empirical data collection consists of interviews with key actors in the film industry. In order for the findings to be as general and comprehensive as possible, actors from the entire film distribution chain were included.

2.1.5 Interview Technique & Data Treatment

The interviews which were conducted in semi-structured in-depth interviews (Hair et. al., 2007). The use of open-ended questions were used in order to allow the participants to elaborate freely on a question and thus investigate an issue deeply (Saunders et. al., 2009). Semi-structured means that interview questions were prepared in advance but were used in a relatively loose manner in order to avoid controlling the direction of the answers. This allowed the participants to define and describe a situation in their own words, while the conversation was being focused around the topics of interest for the study. The interview questionnaires can be found in the appendices.

The interview questions were focused on:

- The current situation in Swedish film distribution practices
- Implications of technology and digitalization on the film industry
- Concurrent problems of Swedish film distribution
- Factors of change for Swedish film distribution
- Perceived relationships with suppliers and customers and perception of own role
- Beliefs and anticipations of future film distribution in Sweden

The interviews lasted approximately 60 minutes and both the authors attended the interviews. During the interview, one interviewer had a more communicative role and steered the interview while the other interviewer assisted in note-taking and recording. Immediately following the interview, the notes and recordings were revised and transcribed. Later, the analysis method suggested by Bryman & Bell (2011) was used to select the most relevant statements with consideration to four factors: *relevancy* of answer to the study topic, *congruence* of answer with other participants, *uniqueness* of answer in comparison with other participants, and *contradictiveness* towards previous own statements. The findings are presented in chapter 4.6.
The participants were offered anonymity and given the opportunity to read the transcripts so that the accuracy of their statements could be verified. They were further ensured that no sensitive information was disclosed without their consent.

2.1.6 Data Treatment

According to Harwell (2011), qualitative studies can be described as inductive in the sense that theories, hypotheses, explanations and conceptualizations can be constructed from the findings. A deductive study, on the other hand, aims to create hypotheses and explanations based on existing theory (Wilson, 2010). For the pre-study, an inductive approach is undertaken as concepts were extracted based on the findings. For the main study, a mixed approach of induction and deduction are used for the analysis. For thesis question one, which is to explore the present Swedish distribution practices, relevant theories have been used to describe the current situation with a deductive approach. For thesis questions two, which is to identify forces of change in the Swedish distribution practices, theories have been used in the same manner, but the construction of a model from the findings have been used as well. For thesis question three, an inductive approach has been used to predict the direction of industry trends.

2.2 Data Quality

Truthfulness and credibility are valued differently in studies with a qualitative approach compared to studies with quantitative approach. Trustworthiness in qualitative studies is often questioned due to the researcher's inherent subjectivity in the interpretation and presentation of the findings. Also, the setting in which the study takes place is argued to be more difficult to replicate in other situations and contexts, which could lead to a biased interpretation of reality. To address these issues, Lincoln & Guba (1981) suggest that four criteria need to be considered when conducting a qualitative research:

1. *Credibility* – the level of congruence of the findings with reality

2. *Transferability* – the extent to which the findings can be applied to other situations

3. *Dependability* – the imitability of the findings if the same study were to be conducted in the same context, with the same methods and the same participants

4. *Confirmability* – the extent to which findings are a result of experiences and ideas of the participants rather than the characteristics, preferences and biases of the researcher

Methods to handle each of the criteria have been provided by Shenton (2002). Below are descriptions of how his methods have been used by the authors of this study.

2.2.1 Credibility

One of the methods described for ensuring credibility is the "*development of an early familiarity with the culture of the participant setting, gain adequate understanding of the organization, relationship of trust between participant and researcher*" (Shenton, 2002). The authors have achieved this by examining the cultural aspects and industry norms in the pre-study. Further, all of the interviews were conducted in person to minimize the risk of misinterpretation as well as to give the participant the opportunity to ask questions and clear up any further uncertainties. To ensure honesty in participants, each one was given the option to refuse to participate in order to ensure that the data collected was done by those who were genuinely willing to contribute. It was further made clear that the participants could withdraw from the study at any point.

Another method that was used to ensure credibility was *triangulation*, which means using different kinds of methods for gathering data, for example, interviews, newspaper articles, books, reports, and databases in order to support the empirical data and minimize individual weaknesses for each data source (Guba, 1981; Brewer & Hunter, 1989).

Finally, previous studies on the same or a closely related field were examined in order to assess the congruence of past findings with new ones, as well as to relate the acquired data to existing bodies of knowledge (Silvermann, 2001). The findings collected were compared mainly to two previous studies conducted on the Swedish film industry: Nessen (2012) and Brännmar & Hansson (2012).

2.2.2 TRANSFERABILITY

Qualitative studies are often criticized for not having results that are generalizable across social settings. Although it is possible in some cases, it is difficult on the basis of these study results to generate a universal theory beyond the Swedish film industry due to its uniqueness. A description of the background to the present situation in the film distribution market is given in the first part of chapter 4. Furthermore, actors from the whole film distribution chain was included in order to gain a holistic perspective of the industry. This gives the reader enough information about the phenomenon to be able to determine if the results are transferable to a certain situation or context of choice.

2.2.3 DEPENDABILITY

Lincoln & Guba (1985) argue that by achieving credibility, dependability is also ensured to a large extent. Dependability is a difficult criteria for qualitative research to meet since it is impossible to "*freeze*" a social setting. In qualitative studies, both technical equipment and the involved people themselves are used as "instruments", both of which will need to be of adequate quality in order to provide data that is adequately clear and accurate. For example, an adequate clearness of a replay by a tape recorder. To reduce the effect of the subjectivity of the interviewers, the interviews were recorded with a smartphone so that that the interview could be reviewed at a later moment and serve as an additional source in addition to the interview notes taken. Also, the process of this study has been described in such detail that a future researcher will be able to repeat the work if desired.

2.2.4 CONFIRMABILITY

Patton (1990) argues that perfect objectivity is unobtainable as instruments as well as tests and questionnaires are dependent on human skill and perception. In this study, the findings are ensured to be the results of the experiences and ideas of the participants rather than the biasedness of the researchers by using open-ended questions to encourage discussion and free elaboration (see chapter 2.1.5). Triangulation has also been used by collecting data from different sources to avoid investigator bias. Furthermore, the criteria on which the data was chosen to be presented in this study have been described in the 2.1.4 section. Lastly, a copy of the interview transcripts were sent to the participant so potential misconceptions could be clarified, thus achieving consistency between the participants' intended answers and the presentation thereof.

2.3 REFLECTIVE COMMENTARY

The study results are based mainly on primary data and secondary sources, with primary data meaning the information collected on the basis of the purpose of the study. The drawback with secondary data is that they are gathered by other investigators with a purpose other than the current study (Kumar et.al., 2000).

Worth to note is the researcher's' background; Coming from outside of the industry and having no professional affiliation with industry actors, impartiality can be ensured in interpreting the results, as the expressed opinions and experiences of the participants could be deemed partial in many cases.

As this study is presented in English, and the field of study is in Swedish, in Sweden, a linguistic aspect needs to be considered as well in interpreting the results. The secondary data, the interview form as well as the participants were Swedish. This interview form has been translated to English (see appendix). The answers were later translated to English in order for them to fit in the thesis. However, the results should have been minimally affected by this.

3. THEORIES

This section aims to present relevant theories for understanding the context of the research area. These theories will be used to explain the current distribution practices as well as to help identify the challenges in the industry. The first theories that will be presented are theories about distribution strategies and sequential distribution and will help to gain an initial understanding of timing and sequencing. The Long Tail theory will then help comprehend the statistical distribution of the distribution of different film genres. Finally, to identify and predict changes in the industry, theories about disruptive technology are presented. In chapter 5, the empirical findings will be analyzed using these theories.

3.1 DISTRIBUTION STRATEGIES

Supply chain management (SCM) is about coordinating and integrating flows both within and outside an organization. The ultimate goal of supply chain management is to create an efficient system and reduce inventory while ensuring that products are in stock when needed (Larsen et. Al., 2007). One of the different strategies for SCM is sequential distribution, which is commonly used in media industries such as the motion picture industry, where it has become the dominating method of distribution.

3.2 SEQUENTIAL DISTRIBUTION

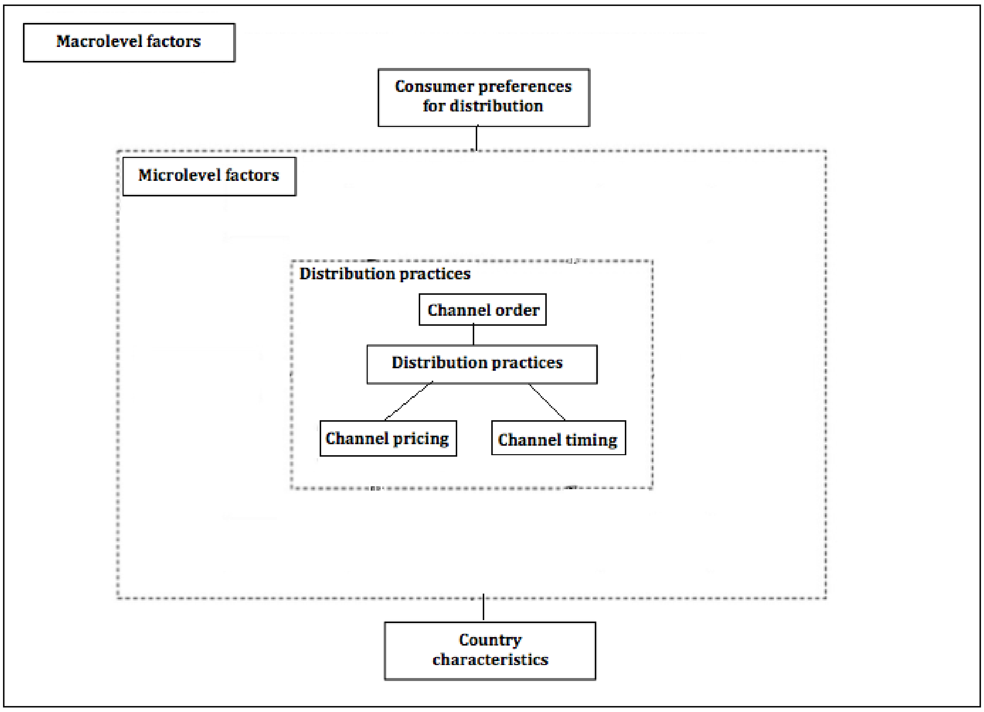
Sequential distribution is the release of a product or service through different distribution channels in a pre-determined sequence in order to maximize producer revenues. Normally, channels with the highest margins are prioritized (Eliashberg et .al., 2006). For example, books are first released in the more expensive hardcover versions before they are subsequently released in cheaper paperbacks, followed by the last channel, the e-book version. Correspondingly, the conventional distribution of a film starts with a cinema release, then for rental and purchase for home consumption on for example VHS and DVD, followed by display on premium satellite cable channels or VOD platforms, and lastly through television. This way, revenues increase by capturing consumers that are reluctant to buy from primary channels such as the cinema for any reasons, and by offering them the opportunity to watch a film repeatedly, but in different channels. Furthermore, the power to attract public buzz is dependent on an effective use of timing and sequencing of release windows, where promotion in a certain channel can help boost awareness and sales in another channel as well (Hofmann, 2013).

3.3 Timing and Sequencing of Film Distribution Channels

Hennig-Thurau (2006) discusses the importance of timing and order of film distribution channels when attempting to maximize the audience size for a film. He covers the US, German, Japanese film markets, and concludes that sequential distribution can increase producer revenues by up to 16.2% if employed optimally. His results also suggest that the optimal order and timing of distribution for revenues is different for different countries as well as between different actors in the film distribution network.

Hennig-Thurau (2006) presents the *Sequential Distribution Revenue Maximization Model* of how different factors affect the producer revenues across multiple, sequential channels. The factors are split into *microlevel* and *macrolevel* factors; the micro level factors describe the factors that determine the revenue optimization for a given distribution channel. These are *perishability*, *consumer expectations*, *interchannel cannibalization*, *industry-specific discount rate*, *channel-specific allocation*, *success-breeds-success affects*, *the industry-specific discount rate* and the *channel-specific revenue allocation*. These, in turn, are influenced by the macrolevel factors, which are consumer preferences towards distribution channels, and country characteristics. This model will be modified for the purpose of answering the second thesis question: Factors of change are being classified into micro level factors, which represent individual industry actors, organizations, and institutions as potential forces of change; and macrolevel factors, which in correspondence with Hennig-Thurau's original framework represent country characteristics, consumer aggregated behavior, and national trends. Together, the factors govern the channel order, pricing, and timing of a country's distribution practices. By using this framework, forces of change can be identified and their interrelatedness can be studied.

Figure 1. Factors of change for film distribution practices

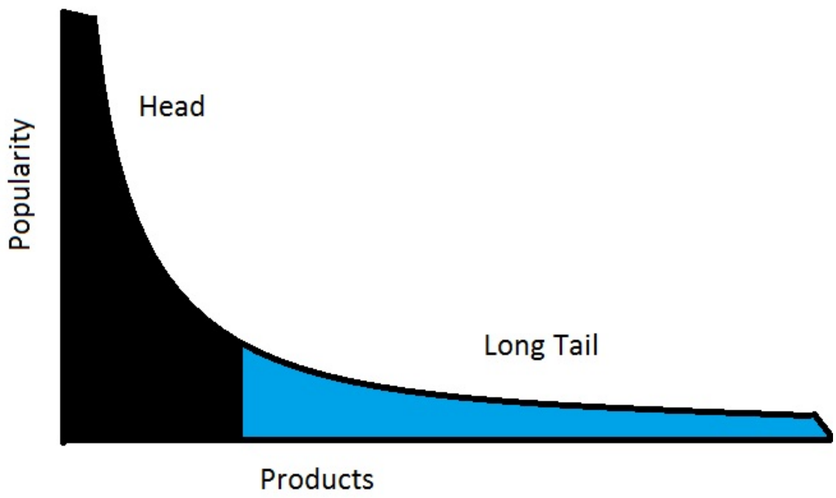


Original model: Hennig-Thurau (2007)

3.4 THE LONG TAIL THEORY

The statistical distribution of film genres in the industry can be explained by the Long Tail Theory. This will help to understand the ways these films are being distributed in. Anderson (2004) suggests that a few number of all goods available within a certain sector stand for a disproportionate amount of all the revenues earned in that sector. For the film industry, it is suggested that since there are only a limited amount of cinema screens to show the films, the highest selling products, or "*blockbusters*" are prioritized by the cinema theatres.

Figure 2. The Long Tail Theory



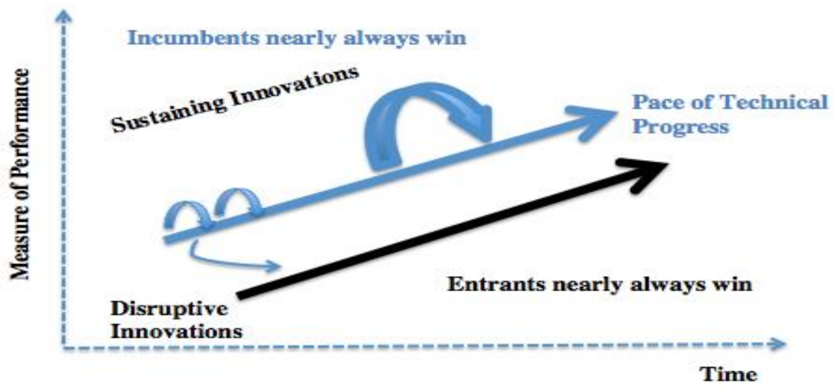
Source: Andersson (2004)

In Sweden, these films are titles produced in Hollywood and make up the "head" of the curve. The products that are in the "tail" are the niche films, or arthouse films, who have smaller audience and revenue potential. These are made by smaller producers and distributed through smaller distributors and cinema theatres. As films nowadays can be digitized so that distribution costs approach zero, the tail can end up very long. Furthermore, digitalization also allows for making niche films more available for consumers looking for titles geared towards their particular interests instead of mainstream titles that appeal to a mass public (Elberse, 2008).

3.5 Disruptive technology

In order to answer the third thesis question and create scenarios for the future of Swedish film distribution, theories about disruptive technologies will be used. In chapter 5, they will help identify and predict these future changes in Swedish film distribution. Christensen (1995) defines disruptive innovations as developments that have the potential to restructure an entire industry irreversibly. This occurs when a product or a service initially positioned at the bottom of the market moves up and becomes the dominant market offering. According to him, companies pursue innovations at a higher rate than the customers' needs evolve. These companies subsequently charge higher prices for these "*higher tier*" services. This, in turn, opens doors for new entrants with lower prices and higher accessibility thanks to lower margins, new target markets, or simpler and unembellished products or services at the bottom of the market. Prominent examples of disruptive innovations include the cell phone takeover of the fixed line telephony, and Spotify as a music distribution channel.

Figure 3. The Process of Disruptive Innovations



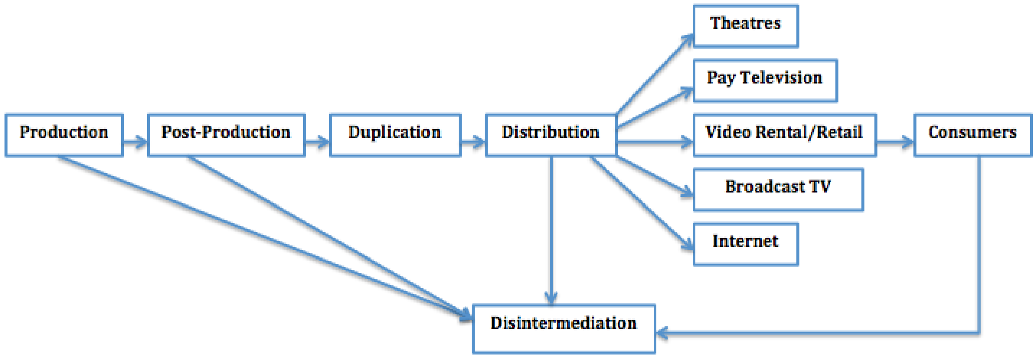
Source: Christensen (1995)

Zhu (2001) presents digitalized films as one of these disruptive changes in the film industry, specifically the video-on-demand service (VOD) that has been popularized lately. Historically, location and selection have been two sought-after factors for film rental consumers when choosing a certain store. With VOD, the utilities of these factors are maximized as selection is almost infinite and geographic location is no more relevant. Thus, Zhu argues that VOD has the potential to induce deep and permanent structural changes in the whole film industry provided that the right technological premises are available. The adoption of VOD into the industry is according to Zhu dependent on 4 technological developments in a given motion picture market:

- broadband Internet connection – a fast enough Internet connection is needed for the consumer to watch a film within a desirable period of time
- digital file compression – as film files are large, an adequate file compression technology needs to be available in order to minimize the waiting time for consumers until they can see a film

- streaming media – allows consumers to watch the film while it is being downloaded
- encryption – the film file is encrypted to avoid theft and piracy

Figure 4. Disintermediation of Film Value Chain.



Source: Zhu (2001)

These factors will be used in the analysis to assess the readiness for the Swedish market to this new technology. Zhu (2001) further claims that VOD will affect the industry in several different ways: it will reduce production costs as the production process will not rely on physical film copies and the manual labor of assembling and distributing them anymore but rather be produced and assembled digitally; it will disintermediate the actors in the film distribution chain (see figure 4.), when distributors that work solely with pushing out the film to the consumer will be excessive, and the video rental stores will be outcompeted as soon as the VOD streaming services will provide good enough quality; the bargaining power in the value chain will shift from the financers of a film, which can include film studies, to the producers themselves thanks to the aforementioned cost reductions in production as well as alternative ways of distributing their films. As for cinema theatres, Zhu (2001) posits that VOD will further spur the development of their consumer experiences and offer more amenities on their sites, something that was already done during the entrance of VHS. Thus, the cinema experience will thus remain a unique and social experience that is valued by the consumers and will not likely be disintermediated by the emergence of VOD.

Arianfar et. al. (2014) have studied the prediction of technological innovations in Internet services, investigating whether an adoption of a certain disruptive innovation might take place in a market. The authors claim that Internet has become and will continue to be one of the key innovation platforms of today. Disruptive technologies pose a threat to established firms and are therefore important to predict so that preemptive actions can be taken in due time. Otherwise, severe loss of market share or even bankruptcy might become imminent, as has been witnessed by so many companies before, such as for example the decline of Kodak when they failed to transition to digital photography fast enough. They conclude that the primary basis for an adaption of a technology is a "*user-pull*" approach, whereby in the end it is the intended consumers that decide if a given technology will be adopted in a market or not. The widespread use of social media serves mass market with knowledge of new technologies in an unprecedented rate so that its adoption has become even harder to anticipate for established firms.

4 Empirical Findings

This chapter is dedicated to present the findings of this study. It is divided into two parts. The first part will provide the reader with a mapping of the Swedish film distribution chain acquired by examining secondary data sources. The second part which starts at section 4.5 will present the main findings of the qualitative interviews of both the main study and the pre-study.

Introduction

The average Swedish film consumer sees more films than ever. In 2011, the average Swede saw around 80 films, compared to 1956 when they only saw 11 films per capita (SFI 2013) The Swedish Film Institute conducts annual reports every year about the Swedish film consumption. The Swedish people watches films in different viewing windows. According to research conducted by the Swedish Film Institute (2013), several changes have been made in the way of distribution. For example, 52% of films are consumed in public TV, 23% in film channels, 15% in DVD and Blu Ray and 7% on the VOD and 3% in cinema theaters. The VOD has during the last year increased its popularity, and from 2007 till 2013, it has increased with 5% while other channels such as film channels, DVD and Blu Ray and cinema have declined. Consumers are increasingly consuming film and motion picture digitally. This presents both opportunities and challenges for the film industry (SFI 2013).

4.1 Production Funding

In order for a film project to initiate, the producer needs to seek investment and as a typical Swedish film is rarely able to cover their production costs by themselves. The biggest financier of Swedish films is the Swedish Film Institute (SFI), which is publicly funded by the Swedish Ministry of Culture. Therefore, the producer can apply for different kinds of production funding, of which the most common are *Produktionstöd*, *Automatstöd*, *Publikrelaterad Stöd* (PRS) (SFI 2013). A number of cultural and commercial criteria must be met in order to apply.

4.1.1 The Swedish Film Institute

The Swedish Film Institute (SFI) has a leading role in Swedish film industry with the main goal to support the production, distribution and exhibition of arthouse films, as well as to preserve the Swedish cultural heritage, make the film accessible and represent Swedish film internationally. They are financed mainly through government funds but also through the Film Agreement (SFI 2013) In 2014, 49% of the funding came from the government, 34% from cinema companies, and the rest is public and private television companies and regional productions centers which stood for 17% of total funding (SFI 2013)

4.1.2 The Film Agreement (Filmavtalet)

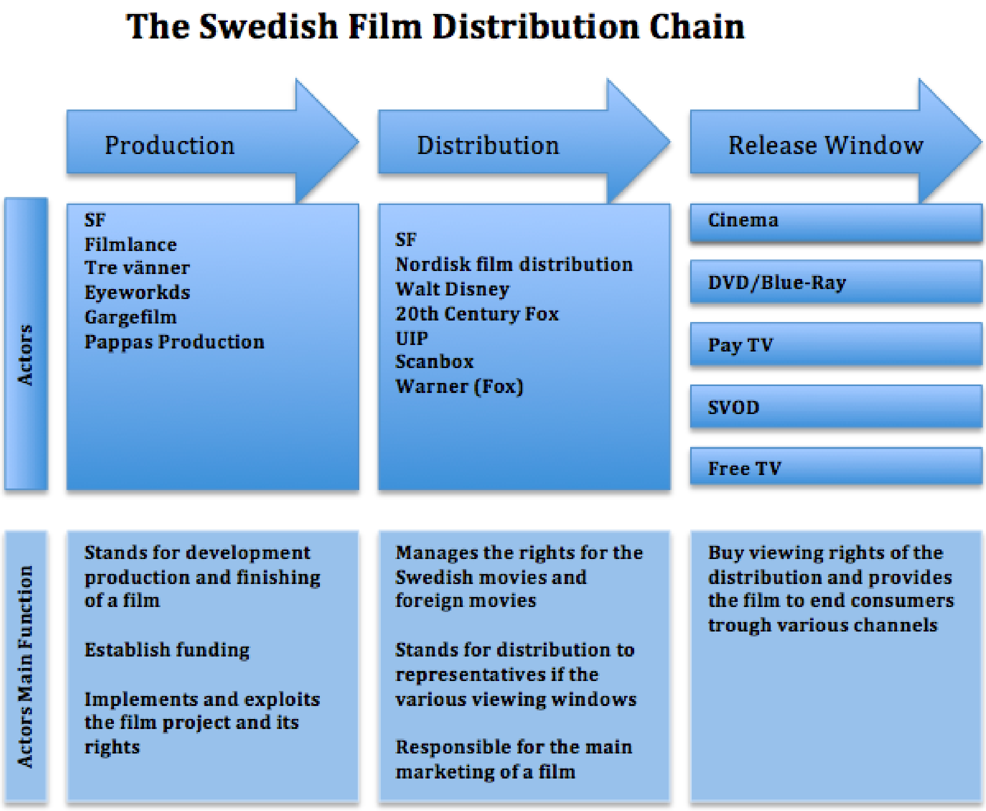
Film Agreement arose in 1963 and was founded on the initiative of film critic and businessman Harry Schein. The agreement came about as a result of the government and parliament wanted to support domestic film production, which in the 1950s had an increased competition of TV's inroads. The agreement meant, among other things, the introduction of a 10% charge on every sold cinema ticket (SFI 2013) The overall objective of the Film Agreement is to promote Swedish high quality film production of high quality and highly attractive both nationally and internationally, as well as a strong and dynamic film industry where production is characterized by continuity and renewal.

Furthermore, in January 2013 a new Film Agreement was established, which stated that the producer received a higher freedom in distribution and no longer needed to have a cinema premiere with theater companies. It will be in effect years 2013 to 2016, and was signed in 2012 and was further extended in 2014. This new agreement changed the distribution landscape and created new business opportunities for the industry.

4.2 The Swedish Film Distribution Chain

The Swedish film distribution chain consists of a variety of different actors from concept development and financing, to production, distribution and release to end consumer. The figure below gives an overview of the Swedish film distribution chain, the different actors and their main functions in the distribution chain.

Figure 5. The Swedish film distribution chain



Source: The Boston Consulting Group Annual Report about the Swedish Film Industry (2013)

4.2.1 Production

The producers, production companies, directors and actors are the creators in the film distribution chain. They are responsible for developing ideas, securing finance, implementing and exploiting film projects and their rights. Other players from both distributions and windows release actors often take the role as co-producers in that they participate in the financing of a film. The return on investment of a production is often difficult to determine. The financial risk has increased in recent years due changes in the industry (SFI 2013)

4.2.2 Distribution

In the Swedish film industry, the distributor is almost always involved in the process of making a film. In many cases the distributor is a co-financier of the film by lending money (between 300,000 SEK to 3 million SEK) to the producer and influencing the marketing plan as well as the distribution plan of a film project in exchange (Dedye, 2015). In the marketing plan, the distributor decides on a target audience and then allocates resources between PR, advertising and publishing. The total amount of resources put in the marketing plan depends on if the film is considered to be a "high concept" film (a movie that is expected to reach a very broad audience). With the total budget and resource allocation the distributor then enters into negotiations about release date with the cinema network (Nessen, 2012).

To conclude, the Swedish film distribution has two main functions: One is financing the production and the other is managing a marketing and distribution strategy. The distribution is in the heart of the Swedish film business and plays an important role as the medium between the producer and the audience.

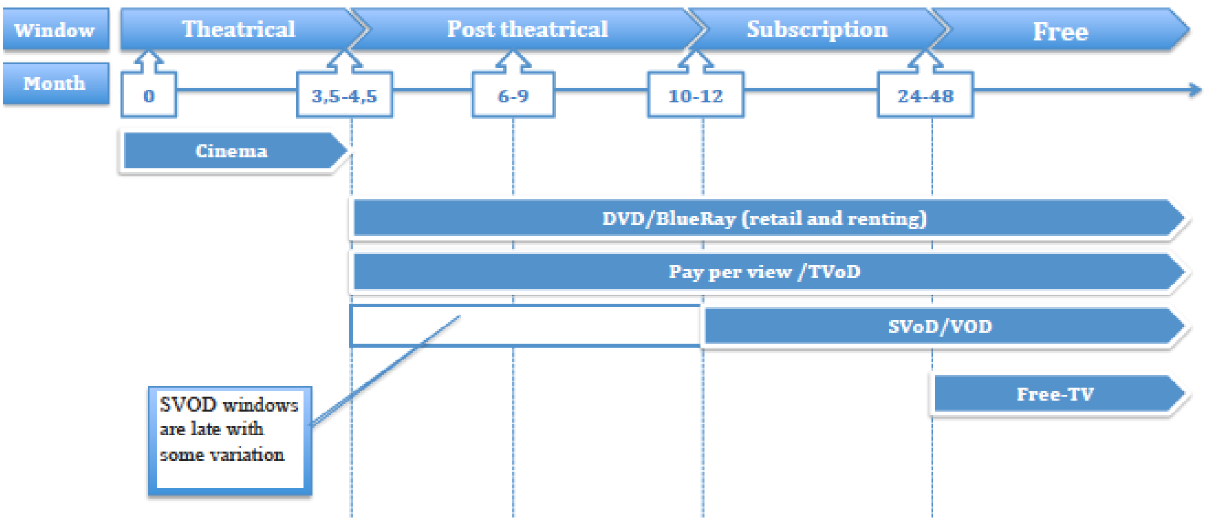
4.3 Window Timing & Sequencing in Sweden

"The decision of when to release a movie and to what channel is a strategic issue for the industry. At the end of the day, the studios are trying to maximize profits. The various distribution models revolve around maximizing the revenue from each type of consumer." - David Hsu, management professor at Wharton (Wharton university of Pennsylvania, 2009)

The film is released to its audience through one of the release windows. In Sweden the windows are divided into four main parts: The theatrical, post theatrical, subscription and the free window (BCG Report 2013). Each window has exclusivity rights meaning that a certain film can only be distributed through a given channel during a limited amount of time. This is regulated by the producer, distributor and different agreements (BCG Report 2013).

The figure below describe the different distribution window and sequencing and timing of each individual window.

Figure 6. An illustration of the Swedish film distribution windows and the sequencing and timing of each individual window



Source: The Boston Consulting Group Annual Report about the Swedish Film Industry (2013)

In Sweden, a film has a 122 days hold-back period at the cinema before it can be shown in the subsequent window. After approximately 3-5 months, the film is released on DVD/Blu Ray retail and rental. This also includes digital renting like Pay-per-view and TVOD, which together with the former ones comprise the post theatrical window. After about 14 additional months it is released on Pay-TV, or subscription cable and cable pay per view and VOD services, which can be either paid per stream or subscription based. Nowadays, the release to a subscription based window comes earlier than before. Around two years after its theatrical release, it is available on free-to-air TV. Each window in the distribution is available at different times to keep the revenue streams from competing with each other.

4.3.1 Cinema Window

During the history of the cinema, it has always been considered an exclusive window for film and in 2013 the cinema had over 16.6 million visitors (SFI 2013). From being the sole window for film watching, it has faced competition since the late 1950s from VHS, and during the last decade the film has also found new forms of distribution through for example television and video. Historically, for each introduction of a new release window, the cinema has had to upgrade itself in order to gain a competitive advantage again. For example, when radio made its entrance, the cinema upgraded their films from dub films to sound films; and when television started to show black and white films, the cinema upgraded to color films. During the entrance of VHS, whose threat was not realized by the cinema, a whole group of consumers could rent one video cassette and watch it at home with sound and color, losing the cinema up to ten potential customers for each VHS rental. Then, the cinema faced one of its biggest crises and started to make attempts in controlling the release windows (SF 2013) and continues to do so with the DVD and Blu Ray windows.

4.3.2 Market Share

Of the different cinema theatre companies, the biggest is SF Bio, which was created 1899 and is now owned by Bonnier Group. According to the publications by SFI, SF Bio had a market share of 65.4%, making them the biggest actor in the market (SFI 2013). In 2012 the tompany had a turnover of around 1,600 million SEK (SF 2015). Previously, SF Bio had one competitor: Sandrew Metronome, who then distributed the most titles after SF Bio. They however went bankrupt in 2004 and was later bought by Astoria Cinemas (NE 2015). The company yet again had a promising start but due to the competition, the company requested for bankruptcy in 2007 (NE 2015). When Astoria Cinemas departed, the only real competitor to SF Bio disappeared, which ultimately resulted in the monopoly situation of today. In addition to the bigger theatres, there are also smaller independent cinemas who aim to display arthouse and other niche films (SFI 2013).

4.3.3 Market share in DVD and the Blu Ray Window

"A paradigmatic shift has been occurring in terms of how film and media content at large is distributed, spread, and shared between people and organizations." (Throwbridge, 2013)

Digital technology quickly evolved during the nineties resulting in huge amounts of information that were now storable on a DVD disc. The Swedish population could now enjoy films with additional features such as extras scenes and multi-language selection. The DVD market went from 10% to nearly 90% during the five years from 2000-2005. After 2005, the DVD market continued to increase with a market worth of 2.5 billion SEK in 2009 (Sandström, 2012).

Since 2009, DVD and Blu Ray continue to decline as internet consumption of film increased, both legal and illegal. The spending on physical video decreased by 18.3% in 2013 compared to 2012. Furthermore, for the first time since the release of the format, there was a decline in consumer spending on retail Blu Ray in 2013. Consumer spending on retail Blu Ray stood at 226.3 million SEK in 2013, an 8.9%reduction in 2012, physical video continues to account for the majority of Sweden's film market, representing 69.4% of total consumer spending in 2013.

However, the fall of the physical video is compensated by the growing popularity of digital services with a market worth totally of 601.6 million SEK in 2013, which represents a big increase of 181.8% from 2012. Noticeably, 2013 was the first year Netflix and Filmnet have been fully operating in Sweden. Meanwhile, Amazon's Love Film announced its withdrawal from Sweden in June 2013 after several years' presence in the physical and digital rental markets (International Video Federation 2014). The physical video market is now undergoing a decline with the increased competition from the digital services.

4.3.4 Digital Services in Sweden (VOD)

"*Yet movie companies threaten to put Netflix out of business by charging them huge amounts of money to have access to their content. Netflix is in the forefront of the war on piracy, and the studios don't even seem to understand it. It's incredible.*" (Paul Tassi, 2012)

Today, availability has become a key utility in the motion picture industry as consumers no longer need to watch TV in order to see their desired content. Rather, they can stream or download it directly on any VOD platform. This is a result from the rapid development of digital services that took off in 2013 (Findahl O, 2012). In 2014 about 94% of the Swedish population watched TV at least once a week and about 30% used digital services to watch TV or films (Findahl O, 2012). According to the research conducted by SFI, the average Swede sees 80 films per year and 7% of them are seen on VOD, an increase of 210% when comparing year 2007 to 2013 (SFI 2013).

Since 2013, illegal downloading has actually been reduced and VOD has been seen as a key way to battle piracy by developing attractive legal alternatives for the relatively cheap and easy delivery of film (SFI 2013). However, the continued growth in VOD revenues cannot yet compensate for the ongoing decline of physical home video (Findahl O, 2012).

4.3.5 Free TV

The last window in the viewing window is Free TV. In this window the film is exposed several times during a longer period. When a film has reached this final window, the buzz and publicity have already worn off, rendering it outdated. "*The film industry is like that nowadays; you milk a film as much as you can, and then it's done. This takes a couple of weeks*" ((Matsson, 2015)

4.4 Pre-study and Main Study Findings

This section presents the results of the qualitative interviews. In order to get a wide perspective of the subject, 12 interviews were conducted with different actors from the production stage, the distribution stage as well as institutions in the distribution system. A pre-study was also conducted in order to get collect information from previous experience. For the sake of readability as well as to ensure anonymity for the respondents, they have been given fictitious designations.

Table 1. The Participants

	COMPANY	RESPONDENT
INSTITUTIONS	SFI	S1
	SFI	S2
	SVT	S3
	Biografcentralen	S4
PRODUCERS	French Quarter Films	P1
	B-Reel	P2
	Bright Pictures	P3
DISTRIBUTORS	SF Bio	D1
	SF Bio	D2
	TriArt	D3
	Folkets Bio	D4
	Non-Stop	D5

4.5 Pre-study Findings

"*I am constantly working in change, this industry is always changing*". - Cecilia Nessen (2012)

A pre-study interview was made with Cecilia Nessen, author of "*Tillbaka till framtiden*" (2012) (see chapter 1.3), and Mathilde Dedye, arthouse film producer at French Quarter Films. The results were four main themes that permeated the interviews: 1) the importance of having a *holistic perspective* on the study; 2) the industry's *inertia to change while being in change* at the same time; 3) *new consumption patterns and ways of distribution;* 4) and the *anticipation of a revolution in distribution practices*. These themes were later used as a basis for the script of the main study interview form.

4.5.1 HOLISTIC PERSPECTIVE

According to the respondents, it would be significant for the study to get the perspectives of both distributors as well as producers to get a holistic view of the situation. Cecilia says that the actors in the industry are strongly interrelated with each other and are dependent on the leading cinema exhibitor due to the technological bindings Films need to be produced and distributed with the technological requirements of the cinemas theatres in mind.

4.5.2 INERTIA MIXED WITH CHANGE

The Swedish film industry is still immobile compared to the change that has happened in for example the music industry, where services such as Spotify have won great market share. Despite the immobility of the Swedish film industry, there is constant change on another level. For example, since sales of DVD have declined as much as 30% of the total film revenues, the prepayment that producers used to receive thanks to DVD is no longer issued, making it even more difficult for producers to economically justify their projects. This prepayment cannot be covered by cinema revenues either because it is too difficult to estimate the audience, as it can vary from only 500 to 5 000 visitors for a film. Instead, the industry is still waiting for VOD services to take off so that the revenues earned can once again be distributed as producer prepayments.

4.5.3 NEW CONSUMPTION PATTERNS AND CHANGING DISTRIBUTION MODELS

At the moment, there is a gap between the demand and supply of VOD services, both in terms of accessibility and usability for the existing ones. According to both respondents, consumers that would like to watch a film upon its release might not have the time to do so at the cinema, making them wait for up to 6 months until it releases in the next windows. During that time, the interest and buzz for the film might have disappeared. Both respondents state that they would be willing to pay 120 SEK to stream a film at home.

4.5.4 ANTICIPATION OF A REVOLUTION

The respondents believe that the distribution practices will undergo a dramatic change in the near future. Mathilde says that it has already changed and that she herself is a witness for it since she now distributes her own films - something that was not possible before because the cinema window was basically the only economically viable option for a film. Cecilia says that the industry is in constant change and that she is working in change every day. Having said that, the respondents agree that it is however too difficult to give an estimation of when the revolution would take place.

4.6 Main Study Findings

The findings and concepts extracted from the 12 in-depth interviews are presented in this section. The respondents have been divided and grouped into three parts: institutions, which comprise SFI, SVT, and Biografcentralen; producers, which comprise producers from the arthouse film studio French Quarter Films, medium-sized production company B-Reel, and big production company Bright Pictures; and distributors, which comprise SF Bio, TriArt, Folkets Bio, and Non-Stop Entertainment. Each group is then divided into the main question areas of the thesis: Current Practices and Challenges of Timing and Sequencing, Factors of Change for Current Timing and Sequencing Practices; and Predictions about Future Timing and Sequencing.

4.7 Institutions

4.7.1 Current Practices and Challenges of Timing and Sequencing

The respondents describe the current practices of timing and sequencing as still being under the control by several factors. Firstly, the cinema monopoly SF Bio, who aims to uphold the conventional sequencing structure by persisting with their exclusivity rights and hold-back period, something that S4 and S3 claim has to do with a desire by SF Bio to demonstrate their dominance. "*They don't want to lose their power in the market*", S3 says, and "*they are being very dramatic about it and arguing for the sake of it*", S4 says. Furthermore, the cinema actors are not willing to be flexible in the traditional exclusive exhibition rights of 122 days when they are negotiating with producers about the distribution of a film. The respondents think that SF Bio should not remove the hold-back entirely, but rather shorten it. "*This would be a much better option for the health of so many films in terms of revenues*", S2 says. A film that is financially limited is already at a difficult place to start with. "*A film that is already financially pressured cannot afford to expend on publicity more than once, and that time is around the time for the cinema release*", S2 continues. Furthermore, S4 claims that a cinema visit is non-substitutable with home consumption of a film. "*It's incredibly* *strong by the cinema to still holding their position after the industry has gone from only 3 channels to countless of them*". He even states that cinema could benefit from day-and-date releases, as an increased awareness of the film in other channels would lead to more cinema visits. A development that has however been witnessed in the industry is a shortening of the windows, something that S2 thinks is beneficial to the whole industry as a film title can then take better advantage of the buzz and publicity that are created around the time of the release. Another factor contributing to this development is piracy: *"On the internet, there is only a click away to the nearest website. In order to fight piracy, the industry must be more flexible in its window politics and not be stuck in the traditional. It's important to go with the ride when it's on*", S3 says. S1 and S2 think that even closer release windows than they are now would be beneficial, but S2 and S3 think that the will to change is not big enough. "*The wheels are spinning faster than they did before. […]. It's important to be able to use the windows closer to each other ,if the windows are not close enough, the viewer will have moved to the next film instead of waiting for the next window. It's important to utilize the windows closer to each other*", S1 says.

Another development is the appearance of alternative distribution practices as producers have become more ready to sacrifice their own projects in order to empirically test and understand new ways for a film to reach its target audience, which might not always be reached in classical cinemas anymore. At the same time, it is becoming more of a two-way channel between producers and consumers, as the latter want more options in viewing content. As S2 says, "*the new technology today has made the made it possible for consume to see films in other ways. The power has now switched from the cinema owner to the consumer*".

The closing of the new Film Agreement, which S3 was part of, has contributed to this change, as SFI now could approve of funding for films released elsewhere than the cinema. Recent films that are mentioned by S2 as examples for having skipped the classical distribution practices are *Ceremonin* and *Dyke Hard*, which used a day and date method of release. According to S1 and S2, if the cinema would agree to shorten the windows or use a day-and-date method of release, clearer examples of such cases need to be provided to them. "*The cinema could take damage or they could benefit – it's hard to know*", S1 says. However, as there are not many titles that are brought to Sweden each year, and to experiment with window shortening would imply too much financial risk for the cinema exhibitor.

The respondents agree that the current distribution practices make it hard for artistic films with a niched target audience to reach its potential audience. Currently these films have not deemed to be successful on the big screen and are forced to find other ways of distributing themselves. The risk for these films lies especially in the financing part of the film production process, where government support is being heavily relied upon.

4.7.2 Factors of Change for Current Timing and Sequencing Practices

During the last years, little change has been seen in the way the system works. S1 claims that the first factor of change is the Film Agreement if a potential change would occur. S2 agrees, and says about the negotiations that *"the same people were sitting there, each one defending their share of interests. As long as the negotiations aren't lifted to the next level, things will be the same"*. The agreement distributes 10% of the cinema revenues to SFI, which in turn distributes the funds to Swedish film projects and productions. The entire film industry has a strong focus on the cinema windows as the highest revenues can be made there, especially since the DVD window more or less disappeared.

Consequently, the second factor of change lies in the cinema theatres. The respondents from SFI say about SF Bio, who currently benefits from their monopoly power, that as long as they want to maintain the system, it will be very difficult to get them to change. The Swedish cinema is in turn governed to a large extent by the big American studios. "*They are sitting in their laps*", S2 says. These companies want to become profitable, and so a prerequisite for them to change is to being able to find a new, cash generating business model that involves changing the current ways of distributing. "*You can't just release a film like Hunger Games anyhow on NetFlix for 79 SEK*", S2 says. If the cinema would decide to shorten the windows or use a day-and-date method of release, they would need clearer examples of the efficiency of these methods. A third factor of change are the actors in the value chain who own the film rights, S4 says. "*They are the ones that need to decide to try something new*". However, he does not think that the bigger distributors are interested in alternative distribution strategies at the moment. According to him, it is rather the arthouse genre of films is the motor of the development: "*It's the smallest actors that are most willing to try new ways, they have less to lose from it*".

S2 and S3 argue that the willingness to change is there, but it is not big enough. S3 says that "*we can talk about it all we want, but we have no means to change it*", and S2 says that "*the awareness is there, but the willingness is not. In the end, we all need to change and to not be stuck in the traditional*".

4.7.3 PREDICTIONS ABOUT FUTURE DISTRIBUTION PRACTICES

S1 says that the total revenues in the film industry has fallen and that it is currently awaiting new revenue models to emerge. "*Looking back the last 3 years, there were no VOD actors on the market, to now, VOD has become a large part of the industry".* The market share that DVD once had has gone to other legal alternatives such as VOD, but revenues have not been compensated for yet. In order for the VOD actors to compete with the theatrical actors, the VOD actors need to reevaluate their business models. Until there is a viable revenue model it will be hard for the distributors to change the traditional practices. *"The distributors earn a lot of money from the cinema but little from VOD"*, S4 says. S1 further says that the film industry has yet to find a user-friendly way of distributing films on the Internet, and that there are many illegal and free alternatives that are as convenient to use as the legal ones. "*To compete against free is tough. But to compete against free and better is extremely tough*", S1 says. S3 hopes that in the future more actors are involved and take responsibility for the development of the industry, financially and strategically. She further claims that in order for the industry to develop, it will first need to decline and hit bottom. First then, the new viable business models can emerge. According to S4, the development has gone so far that the critical tipping point has been reached in last year or this year as we have seen a great increase in film releases over two or more channels simultaneously.

S3 says that there are still many important actors that are excluded from the Film Agreement negotiations, such as satellite cable companies and VOD actors, even though they are becoming more and more influential in distribution practices. For the future, she hopes that the producer can choose how they want to distribute their films and not be restricted by the cinema hold-back. "*You can always defend the window practices as they are now, but that is simply not realistic. The ones that have incentives to defend it will do so for as long as possible*", S1 says.

4.8 Producers

4.8.1 Current Practices and Challenges of Timing and Sequencing

P1 describes the current distribution practices as a result of "yesterday's system", which has been the prevailing system for 20 years. According to her, it is a defensive strategy which is being employed although it is evidently failing. She works in her own way as they distribute their films themselves, circumventing the conventional distribution sequencing. On that subject, P2 says that "*the pattern has already been broken"*. She further claims that the current competitive landscape is unfavorable with too few alternatives for cinema distribution and poor conditions since the disappearance of Sandrews.

The producers describe the film industry as complex and with many different actors with different agendas. P2 says that by looking at the industry as a spectrum, we have the cultural-political incentives on one end, and the commercial incentives on the other. The farther we move towards the cultural-political end, the more incentives there are to change current practices, and vice versa. The two different sides of the film industry do not compete on the same terms, as the commercial part much more easily gets investments by investors. The cultural-political side of the industry is experiencing more difficulties with the current distribution practices. P2 tells that the situation is different in terms of distribution when comparing an arthouse film to a commercial title. "*If you have a small arthouse film with a heavy subject, then it's another situation than if you have for example a comedy"*. P3 tells that the problem with smaller producers is that they do not reach up to the audience potential threshold for a cinema release. As up to 90% of films revenues can be allocated from this window since the fall of the DVD window, this is naturally the most attractive one for producers. P2 says that "*you have to prove for SF that the film will do well"*. The second problem that smaller actors face is how to invest in the marketing of their films, as a cinema release contributes a lot to a film's publicity. "*You invest in marketing proportionately to what you believe that you can receive in revenues. So the problem is the money*", P3 says.

Digitalization has definitely changed distribution practices. For example, the technical aspect of distributing a film has been facilitated a lot thanks to digital film copies that can be reproduced infinitely. Before, physical copies were transported by train and the cinema set-up were determined months in advance. "*Nowadays, the problem is not in how to technically get a film out anymore*", P3 says.

4.8.2 FACTORS OF CHANGE FOR CURRENT TIMING AND SEQUENCING PRACTICES

P3 claims that the consumers are the most important factors of change. "*The money is the driving force. The day when consumers pays 200 SEK to watch a release on a VOD store, and the producers gets 100 SEK of the 200 SEK. Until then, there will not be a change*". She claims that otherwise, the cinema theatres will only lose revenues.

P2 mentions VOD as the second driving force, but the current services have yet to come up with viable business models. "*VOD is a very immature market*", P3 states, and P2 says "*the fallen DVD market hasn't been picked up by VOD yet"*. Furthermore, the P3 says that some actors have already damaged the perceived value of the VOD due to under-pricing, the same thing that happened to the DVD market. "*At the end, you could find a DVD in the trash pile in the supermarket*", P3 says.

Digitalization has however not changed the fact that the cinema still remains as a significant window because it serves as a platform for garnering attention and hype for the rest of the film's life cycle. Therefore, SF Bio is a big factor of change according to the producers. SF Bio is also one of the big parties in the negotiations of the Film Agreement, in which SF Bio has a major influence. According to P1, this further serves to preserve the system as it is today despite not functioning optimally. This then correlates to the second factor of change, which is SFI, as they are the ones that decide on which projects that get funding, a step that determines whether a project gets a chance to be born.

Further, an important factor of change are opener mindsets of individuals that decide to approach a new way of distributing films as P1 says that the industry actors rely heavily on conventional wisdom and tradition in their day-to-day work. "*The majority of the industry are schooled in a certain way of thinking and are locked in this way"*.

4.8.3 Predictions about Future Distribution Practices

"*As soon as you talk about distribution, you talk about change*" - P2

P2 states that the whole industry is changing all the time, but she has few expectations for a future breakthrough of day-and-date release strategies. "*Some have tried it, but there is no economic viability in it. Maybe they haven't had much hopes for it".* P3 says that in the future, there will be more collaborations with international actors with TV distribution, and with smaller distributors as well. The small producer agrees with this statement as she states that significant changes have already taken place. For example, she distributes her films by herself, and many other producers have more possibilities to reach out to their target audiences than before. At the same time, more and more subcategories of films will appear, and consequently the importance of market communication will increase due the increased marketing buzz. According to P3, the biggest changes will most certainly take place by the big distributors as they will need to adapt to changing circumstances.

As for the production stage, their ways of working will remain the same. "*Our [the producers'] focus is to make great products that have good target audiences. It's a creative process that doesn't change a lot*", P3 says. As for the distribution stage, P1 believes that it will become more complex and that vertical integration will become more common as producers will find their own ways of distributing films. Meanwhile, big cinemas will have another way of working, and they will release their 4 months hold-back to maybe one week, mainly due to the piracy concern. Further, day-and-date releases will exist. For example, the film Ceremonin employed this strategy and reached a total audience of 3000 instead of 1700, which they would have had if it was only showed in the cinema. For VOD, she posits that reachability and price will be the two most important factors. Further, the availability of film titles and market communication are two other important factors.

4.9 Distributors

4.9.1 Current Practices and Challenges of Timing and Sequencing

During the last couples of year the distribution practices have changed a lot. Above all, the viewing windows has been shortened. Before, it lasted 6 months between the theatrical release and the DVD rental window, but are only 122 days between them. A driving force behind this change has been piracy; by providing consumers with legal options of watching a film sooner after its cinema release, they are not as likely to reside to illegal downloading or streaming sites. D1 says that "*nowadays, as soon as a film is shown, it will be available on the internet as well. The sooner you cut the window, the better*". The forces that uphold the conventional window orders are according to D5: SF Bio monopoly, and distributor incentives and business models. D3 says likewise says that the system as it is further conserved by the contracts that are struck between the producers, the distributors and the cinema, when the production and distribution are agreed upon already 2 to 2.5 years before a film is released. Although most respondents agree that the cinema experience is unsubstitutable with home consumption or consumption with a portable device, SF Bio still has a fear that the cinema audience might take damage, and according to D1, even the whole industry, as "*it would change irreversibly.* [...] *It is naive to believe that it would be better to further shorten the windows*". As long as there is no conclusive evidence to show, the cinema will keep its rights to exclusivity, and thus does not see a change of the ways they are working anytime soon.

The cinema still holds the most important position amongst the release windows, not only for a film but for the whole film industry as well according to D1, as the marketing activities in terms of the publicity and buzz around a film release that takes place around its release will benefit later releases on the coming windows. D3, on the other hand, says that the monopoly is devastating for the entire industry as the monopoly effectively gets the final decision on whether a film should even get a chance to survive or not. Furthermore, D5 says that the physical release of DVD and VOD releases have even been placed together in order to better utilise PR and marketing costs, as well as the costs that are made for cinema set-up and studio. Therefore, there are two pikes of releases today: The cinema release and the release for home consumption.

As known, piracy has become a huge problem, but it has spurred the development of the industry as well according to D1. She says that "*nowadays, as soon as a film is shown [on the cinema], it will be available on the internet as well. The sooner you cut the window, the better*". However, piracy cannot be stopped very easily because *"as soon as one page close down another one pops up*".

D4 describes the film industry as being dichotomized into two parts: one part which has commercial goals, to which the SF Bio monopoly belongs; and the other part which works towards cultural and artistic goals. The commercial part of the industry is governed by profit and is upholding the industry structure as it looks today. The cultural side, which is much more financially pressured and dependent on government funding, are trying to find alternative ways of distributing. These two parts are competing against each other but on different terms. "*It's absurd to even compare the two*", she says. Today, she says that the problem lies in the low awareness of arthouse films amongst the population, which is due to the low marketing budget that the smaller actors dispose of. D4 says "*We are not there yet. We aren't coming there. It's difficult with the money. You can only earn money in the [big] cinema*". Finally, she says that "*today, the access to big films is big for everyone, and the biggest films are also the biggest winners*".

D5 tells about the emergence of day-and-date releases made by medium-sized distributors and studios, a recent trend that has been seen in the USA. For example, medium-sized distributors such as IFC Weinstein, Magnolia, Skilloscope, Roadside Attractions, have all had releases on VOD windows, even before the cinema release. The price charged for one stream has then been higher than the cinema release, making it into a kind of exclusive pre-release window. When the film is then shown on the cinema, this pre- release VOD window closes. The cinema holdback is then shorter, releasing the film on DVD sooner. This way of distributing is a way for the medium-sized distributors to experimenting and finding new ways of working outside of the conventional windows.

4.9.2 Factors of Change for Current Timing and Sequencing Practices

According to D3 and D4, the first factors of change are the consumers. They say that digitalization and new technology have increased the options for a consumer to watch a film. For example, watching films have moved towards digital outlets, and more and more consumers are watching films through their portable devices as well (mobile phones and tablet PCs). The new consumer behavior has created a new business opportunities for the industry. Currently the distributors are not catching up with changing consumer trends and consumers are not aware of the current problem. Consumers can not yet see a film on VOD when they desire, instead they have to wait for 3 months. "*They don't know why they can't see a film on VOD when they desire instead they* *have to wait 122 days*", D3 said. This creates an unfilled need that will have to be met sooner or later, something that the majority of the respondents agree to, except for D1, who argues that the consumers will simply need to wait or otherwise there will be no distinction between the different channels anymore. "*There is regular ketchup, and then there is Heinz ketchup. We are like Heinz, and if it would cost as much, why would anyone buy Heinz ketchup anymore?*" Corollary to this, the factor of change remains in the revenue potential that consumers possess. "*They day when they show us a concrete example of a functioning day-and-date release, then we will consider this option*", D1 says.

The second factor is the cinema exhibitor SF Bio, whose monopoly power grants them higher bargaining power in the distribution chain. According to D1, the cinema is the most important window for a film as well as for the whole film industry since the downfall of the DVD window. The cinema's share of total film revenue is superior in comparison to other windows, bringing high revenues to the producers and also contributing to market a film title in the next-coming windows.

Thirdly, the Film Agreement, with the latest one struck in 2013, is another factor contributing to conserve the system as it is. Despite cancelling the compulsion for cinema distribution for Swedish film releases in the latest agreement, it is still built around the cinema since cinema revenues after all finance it. SF Bio is also the strongest party in the negotiations leading up to the agreement and they have little incentives to change the current practices. Telia was once part as well, but their requirements of exhibition rights were too high and their fee contribution to the agreement was too low, losing them their space in the negotiations.

Fourthly, a change can occur is the large American companies who can put certain demands on a certain form of window distribution. A dominant part of SF's revenues come from Hollywood films, which is therefore the fourth factor of change. "*If they would come with demands of a change, SF would be keener to listen*", D3 says.

4.9.3 Predictions about Future Distribution Practices

The Swedish film industry is changing drastically as consumer behavior is shifting more towards digital consumption. D2 thinks that the digital consumption of films will increase at all consumer levels, which is a positive consequence to the whole film industry. ”*Digitalization has opened lot of opportunities and potential for consumers to enjoy films sooner, in different formats and through a variety of distribution channels - also in cinemas*”. Digitalization and the shift in consumer behavior have already challenged the old business models in the industry and pressured cinemas to invest more in their infrastructure, services and the cinema experience itself - positive areas of improvements for consumers and the whole film industry. In the near future, D2 thinks that consumers will be able to watch a film in whatever channel they like.

D1 and D4 think that regardless of any developments that might take place, the uniqueness and unsubstitutable cinema will still remain strong and maintain an appreciated position by the consumers by staying a par with consumer trends and always trying to enhance the cinema experience. “*If cinema has survived all these years, how could VOD all of a sudden challenge it?*” D1 says. Due to the monopoly situation in Sweden, D3 does not believe that anything will change, but she speculates that if it would change, it would change in a sudden and unanticipated fashion when VOD actors become a “*force with power and popularity*”. D4 agrees with this and say that “*SF Bio will fight the change as long as they can, but one day they will just decide to go along*”, as this was the case with digitalization as well, when SF Bio refused to adopt the new digital technology with film copies. Today, this technology greatly facilitates their operations. D5 speculates that even though consumers are not aware of any changes, the industry is always changing. For example, NetFlix is making their own feature films, integrating the value chain backwards. He says that “*in the end, the cinema chains will have to change as well, however hard it is to predict*”.

Besides this, D5 tells that the media industry has had many examples of alternative and novel ways of distributing, especially internationally. For example, comedians in the US have sold their shows on their own websites. He further believes that the big change will start in there, when a big distributor in crisis due to new consumption patterns will start to experiment with different ways of distribution. “*These new ways will eventually spread to Sweden as well*”, he says. Furthermore, more tailored methods of distributing will be more common, where each film is released differently depending on its target audience. “*In the end, the film industry has been in crisis since day one and will still adapt itself*”, he says.

4.10 Summary of the Interviews

"*On the one hand, nothing has changed at all. But on the other hand, things have changed, slowly and gradually.*" - D5

To summarize the interviews, it can be said that most respondents agree that the industry is changing right now, although big parts of it are still stuck with the traditional. Smaller distributors, who are generally dissatisfied with the monopoly situation, are finding new ways of distributing, while the big blockbuster titles that are produced in Hollywood are still going through the conventional sequencing of windows with a cinema release and hold-back period of 122 days. Smaller producers and distributors who focus on arthouse films suffer from the conventional distribution system as they have a smaller marketing budget and cannot afford to promote the film as extensively, resulting in low knowledge about their films amongst the population. The respondents point out that the industry is divided into two different parts, each with their own agendas: one side working for cultural and artistic goals, and the other for commercial objectives. These two sides compete on two completely different terms, as the commercial side gets funding much more easily than the cultural side.

A large part of the respondents believe that the SF Bio monopoly position inhibits the development in Swedish film distribution. They would like a more flexible window system where different types of release strategies can be used depending on the film. The cinema exhibitor SF Bio is against opening up the window system and argues that there is no evidence this strategy will work or serve the industry but rather damage it as the cinema windows' revenue share highest in comparison, bringing high revenues to producers and giving them even more incentives to produce films. Furthermore, the huge amounts of PR and marketing that a cinema invests in will help the other following windows drive their revenues. Since the fall of DVD and VHS, the cinema window now remain unchallenged in terms of revenue. However, many respondents do not think SF should feel threatened by other windows as it is unsubstitutable with home consumption. To change SF Bio attitude towards opening up the distribution windows is very difficult but several of the respondents believe that if a change would occur, it would start in Hollywood.

Another change that has taken place recently is the emergence and adoption of new technology. Digital film copies have helped the cinema theatres immensely in planning, as digitalization has helped many smaller producers and distributors find new ways of reaching their target audiences.

Many of the respondents believe that the consumer is now at the center of the developments in distribution practices. Consumers have become more impatient, and soon enough, they will demand the possibility of being able to watch a newly released film anytime anywhere they desire - or they will turn to piracy. With changing consumer preferences and technological developments, the respondents hope that digital distribution channels like VOD will prevent this. VOD services are relatively new on the market and are thus undeveloped in terms of revenue models, assortment, accessibility, and user friendliness. Before the VOD services market has found a sustainable equilibrium with viable business models, it will have faced its lowest point, purging itself from weak actors. Finally, it is believed that tailored distribution strategies will be more common, where different films will be released differently and to different target audiences.

5 Analysis

This chapter analyzes the empirical findings in parts 1 and 2 in chapter 4 using the theories presented in chapter 3, with the aim to increase the understanding of the findings. The analysis is divided into the same three main parts as the previous chapter: current film distribution practices, factors of change, and future predictions for distribution practices.

5.1 Current Film Distribution Practices in Sweden

Film consumption remains stable at 80 films per year per person but the chosen channels in which the film is consumed has shifted towards digital outlets. Although cinema stands strong as a springboard to subsequent channels, the current distribution practices are being challenged. The Swedish distribution practice is built on a sequential distribution system with the rationale of Lehmann & Weinberg (2000) to maximize revenues by price discrimination and creating series of revenue streams. It also allows subsequent distribution channels in assessing audience size for a film with the information from previous channels, helping them in strategic and tactical decisions for a release in their own channel.

It is evident that the current distribution practices are not efficient in meeting consumer demands as they are becoming more impatient wanting to watch a film as soon as possible after its release. If the windows last too long between each other, the interest for a film will have perished and the next film will have caught their interest instead. There are benefits of shortening the windows than they currently are. This holds especially true for smaller, niched films. For example, Twilson & Norton (1998) state that the optimal time to launch a product is relatively early in its product life cycle, possibly even as soon it becomes available. As small films have lower budgets for marketing and a lower visibility in the cinema theatres, the producers can exploit the publicity garnered during the cinema release by shortening the cinema window.

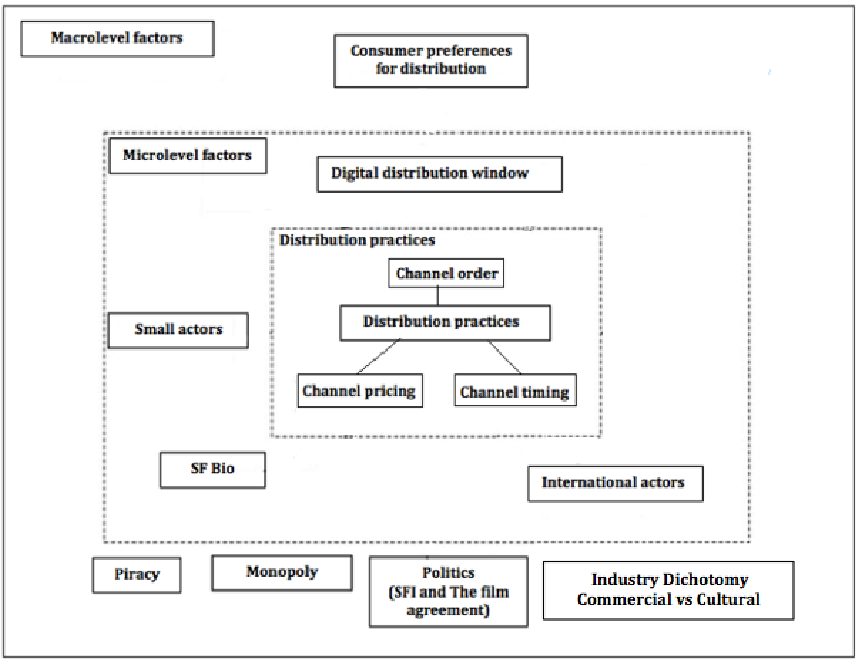
It is further evident that the Swedish motion picture industry is dichotomized into two parts as regards to the objectives of the actors within: One part is driven by cultural goals and the other by commercial goals. These two parts operate on widely different terms, with the commercial part of the industry having easy access to funding while the cultural side oftentimes struggle to finance their projects. Instead, they rely heavily upon SFI funding and other support. The findings suggest that the allocation of film titles in each part is such as described by the Long Tail Theory: The commercial titles form the head while the niche films comprise the tail. The Swedish cinema monopoly operates on the commercial side of the industry and therefore prioritizes mainstream films with the most promising revenue potential while rejecting smaller arthouse types of films. The smaller films are then left to find new ways of distributing their films to their target audiences without being able to benefit from the publicity leverage that cinema titles do. Our results indicate that the tail of the curve is becoming thicker as digitalization has opened new paths for smaller titles to find their ways to their consumers and circumventing the cinema channel. Further, the tail might grow thicker as VOD services are increasing in popularity.

Even though the cinema channel is not perfectly substitutable with home consumption, a certain substitutability does exist. This explains the big cinema actor's fervent refusal to remove the cinema hold-back, or even to shorten it. Today, the consumers have the chance to see a film wherever and whenever they want in whatever format is most convenient for them. Thus, the part of the cinema audience that are not seeking the general cinema experience and associated amenities as their main utility, but rather only wants to watch the film per se, is at risk by new alternative distribution channels.

5.2 FORCES OF CHANGE

By analyzing the interviews and using the modified version of Hennig-Thurau (2007) conceptual framework, different factors and actors that can affect the contemporary of film distribution practices in Sweden can be identified and are described below. Then, the interrelatedness between the factors are analyzed, outlined and described in the final section of this chapter.

Figure 7- Factors of change for film distribution practices



5.2.1 INDUSTRY DICHOTOMY

"To know if there are any incentives to change, we will have to look at the industry as a spectrum, on which we have the cultural-political objectives on one end, and commercial objectives on the other. The farther we move towards the cultural-political end, the more incentives there are to change current practices." - S4

The actors in the Swedish film industry have different interests and agendas. The dialogue and transparency between stakeholders is a part limited and there is no coordination from a purely commercial perspective. The interview describes the current the film industry as having two with completely different objectives: One being the commercial and profit maximizing and the other being the cultural. Furthermore these two different sides of the film industry do not compete on the same conditions, as the commercial part has much easily gets investments by many investors. Currently the cultural part is struggling with the current distribution practice and in order to compete the need to get more support and support and attention from governmental institutions such as the Ministry of Culture. The Swedish Film Institute is working towards this goal as they have certain incentives specifically for producers and cinema theatres, so that they can show more quality films.

5.2.2 THE SWEDISH FILM INSTITUTE

Film is considered as a national cultural heritage and is therefore subject of state interest, which is manifested mainly through the Film Agreement. This agreement regulates the funding of SFI's production support and has a direct effect on Swedish distribution practices. A lot is determined by the way the Film Agreement is formulated.

The current film agreement is built mainly around the cinema since the cinema after all is one of the bigger financer to SFI. Cinema owner is the strongest party and they have no incentives to change the current distribution practices. Other parties that are included in the negotiations are SVT and TV4, who want their distribution rights as well. Thus, by including other actors in negotiations, favourable conditions for being able to change the distribution practices can be achieved.

5.2.3 SF BIO, MONOPOLY AND HOLD-BACK PERIOD

The motivation to change the current film distribution exists in the industry but the interrelatedness between the different actors in the distribution chain makes it difficult. Many of the respondents associate SF Bio monopoly stand with development processes in the distribution practices: Firstly, SF Bio controls the distribution by its 122 days hold-back. Secondly, SF bio is one of the biggest investors in the Swedish motion picture industry, as SF Bio contributes with 10% of the gross price for every sold cinema ticket to the Swedish Film Institution, a crucial amount for financing new films. In other words, the dominating cinema exhibitor controls both the window politics and the flow of money in the network. Furthermore, cinema has become the most lucrative distribution window since the rapid decline of DVD sales, which has not yet been covered by VOD revenue. This gives SF Bio a disproportionate amount of bargaining power in the distribution chain, a power that the company is exploiting to a full extent.

5.2.4 SMALL ACTORS

Smaller distributors other than SF Bio and Svenska Film are constantly pursuing new ways of distribution as they try to circumvent the conventional window sequencing, making them the most likely innovators that have the potential to change the distribution practices. The contemporary practices of timing and sequencing in Sweden is still under the control of SF. However, in the last 2 years, many producers and distributors have witnessed an appearance of alternative strategies besides the conventional window sequencing as producers have been more willing to experiment lately with new ways.

5.2.5 INTERNATIONAL ACTORS

Since the downfall of the DVD, this window can no longer be relied on for a safe return on investment. Distributors are thus making safer choices about which films to distribute. As the great majority of the economically secure films are Hollywood-produced, SF Bio as the biggest and most influential distribution channel chose them in front of other, financially less secure films. The Hollywood distributors, in turn, have the capability to impose their conditions on distributors that exhibit their films. As Hollywood companies are also commercially driven, on of these conditions is the revenue maximizing cinema hold-back. If Hollywood puts demands for a certain form of window distribution, SF bio might have to meet these requirements.

5.2.6 Consumer Preferences

Media consumers nowadays are becoming more impatient as they want to have access to everything and everywhere. Digitization has made it possible for the new digital services to emergence and created new business models that better match consumer needs. At the same time, they are more technologically savvy than ever, being habitual users of portable and stationary devices. They want to be able to see the latest films and listen to the latest music regardless of where they are located, be it watching it on the computer at home, or even on the mobile phones on the metro.

If the consumers are not able to access their desired content immediately, they will find ways to do it, and more often than not this will be through downloading. People nowadays are also relatively unaware of the differences between legal and illegal consumption. Illegal streaming sites such as for example Swefilmer.com have become user friendly and have a professional layout. To counter this consumer impatience potentially leading to piracy, the cinema window has been shortened over time, and the next home consumption windows DVD rental and purchase, as well as VOD, have been merged. Since the power is in the consumer's' hands and this affects the consumers in the end, they should raise their opinions.

5.2.7 Digital Distribution Window

In answer to the changing consumption patterns, new types of distribution have emerged. Amongst these are the SVOD and TVOD. The new digital distribution window is relative new to the consumer and the existing VOD services of today are however still relatively undeveloped. In order to compete with the other windows in the distribution chain, the VOD actors need to reevaluate their business and create a more user user-friendly platform. The prices charged for each film is very low compared to cinema (39 SEK versus 110 SEK), and a few actors are even lowering their prices even more (0 SEK for a stream), affecting the perceived value that a consumer has of all VOD services. This can be compared to the fall of the DVD - from being a high-worth product that consumers could spend a couple of hundred SEK on, to gradually becoming an item with almost no worth at all when they could find them for 20 SEK a piece in the grocery store.

5.2.8 Piracy

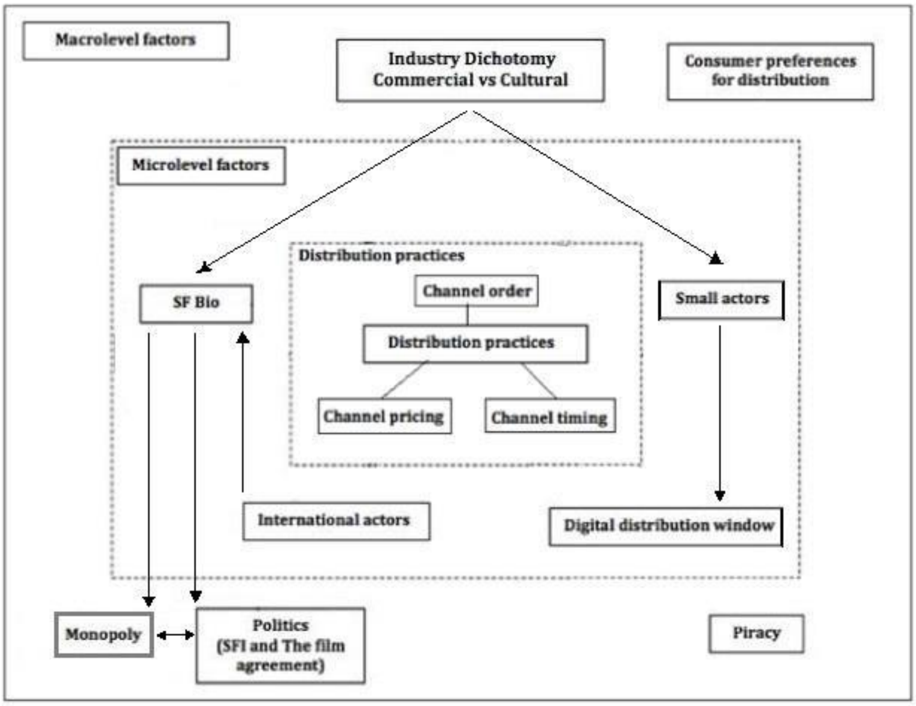
Piracy has had an enormous impact on the film industry. The expansion of the internet has led to the evolution of film distribution practices as well, as industry actors have sought to give impatient media consumers legal options instead. This has created opportunities for small producers, who may otherwise not have other options through which to distribute their films. As a result, the windows have been shortened and VOD services have emerged, trying to provide consumers with a legal, technologically superior, and user friendlier alternatives. As with during the history of window sequencing, the windows have been shortened, and even more so during only the last 2-3 years. When TV and VHS were the two only alternative viewing windows to cinema, the cinema hold-back lasted from 6 months to one whole year, with yet another year until a film was broadcasted on TV. Now, the cinema only has 122 days exclusive exhibition rights.

Sharing of content, primarily on the internet, is prohibited against the IPRED law which protects immaterial rights and intellectual property in Sweden (SVT, 2012), with the aim to protect the work of and maintain the royalties that producers of intellectual property, for example of art, music, and film, are losing due to illegal downloading. However, it has been criticized for impinging the natural development of consumption patterns in the new generation of consumers and for trespassing personal integrity by making personal data available on the internet (Domstol Rättpraxis 2012). Furthermore, according to the copyright law, by downloading a movie through the internet without the author's consent is illegal, however it is not illegal if the movie is streamed even though the content has not been approved or uploaded by the author. The IPRED law proved most effective when it was introduced in April 2009, as DVD sales increased with 26% during that month compared with same month during 2008, and declined later again when it did not gain support in the court. This clearly demonstrates the effects on consumer preferences of distribution channels when faced with judicial intervention.

5.2.9 The Interrelatedness Between the Factors of Change

The findings suggest that many of the factors that can be identified are closely connected to one another, in a way that one factor is contingent on the existence and influence on another factor. The connections are illustrated in figure 7.

Figure 8. The interrelatedness between the factors of change



As can be seen in the diagram, the interrelations stem from the dichotomized industry structure. On the commercial side, SF Bio as a dominant film exhibitor contributes to 1) maintain the monopoly situation and 2) reinforcing the cinema's importance in the industry by dictating the film agreement's clauses. The film agreement in turn sustains the monopoly situation. SF Bio, however, is heavily influenced by the suppliers of their most lucrative film titles. These suppliers are the Hollywood-based film studios and distributors, which demand a hold-back time for being able to distribute their films. Thus, it can be seen that the monopoly situation with which there is so much dissatisfaction, is instigated not by SF Bio alone, but already from their overseas partners.

On the cultural side, the small actors are the ones driving the change by trying to find new ways to their target audiences. Thus, the digital distribution channel is thus contingent on these actors and would not have witnessed the development it has undergone, nor will it witness it in the future. Piracy as a factor strongly affects both parts of the industry: shortening the holdback period in the commercial side while driving innovation in both sides.

5.3 PREDICTIONS ABOUT FUTURE DISTRIBUTION PRACTICES

The third part of the analysis treats the question of where the distribution practices are heading. As can be revealed in the findings, the current practices are upheld by the rigid structural bindings in the film industry. However, many changes have still occurred with a clear trend towards digital migration of the distribution as both the cinema actors themselves as well as cable companies and own VOD actors have appeared. This development is further spurred by the smaller producers and distributors that are trying to find new ways to reach out to a larger audience with their films that do not have large enough public appeal to access the cinema theatres.

As by Zhu (2011), VOD fulfills the requirements for a disruptive innovation in the market as it has the potential to lead to deep structural changes and wide implications for all existing actors in the whole distribution chain. According to Zhu (2011), four technological prerequisites need to be fulfilled before a market has the possibility to adopt the VOD: broadband Internet connection, digital file compression, streaming media, and encryption. Sweden is known to have one of the world's fastest Internet speeds with up to 8.4Mbps and the needed technologies, which permits the four prerequisites to be fulfilled. Furthermore, VOD is an Internet-based technology, whose breakthrough is according to Arianfar et al. even harder to predict due to the fast diffusion that social media and a highly connected society such as Sweden is. They also posit that a "user-pull" approach needs to be used to predict the readiness for the consumers to adopt this technology.

6. CONCLUSION AND DISCUSSION

In this chapter, the conclusions of the study based in the analysis in the previous chapter will be presented as well as discussed. Answers will be provided to the three thesis questions. Then, their managerial and societal implications will be presented. The chapter ends with the author's' critical reflections about this study and presents suggestions on further research.

6.1 CONCLUSION

The purpose of this paper was to explore the Swedish film distribution practices through in-depth interviews with key actors from the film industry. Actors from the productions stage, distribution stage and film institutions were interviewed. From the findings acquired, predictions were made about the future of Swedish film distribution. Together with previous research and theories about supply chain management and disruptive technologies, the thesis questions that were sought to be answered were:

I. What are the general practices of film distribution in terms of sequencing and timing of the release channels?
II. What forces of change can be identified in the Swedish film industry that could change these?
III. Given these, what are the industry's predictions about future distribution practices?

Based on the analysis of the interviews, this chapter will present the conclusions of the results. The thesis questions will be answered in brief and discussed.

6.1.1 WHAT ARE THE GENERAL PRACTICES OF FILM DISTRIBUTION IN TERMS OF SEQUENCING AND TIMING OF THE RELEASE CHANNELS?

Currently, the Swedish distribution practices follow the traditional window sequencing, where a film is typically released on the cinema and then released on subsequent windows after a hold-back period of 122 days. After this, the VOD and DVD rental windows are all opened simultaneously. The Swedish motion picture industry is furthermore dichotomized into a culturally targeted part and a commercially targeted part. The culturally targeted part has been making use of alternative distribution strategies such as the day-and-date release, of which digital distribution channels such as the VOD are becoming more important. The commercially targeted part is heavily influenced by the largest cinema exhibitor, whose interest is to maintain the conventional window sequencing in order to maximize their revenues.

The authors believe that it is evident that two opposite standpoints try to make their opinions heard: One that wants to conserve the conventional distribution system to maximize revenues with exclusive distribution rights, and the other that wants to loosen up an “outdated” model of distribution. On the surface, both sides argue that it is in the interest of the whole industry; the cultural side claiming that the conventional distribution system only contributes to worsen the issue of piracy, while the commercial side says that films have always been a product made for cinema theatres and that a film’s continued value is dependent on the publicity surrounding the cinema release. Could it simply be that the actors are looking after their own interests and neglecting the interests of the other part? The cultural, smaller producers who only want to make films for the artistry in itself and demanding only the payment needed to sustain it, while the big cinema exhibitor wants to maximize their revenues. In the end, however, it is in the interests of all the actors to preserve the industry. Perhaps it would be beneficial for the entire industry to work toward the interests they have in common instead?

6.1.2 What factors of change can be identified in the industry that could change these?

As the interviews indicate, many of the actors wish to shorten the cinema window. According to the findings, the factors that could possibly change the practices of today are the macrolevel factors *consumer preferences for distribution, piracy, monopoly situation, politics,* and *industry dichotomy*, and the micro level factors *digital distribution channels*, *small actors, SF Bio,* and *international actors*. In the analysis, the interrelations between many of the factors were demonstrated.

The question remains of how much influence each and one of these factors have over the current practices, and which ones that need to intervene and act in order to change things. Perhaps, are there even a few that could potentially lead to dramatic changes in the ways films are being distributed? Undoubtedly, the SF Bio monopoly is one the most influential factors in preserving the system, while the smaller actors are the ones striving to innovate for instance through digital distribution channels. The question further remains whether or not distribution practices would change dramatically even though the cinema hold-back would to be abandoned, since the the cinema holds a unique cultural status in Sweden and the cinema experience is not substitutable with home consumption.

For example, the cinema release requirement had been removed from the latest Film Agreement, allowing funds to films that choose to distribute in whichever way they want.

However, SF Bio still only cooperates with films that choose to have a cinema release. Could it then be that, even if the factors started to intervene and take action, little practical implications would be witnessed still?

6.1.3 GIVEN THESE, WHAT ARE THE INDUSTRY'S PREDICTIONS ABOUT FUTURE DISTRIBUTION PRACTICES

The findings indicate that the actors believe that the distribution practices will change in the future. For instance, digital distribution channels will gain popularity due to changing consumer preferences, leading to a disruption in the distribution practices. As a result, producers will have more freedom than before to distribute and find their own ways to their target audiences and not relying entirely on the cinema channel anymore. Corollary to this, consumers will have more options in when and how they can consume films. Some actors even claim that consumers will be able to consume films however, wherever, and whenever they want, with portable devices such as the mobile phone or tablet PC contributing to this. Despite this, the cinema will probably still hold a strong position in the market as it will constantly try to enhance its film watching experience and remain as a superior alternative as well as highlighting the social utility that goes along a cinema visit.

The actors believe that before the VOD channel has gained a considerable influence amongst the consumers and producers as an important viewing window, the market will have declined due to inadequate accessibility, assortment and user friendliness amongst the existing VOD services. Moreover, the actors believe that current VOD business models will not prove to be sustainable as pricing is too low. Actors will disappear until new ones with adequate market offerings and viable business models will have established themselves. Along with this development, the actors predict that collaborations between producers and distributors will develop. For example, a trend that has been witnessed is a vertical integration of the production and distribution parts of the value chain.

The authors believe that although the predictions are based on trends that have been witnessed in the industry as of late, an absolutely accurate prediction of the future is too difficult to make. The predictions that have been made are largely dependent on an adequate development of the disruptive VOD services. As mentioned in the analysis, the market has the right technological prerequisites for it, but the question remains of the consumer willingness to pay for digital film consumption. Thus, further studies would be useful for examining the demand for VOD services.

6.2 Strategic and Managerial Implications

Our results indicate that piracy is still a huge concern for the actors in the industry as it undermines the consumers' willingness to wait for the release of a film in the second window after the cinema. This leads to profound implications for distribution practices in Sweden, as the technologically savvy consumers can now download or stream a film illegally as soon as it is displayed on the theatres. In other words, they have the choice to consume a film whenever they want and wherever they want. This is probably one of the most compelling arguments for releasing a film with a day-and-date kind of strategy, or on all windows at once, so that consumers also have the legal option to watch the film as soon as it comes out, as the results suggest that there is in fact a willingness to pay for watching a film.

In line with Nessen's (2012) findings, our results suggest that the cinema monopoly still holds a strong position and consequently asserts its influence on the distribution practices as well with its 122 days hold-back period. Some industry actors believe that this hold-back will be abandoned eventually as consumers will demand more opportunities to watch films outside the cinema. However, considering the fervent hold that the cinema monopoly maintains over the hold-back, such an abandonment would be unlikely to occur in the nearest future. Moreover, the holdback is imposed by Hollywood distributors and film studios as well. Therefore, it would be senseless to expect a near transformation of distribution practices. A better suggestion for producers trying to access the commercial cinema channel would be to prove their movies' commercial value as a first step before attempting to sell it to the cinema theatres. The cinema monopoly has actually displayed many smaller arthouse films before, of which one prominent example is *Ida och Timbuktu*. For example, by creating hype around a certain title, distributing through digital distribution channels such as SVOD or TVOD, or initially targeting independent cinema exhibitors, its potential could be demonstrated.

Understandably, arthouse film producers are motivated primarily by artistic and cultural values as well as excellency in craftsmanship. More often than not, these films revolve around intellectual topics, sometimes with the aim to provoke debate about societal subjects. However, these topics do not always appeal to the large majority of film consumers, who seemingly prefer to watch film about with such as love, sex, and violence. Thus, in order to appeal to the large mass, themes such as these could be included in the projects of arthouse film producers.

Our results indicate that the VOD distribution channel is anticipated by producers as well as distributors as a promising, alternative way of reaching their target audiences. With this in mind, it is suggested for producers and distributors alike to seize this opportunity and respond to market demands by establishing, developing and utilizing this channel for distributing their titles. This holds especially true for digital distributors who have already established their platform; by optimizing their services, Swedish market dominance such as the one being held by NetFlix internationally could be gained through a first mover advantage. For smaller producers struggling to convince the cinema exhibitors of their films' commercial value, it would be wise to establish working relationships with upcoming VOD actors as an additional distribution channel.

To that end, it is highly advisable for existing VOD service providers that they overlook their business models as well as their market offerings in preparation for an eventual rise in popularity for digital film consumption. As by the analyses, the Swedish market is one of the technologically most developed countries in the world, providing excellent technical prerequisites for VOD services to thrive: the question remains whether consumers demand it yet. Although several VOD services already exist, awareness of them among the consumers is low, and none of them are currently catering to the sought-after utilities by consumers: *accessibility*, *assortment*, and *user friendliness*. In comparison with the services available in US, there is definitely potential for improvement by Swedish providers. Accessibility can be achieved by awareness-raising marketing campaigns, larger assortments by partnerships between distributors and VOD providers, and increased user friendliness by an easily navigable website while removing barriers to purchase. By incorporating efficient business models and optimizing customer value, as well as efficient marketing campaigns, existing VOD providers could gain early dominance in the market and multiply their revenues when the anticipated growth in this sector takes off.

With regard to the business models of the existing VOD providers, the findings reveal that the pricing of some of the actors are too low for long-term economic feasibility (as low as 5 SEK per stream). As the findings indicate that consumers are in fact willing to pay more for a stream, it is advisable for VOD providers to raise their prices, something that producers would certainly like too since they also receive a share of the revenues. Otherwise, the perceived value of digital film consumption will be at risk and at worst damaged permanently as with the DVD market, which had gone from perceived high-value products to becoming a low-value product. Another pricing strategy for VOD providers would be to utilize a subscription-based pricing model, or SVOD. This way, regular revenue streams could could be guaranteed, a strategy that has proven successful for for example NetFlix and Spotify.

6.3 Critical Reflections

The study sample comprised all parts of the film distribution chain as well as institutions in the Swedish film industry. Furthermore, they were chosen with consideration for their economical size. The thoughts and experiences from the participants finally corresponded with each other to a large extent. Thus, it can be concluded that the study sample had reached the point of theoretical saturation where more participants would not have contributed significantly to the analysis and concept creation. In other words, the study sample was effective in serving with an adequate interpretation of the current film distribution practices in Sweden. However, as DVD rental and sales have previously been an important revenue source for the industry, it would have been valuable to the findings to have included the DVD distributors' thoughts and experiences of the research area as well. By the same token, as Hollywood distributors have been identified as one of the most influential factors of change in the Swedish motion picture market, the inclusion of their opinions and predictions about current and future distribution practices would have been valuable as well.

To an extent, the findings of this study confirms the conclusions of Cecilia Nessen (2012) and even extends further, presenting the interrelatedness between the film network structure and other factors that affect the distribution practices. The findings of Nessen suggested that the rigid industry structure and dominance of resources by SF Bio as inhibiting forces for the e-revolution. This study ventured further, discovering more factors hindering the revolution that have succeeded to take place in for example the music industry.

Likewise, the results verified the findings of Brännmark & Hansson (2012) as well, presenting the desire for producers to have more flexibility and freedom in the distribution of their films. This study goes further and includes the desire of institutions such as SFI, The Cinema Central, and SVT's desires for more flexible window orders as well with a shorter cinema hold-back period. However, the findings of Brännmark & Hansson suggested that outsourcing of distribution was desired by producers, who albeit wished to control many aspects of the process. The findings in study, on the other hand, indicated the tendency towards integration of distribution in order to achieve the desired flexibility in the distribution. As there are advantages as well as backsides to both forms of distribution, it can be supposed that producers with fewer resources to outsource and higher desires for flexibility might prefer integration, while resourceful producers who want more time for production prefer outsourcing.

It is important to stress the current competitive situation and the resulting emotions and attitudes that have arisen amongst the affected actors while reading the findings. A majority of the actors are directly or indirectly affected by the SF monopoly stand, compromising their bargaining power in the film distribution chain. Therefore, it can be presumed that their somewhat adverse position towards SF Bio is caused by subjective opinions and thus do not give a fully objective representation of the topics of study. SF Bio indeed wields over a disproportionate amount of power compared to other actors in the distribution chain, but their power has also grown organically since the shutdown of Sandrews, meaning that it has finally only emerged as a response to market demand. Corollary to this point, a majority of the respondents act as a counterparty in negotiations with SF Bio. Thus, by having more representatives from the other side, SF Bio, a more objective representation of the topic of study could probably have been provided.

6.4 Suggestions for Further Research

The academic relevance of this study can be attributed to having laid out a foundation for further studies in film distribution practices in Sweden. Furthermore, the findings can serve as a starting point for studies in strategic decision making in the Swedish media industry, where timing and sequencing are an essential part of strategic decision making.

It has been concluded that the direction of the current distribution practices in the film industry is changing towards digital distribution thanks to digitalization and the resultant innovative technology, VOD. From a theoretical position, the Swedish market has indeed proved to be ready for a large-scale adoption of the technology. Thus, to verify this standpoint, a market study of the consumers is recommended to further investigate their readiness, attitudes and perceptions about the VOD. Currently, the existing practices are upheld by the rigid structural bindings in the industry. However, as many of the participants speculate, the film industry will inevitably undergo a change in a future not too distant. Such a study would support or falsify this claim, as it would show if there is a strong enough market force to drive such a change.

This study has mapped out the current sequencing and timing in viewing windows in Sweden. However, it is debatable whether the current practices are optimal in terms of film revenues. For example, Lehmann and Weinberg propose in their study of the US distribution practices that shorter release windows might be beneficial to a film's total revenue. Several frameworks have been presented in order to measure and optimize the revenue streams for a film with different window strategies such as the day-and-date release strategy or even a reversed window order. It would thus be interesting to see what these models result in when applied to the Swedish motion picture market.

The qualitative nature of this study will lead to some natural drawbacks of the findings. Thus, a quantitative study could be carried out in order to assess the relative or absolute importance of each factor of change identified in the industry. A further study that would certainly be interesting for all industry actors would be to optimize the current distribution practices according to Hennig & Thurau (2004) and August et al. (2012). This way, the incertitude of whether an alternative release strategy would benefit the cinema exhibitors could be resolved and decisions made upon that.

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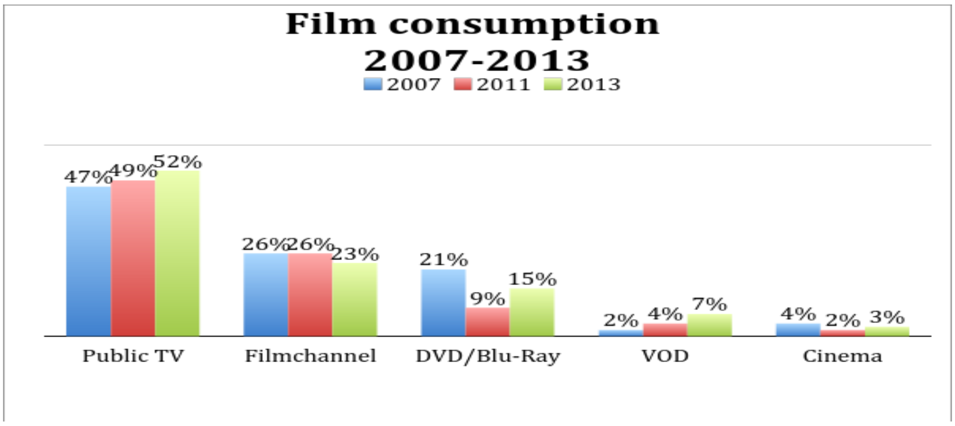
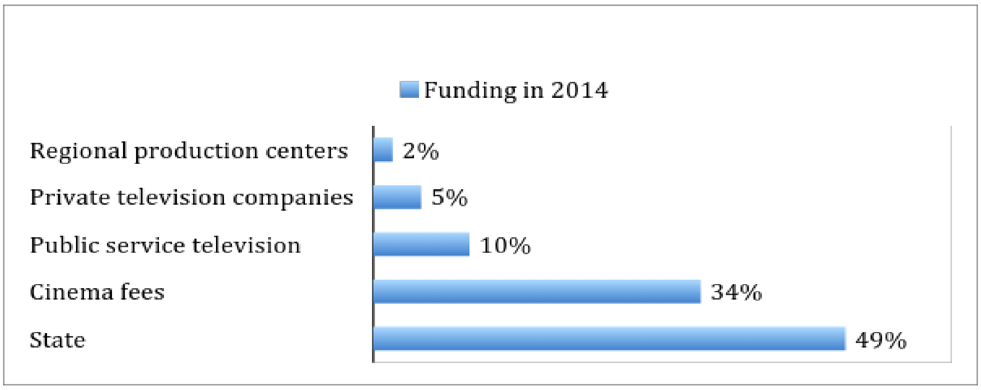
APPENDIX 1 - FIGURES

Figure 1 - Film consumption from 2007 to 2013



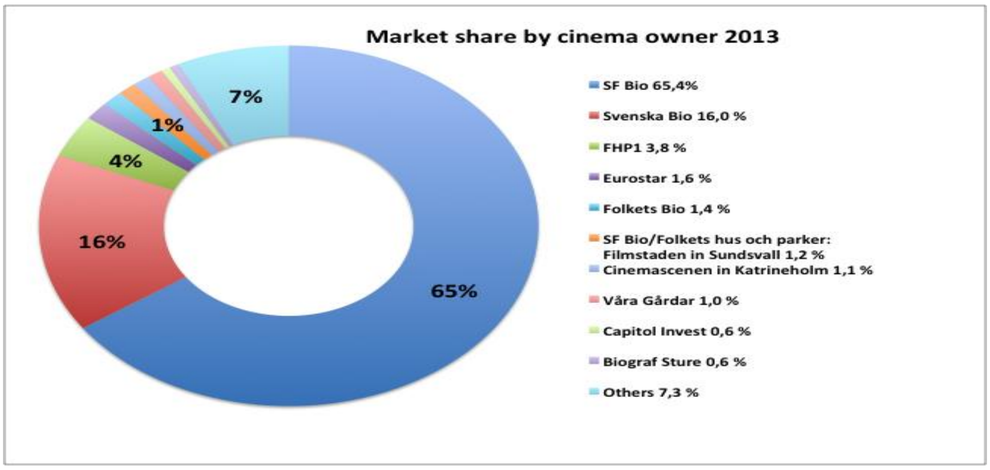
Source: SFI (2013) - Filmåret i siffror 2013

Figure 2 – The funding partners of SFI



Source: SFI (2013) - Filmåret i siffror 2013

Figure 3 – Market share in the Swedish cinema



Source: SFI (2013) - Filmåret i siffror 2013

APPENDIX 2 - DEFINITIONS

Film - in this paper, the word film will be used instead of its synonyms, movie and motion picture. The film can be categorized into feature films, arthouse films, or documentary films.

Film industry – the technological and commercial institutions of filmmaking, i.e. film production, film studios, cinematography, pre-production, post production, film festivals, distribution, actors, film directors and film crew personnel.

Arthouse film - since this paper will be based on the release of an arthouse film, a definition is given here as to make a distinction between it and other films. Arthouse film, or art film, is a film genre where productions are made primarily for aesthetic reasons rather than commercial purposes, as with the case of blockbuster films made for escapism and pure entertainment. Arthouse films are thus typically aimed at a niche market rather than a mass market audience. The content of an arthouse film is often unconventional and symbolic, (Website, 2015) and are often produced using limited resources, as opposed to blockbuster films. (SOU 2009: 73).

Wide/Commercial films - Films that come from bigger film producer who produces for the big mass. These films generate bigger revenues and are shown on commercial cinema theaters, for instance Hollywood blockbuster (SOU 2009:73).

Film distribution - "the process through which a film reaches its public" (Website, 2015) Among the many ways a film can be distributed are cinema exhibitions, DVD-Blue-Ray distribution, internet distribution, and TV distribution. The term *film release* thus implies the the moment in the final stage of the film distribution process where the film the film is legally authorized for the audience to view it.

VOD (video on demand) - Is a systems which allow the users to choose when consume the video , rather than having to watch at a specific broadcast time.

SVOD (subscription video on demand) - The consumer pays a monthly fee to the digital on demand distributor. Actors can be Netflix and HBO.

Pay Per View /TVOD (transactional video on demand) - Is the opposite of (SVOD). The customer pays for each individual video the watch on the demand program.

Pay-TV (cable & satellite) - The consumer pays a monthly fee to a subscription television, premium television, or premium channels. Actors can be Viasat och C-More.

Standard release order - The typical order of a film release is a cinema premier followed by 4-6 months of exclusive viewing rights for the cinema to show the film. This is a Hollywood construct, and afterwards, the film is released on purchase video and DVD, followed by VOD and subscription services, and finally broadcast right for television. The idea is that the distribution forms which sells with the highest margins are first in order, followed by other channels in declining order of margin. This distribution order normally maximizes the revenues for cinema owners as they get the first share of the total revenues. A cinema could also serve as a legitimacy builder for the next releases. "*The old chestnut is that you needed a theatrical release to establish legitimacy*", says Columbia Pictures executive Peter Sealey.

Simultaneous release, day-and-date strategy - The simultaneous release of a film to cinemas and home consumption. Originally intended for films with small estimated cinema audience where economies of scale of marketing activities could be taken advantage of, this strategy has now slowly been adopted by mass market audience films as well (such as for example Bubble, Ten Items or Less, and The Interview). Viewer consumption patterns are changing towards home consumption and they desire immediate access to new productions. The day-and-date strategy has been used with great success in the music industry, where artists have released their albums simultaneously on the internet and in stores (Website, 2015).

Appendix 3 - Main Study Interview Form

Tell us about yourself?

How has your work affected the Swedish distribution system and practices for timing and sequencing for film?

How do the Swedish practices for timing and sequencing for a film release look today?

Seen from a Swedish film historical perspective, what historical events have led to this? Which key actors have contributed to this?

Which advantages and disadvantages do you think are related to this way of distributing?

Which forces of change to change these practices can you identify in the Swedish film industry?

What would be needed for this to change? Which actors would need to be involved, and which incentives would they need?

How probable do you think that the practices will change? In that case, within which time frame for this change to take place would you deem probable?

What thoughts and ideas do you have for the future of Swedish film? Where do you think it is heading?

Given the future scenarios, how do you think you will work in 5 years? How would the changes you believe would take place affect your work?

If you think it would be negatively affected, how would you in that case tackle the problem?

What do you believe about the financing of the Swedish film industry and films produced in Sweden in the future?

Appendix 4 - The Respondents

Mathilde Dedye, 2015-02-03

Cecilia Nessen 2015-02-17

Helena Åkerman 2015-02-25

Eva Esseen 2015-02-26

Kristina Börjesson 2015-03-05

Börje Hansson 2015-03-11

Jacob Abrahamsson 2015-03-15

Hjalmar Palmgren 2015-03-16

Jens Lanestrand 2015-03-17

Sture Johansson 2015-03-18

Antti Toivianien 2015-03-18

Katrina Mathsson 2015-03-25