

# **Home Video In The International Market**

An Overview By  
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## **Home Video In The International Market an overview by Andre Blay**

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Home video has become a major industry factor all over the world and has clearly mushroomed in foreign territories. I understand that basically you want me to talk about what you can expect -- what kind of money you can make, to whom you can sell it, how should you sell it -- with theatrical/without theatrical. I'm going to answer those questions for you. I always like to hedge my bet and say, "I hope I'm going to answer those questions."

Today you can look for significant revenue in the following foreign territories: Scandinavia, U.K., Germany, France, Benelux, South Africa, Spain and Australia. Those countries can produce measurable revenues for home video exploitation. Small sums might also come from Italy, Greece and Israel. Japan is potentially very attractive but it's far from ready. Unfortunately, the hundreds and thousands and maybe millions of machines in the Middle East and South America are not accessible to us. This is because of the lack of copyright protection but also there are other barriers such as taxation. Additional important countries like the Philippines, Taiwan, Indonesia, Malaysia and the majority of the African continent are not going to produce any revenue. This is mainly because those countries are undergoing political turmoil and the governments are not going to move to stop piracy.

Fifty percent of your revenue used to come from foreign theatrical. That figure has now moved down to about 40%. On the other hand, home video has come out of nowhere and now represents about 10% of the potential revenue of a film.

### **Recent History**

In 1981 Europe and Australia exploded into significant revenue sources for home video. Buildup of cassettes in the U.K. alone equals 70% of the U.S. volume. In 1982, for instance, there were about 7.5 million units sold in America and 5 million sold in the U.K. Growth continued well into '82 while the U.S. in 1982 suffered a significant slowdown. The growth from 1982 for domestic home video was only about 20-25% and overseas it was about 120%. In 1983 we're witnessing an exact flipflop -- I'll get to the reasons why in a minute.

Sales are booming in the U.S. and European sales have leveled off. Within the last two months there have been some encouraging signs that in England they're pulling out of the slump that we witnessed in '82. As I mentioned, over 5 million cassettes were sold in the U.K. alone. This year they're expecting 5.5 million. Europe as a whole in 1982 sold 12 million cassettes. In America today indications are that 9 million cassettes will be sold in 1983.

I expect that Europe will resume its growth by the fall of 1984. The reasons why they went through this slump are the same reasons that we did here in '82. There was an incredible proliferation of distributors -- people buying rights and all sorts of little people coming out of the woodwork who were making offers to buy your product. At the same time we were having an incredible explosion at the retail level. The retail business in America went from 6,000 to 12,000

in 1982. In Europe they went through the same thing in 1983. Now they're talking in terms of 20% of the retailers in Europe going out of business by the end of 1984. That's a healthy sign rather than a bad sign. It'll put people back in business who will buy sensibly and market sensibly and you don't have to face those who are grasping at a last straw effort.

Another reason why things will get better in Europe is because Phillips, Grundig and Thompson all have moved to acquire VHS licenses and they are saying they will continue to produce V-2000 machines. Most of us are betting that in one or two years they'll drop the V-2000. The mainstream of electronic companies in Europe are building VHS factories. In the meantime the Japanese are also building facilities in Europe and that will have a definitely positive effect. What we're predicting in terms of hardware in Europe is that sometime after 1985 you'll have a defacto VHS standard system. All the factories that are being built in Europe are VHS factories as opposed to Beta factories.

### **Growth Potential**

Worldwide there are 41 million VCR machines. There are 9 million in the U.S., 9 million in Japan, 5.7 million in the U.K., 3.8 million in Germany, 1 million in Scandinavia, 1 million in Australia, 1.5 million in France and .5 million in Canada, Benelux, Switzerland, Italy and Singapore. That totals about 32 million. The rest of them are in the Middle East and South America -- places that we as copyright owners don't have access to. They're selling our cassettes but we're not getting any money. The fastest growing markets in terms of penetration are Australia, Austral-Asia and South America.

We have 75% of the market accessible to us. In South America none is accessible to us. As a matter of fact, in Brazil just last week the senate passed a resolution that of all the cassettes that are on the shelf in Brazil -- 50% of them must be Brazilian films. Not only the films but the topics must be Brazilian.

Capacity worldwide stands at 18 million VCR's and is expected to creep up to about 20 million when the European facilities get onstream. Make no mistake, we are going to double the penetration of the 40 million machines within 3 years and triple it in 5 years. We'll also begin to feel the effects of dual ownership. We're going to have more than one VCR machine in the home. What this will do to cassette sales is unknown, but it must be viewed optimistically.



## How Should You Approach the Burgeoning Markets?

The three basic questions you will face are:

1. Should you sell worldwide rights or territory by territory?
2. Should you sell theatrical and video together? And if not, which one should come first?
3. What can you reasonably expect in price? Should you presell or wait until the film is done or near completion?

Let's analyze these questions.

First, if you choose to sell all foreign video rights, you basically have three well-heeled and efficient or effective buyers: Thorn/EMI, Embassy Home Entertainment and CBS. Of course the other majors must be considered too, but the other majors have not shown a consistency to deal. From time to time they'll step up to the plate, but you can't count on them day in and day out.

Minimum guarantees for new films depend upon the genre, the cast, the director and the budget. You know what genre sells. It's not much different in video than it is in theatrical: Action-oriented, science fiction and horror-type films sell. Although a word of warning here...you're going to have to start to watch the type of violence. There is going to be censorship. England is out for "Video Nasties." "Video Nasties" are people who eat brains, or throw monkeys against the wall, or whatever. I'm sure that someone else probably has a better description. Prices for worldwide rights range from \$50,000 to \$1,000,000 and up. \$1,000,000 is still a rarity. It is my belief that Thorn and Embassy are the only companies that have actually paid \$1,000,000 for foreign rights. Examples of where that kind of money has been paid are SUPERMAN II, SUPERMAN III, SUPERGIRL, CONAN I and II, NINJA (which was not made, therefore the money wasn't paid) and recently, EMERALD FOREST and THE SOLDIER. There may be other examples.

Now let's discuss what you can do on a territory by territory basis. I'm going to analyze the U.K., France, Germany, Scandinavia, Australia and Japan. We could analyze others but we can't go forever. For purposes of simplicity I'm going to assume that you are willing to sell video and theatrical separately. We'll discuss the problem of splitting them later.

### The Video Market in the U.K.

In the U.K., you have more potential buyers than in any other country in the world. In addition to Thorn/EMI you have Guild, V.C.L., Video Form, Intervention and VTC and there are others. I am mentioning the ones that are aggressive. Theatrically of course, you also have Rank and they can be a good video

buyer, also. (I don't know why but they have not presently bid separately for product. You'll have to discuss that with them).

You have a unique situation in the U.K. You have limited cable. It is a uniquely qualified country for export. It's a PAL territory. Theatrical business has for years been in a decline. You have a very high penetration of VCR's. (5.5 million VCR's for 55 million people. This penetration is over double what it is in America). And last and probably most importantly, the U.K. is English speaking, which also helps the export buyer business. The reason I bring all this up is that the price you get out of the U.K. should be high because when you sell something in the U.K., you're not just selling the U.K. market. You're selling other territories and PAL territories as well. As previously indicated, there are 5.5 million machines with a penetration of close to 30% of the TV homes. Now the perplexing thing is that software sales, as I have said before, have not kept up with this hardware penetration. We can use RAIDERS OF THE LOST ARK as an example. There were 400,000 plus units sold within America equaling five percent of the VCR penetration. One out of every twenty VCR owners had bought a copy of RAIDERS OF THE LOST ARK. Sixty thousand units were sold in the U.K. There are 5.5 million machines. That's just slightly better than 1% of VCR owners buying copies of RAIDERS OF THE LOST ARK. That's perplexing. Royalties in the U.S. paid to George Lucas were over \$2,000,000 and only \$300,000 in the U.K. So it's very hard for me to think if you're selling the U.K. separately, that you're going to get much more than \$200,000. Last year they were paying \$300,000 for video rights on a film like this.

There are other related issues concerning the price that you get in the U.K. As I previously mentioned there's the legislation against the "Video Nasties"! Recently many horror-type films have been confiscated and prosecution instituted. Another problem is the proliferation of video dealers. There are more video dealers than are needed in the U.K. and that causes the legitimate video dealer to hold down his inventory, so therefore it's not productive.

Offsetting these negatives, as I said previously, is the favorable position that England has as an export-oriented country. It is estimated that close to 2,000,000 cassettes will be exported from the U.K. this year alone. What we can't separate out is that the U.K. duplicates for other countries. The customs people don't know what they're shipping. It's interesting to note that the average price of an export cassette going out of the U.K. is only \$20.00, so I have to assume that a lot of the cassettes are going



out simply because they're duplicated in the U.K. to be resold in European countries.

### **The Video Market in Germany**

In Germany we have experienced a dramatic slow down in the growth of prerecorded cassettes. Just as the economy is slowing down, we also saw an escalation of video cassette companies, the same as in London, and a significant amount of new releases. The result was a reduction in unit sales per title. The situation is continuing today. Two years ago, eight titles were selling 10,000 to 15,000 copies. Last year, we were selling 10,000 copies. Today it's down to 7,000 copies of any title. Some of the other potential licensees in Germany are Atlas, Euro Video, VPS, which is part of the Group Marketing Film, and theoretically at least you have Beta, Neue Constantin and Scotia, all of whom are theatrical distributors. Beta is the company that distributes the C.I.C. product. Prices for your rights can vary from \$25,000 to \$250,000. These are the same prices that Germany has been paying for the last 24 months.

It's estimated that there are 3,500 video dealers in Germany and that the video hardware dealers are rapidly retreating from the business and leaving it to the software companies. This is a healthy sign and again will reverse the trend that's going on. But there's also speculation that Germany will mirror England in the censorship laws to control the "Video Nasties." Sales of the cassettes seem to have leveled off to a range of 2,000 to 10,000 cassettes. Even RAIDERS OF THE LOST ARK at \$40.00 did not do more than 30,000 units. There are 3.5 million machines in Germany. Also, as opposed to England where 95% of the films are American, in Germany, even though American films are the most popular, you have to face local product and French product and Italian product.

### **The Video Market in France**

In France the major independents are Hollywood Video, Polygram and Reggie Cassette. Reggie Cassette paid a record \$11,000,000 for the M.G.M. catalogue. It then had to go back and renegotiate because of the near total collapse of the video business in 1983. We are told that they were able to renegotiate a \$5,500,000 deal. It was either that or go bankrupt. The French Government literally stopped the importing of machines within the last year. They raised the V.A.T. tax on cassette rentals from 12% to 33%. The situation has eased recently but it still is a depressed business. Lucrative deals have literally stopped, but you still can expect to get from \$10,000 to \$100,000 in minimum guarantees.

### **The Video Market in Scandinavia**

The major independents are VTC, Polar Bonier and Esselte Video. It is a situation that is similar to that of Germany. There has been an oversaturation of released programs and a slow down in the growth of hardware and cassettes. The government has moved in to increase taxes on both hardware and software, and is attempting to control the growth and pace of the business. A title sells no more than 5,000 copies, although distributors are still able to place the cassettes on the market for a one year lease at \$125.00. By the way, you should understand that this is the only country in the world that markets on a yearly lease plan successfully. The rest of us face the problems of first sale doctrine and basically only sell to a retailer/wholesaler and we don't get a second share of the retail money. Guarantees in Scandinavia can still be as high as \$150,000. It's also worth noting that none of the independents seem to do a good job of subdistributing in Norway, Finland and Denmark, although they all claim to do so and most of us do business with the company that has headquarters in Stockholm.

### **The Video Market in Australia**

The major independents in Australia are Roadshow, P.B.L., Star Video, Video Classics and Syme Home Video. With a machine population of almost 1.5 million, penetration exceeds more than 30% of the TV households -- and Australia was literally the last English speaking territory that we started. Just as happened with color TV, they closed the gap overnight. They are the leading country now in penetration and I predict they will be the first country in the world where over 50% of the homes will have a VCR. That prediction is for the year '86 or '87. Good titles can still sell 10,000 copies which compares favorably to the U.S., a market where they have eight times the machines. And, representing a substantial improvement over the U.K., German and Scandinavian markets, it is possible to get \$100,000 to \$200,000 for a film in Australia. Projections for Australia remain bullish. In my opinion the growth will continue unabated.

### **The Video Market in Japan**

Japan represents the last untapped market for films. With over 9 million VCR's, it seems absurd that none of us have been able to draw much revenue from Japan. There are some indications that this is about to change. Prerecorded cassettes equalled 1 million units in 1982. Projections are that they will triple this year to 3 million. And next year, this will be a breakout year, they expect 8 million cassettes to be sold in Japan. However, you have to cut that figure in half for your potential. Over half the product sold is



local Japanese, or music-oriented product. This is the one country in the world that has taken to music product. But collectively that's still 75% of the projected volume for 1984 which is supposed to be 12 million cassettes. The major independents are Toei and Pony. Potentially the other strong candidates will be J.V.C. and hopefully my company will begin operating in mid-year. The only other American company in the market so far is Warner Bros.

To date the video specialty store has yet to emerge in Japan. All cassettes are being sold in music stores or hardware stores. If it follows true to form, which I predict it will, these stores two years from now will cease to carry the product and the video specialty store will have emerged and with it a rental business. The cost of doing business in Japan will be significantly higher for the video distributor; not only are the duplication costs higher but almost invariably the films have to be dubbed and/or subtitled. It's hard to determine how many copies a best seller may achieve, but estimates range up to 40,000 copies. To date we have had our biggest success with our music product -- we have realized royalties up to \$80,000 for a program. We did receive an unprecedented order for BLADE RUNNER for \$150,000 but unfortunately we didn't own the rights.

### **Selling Theatrical and Video Together**

I want to turn our attention to the problem of selling theatrical and video together. Basically as I see it, we have three major territory problems: England, Germany and Australia. In many countries of the world, particularly these three, the independent film distributors have said that they will not release the film theatrically without first acquiring home video rights. Well, that scared a lot of people for a while and it still has some people scared but it's turned out to be a lot of hot air. They're doing it, they're buying the films. It's a question of what film it is. In England everybody first tries to get a deal with either Rank or Thorn/EMI. Because the theatrical business in the U.K. has been so bad and because Rank has an output deal with Orion, they're not so anxious to make the deals anymore. So, even though they're your first client, it's tough to get their attention. Thorn/EMI is in the same type of a situation, particularly now that they've put up one third of the budget for the Silver Screen product, I've got to believe that they're going to be devoting a lot of their distribution talents and attentions to that product and some of the other major deals that they've made. Theatrical distribution is a tough problem in the U.K. On the other hand, companies like Embassy Home Entertainment and Video Form have begun buying all rights for these territories. We're not doing this because we want to.

There are many films we want to acquire the home video rights for in the U.K. but nobody wants the theatrical rights. Therefore we have to buy the rights in order to achieve a theatrical release. The situation is true with our own picture division. Rolf Mittweg has many films in his pocket that he can't sell. We already own the home video rights and we don't want to release the home video cassettes until after theatrical so we wait and we wait and eventually we go ahead without our theatrical release. In most cases this is working, but you still prefer to have the theatrical release.

### **Observations and Tidbits**

Okay, I want to come to an end. I want to wrap up with some interesting observations and tidbits. In 1979, Australian business men said that video would not be popular because of the outdoor lifestyle. In 1983, it turns out to be the most prolific video country in the world. That same year, in England, it was said that video would have a limited popularity because they all love British television. Well, it turned out to be horseshit and it's now the second most prolific country for video. Germany and Scandinavia were supposed to be the star video performers. It turns out that they had two great years and now they seem to have leveled off. I don't have an answer for that, I think that growth will resume but maybe the growth was just too spectacular and we'll have an adjustment.

In the U.S., they said that home video would always have limited appeal because basically we were a wired country. 55 million homes are passed by cable -- 33 million are hooked up to a basic service and 20-22 million of them are on a pay service. I think it can be said unequivocally that we stood the test of that criticism and home video now is growing faster than pay cable and projections from very reliable sources are that by 1986 there'll be 32-33 million pay TV homes and 34 million VCR's and from thereon the gap will start to widen.

Did you know it costs a dollar less to make a PAL tape than it does an NTSC tape? Why? The PAL system operates at  $\frac{2}{3}$  the speed of the NTSC system and it only takes  $\frac{2}{3}$  as much tape. Therefore the blank tape is a dollar less.

The highest video deal ever made in the history of the video business was for \$60,000,000; Warner paid that for the foreign rights to the UA catalog. The second highest one is the \$44,000,000 Magnetic Video paid for U.S. rights.

The highest price for a single film will probably be SUPERGIRL or SUPERMAN III at around \$2,500,000. The most ridiculous demand has been from the same company. They want \$4,500,000 for SANTA CLAUS for foreign rights only.



The best buy in video history in my opinion has had to be *FIRST BLOOD*. \$750,000 has made somebody \$4,000,000. That's just in royalties.

The best return for the cost of the film is *THE SOLDIER*, one of our very low budget films. On a worldwide basis we have recouped \$1,500,000 in royalties and about \$2,000,000 in distribution profits.

1983's most ridiculous predictions...Frank Biondi of HBO labeling as "just posturing" the theory that home video could replace pay cable as the second most important revenue source after theatrical.

There's also the RCA U.K. executive who shall remain un-named because he's not high enough up to take this criticism...he made the statement that the video business will collapse in 1985 because there will not be enough product. I guess I'm done. Thanks a lot. Anybody got any questions?

**Q:** What do you think of the picture of the video disc in Europe?

**A:** Good question. I've watched it struggle and struggle and struggle. The wonderful thing is that RCA has studies that say when a person buys a video disc machine, he sits in front of it six and a half hours a week, week in, week out. After a year's use of the machine we know that he buys twenty to thirty discs per year. The Consumer Electronics Association coupled with the Japanese Electronics Association predict that in 1990 there will be sales of 20 to 22 million VCR's and 10 million video disc machines. As a software peddler, I'd love nothing better than the video disc machine to succeed because we face much less piracy and the use of software on one of those machines is ten times higher than it is on a VCR. So I hope that their predictions are right.

**Q:** What are the statistics on the rental of the cassette as opposed to the purchase?

**A:** It's somewhere between 90 and 95 to 1. In the U.K. there's a magazine called *Screen International*, with which I'm sure you're all familiar. They did a semi-annual study and they found that in 1982 there were 483 million rental transactions.

**Q:** There are two points I'd like to make. One is that in 1982, when this country was going through a recession, the rest of the world did not feel it as much as we did. In 1983, we started to recover; the rest of the world went into their recession. So if you look at the number of cassettes sold in 1983 as compared to 1982 the main factor is the amount of product in release in relation to the availability of dollars. So that if you're looking at the industry now, everything's projected for '84, with the European countries and Australia coming out of their recession. On the second

point, when you mention *RAIDERS OF THE LOST ARK*, and the number of cassettes sold, you must take into consideration: if 400,000 were sold, what was the total number that were passed on for rental? It may exceed two and a half. We don't know. There is no way to determine that formula.

**A:** You're right, you're absolutely right but we as copyright owners still have to think what kind of revenue we're going to get out of the territory. It's a shame that we can't get a share of the pro rata that we're getting out of America in some of these major territories. As far as the economy, you're absolutely right and I'm glad you brought that up because I did not mean to be negative about the growth potential in Europe. I believe that, just as the United States flip-flopped back into health in '83, Europe will also flip-flop back. I also believe that in the rush to get into the market, we went through over-saturation in '82. Europe is going through over-saturation right now. The over-saturation hit the same time the economies were slowing down, and it had its effect. But it will bounce back. There are just too many machines out there. I'm very optimistic about foreign prospects for home video.

In Germany you have much the same situation. You have two or three major film distributors who basically don't have much room for new product. And now we see the video distributor often being asked to handle theatrical distribution as well. In Australia, Roadshow has been the company that has attempted to be tough in tying theatrical and video together. But even they will handle theatrical only, if necessary.

Did I answer the question, should you tie theatrical with video together? I think that the days of tying them together are over; you have two separate markets. I think that the growth potential of home video is no longer going to play second fiddle to theatrical. That doesn't mean we don't want theatrical. We do want it. We want it to be a good campaign. History has proven that it helps us to sell more cassettes. Also, did I answer the question, should you do a worldwide deal or territory by territory deal? My answer is that it depends somewhat on how you are organized. In the final analysis, I have to say that you should do a worldwide deal. You get better marketing consistency. You get faster answers on deals and in Embassy's case you only have two or three people to pass the product to. In many of the companies, the majors, even Thorn/EMI, it takes weeks before you can get an answer. Also, in my opinion, we are the cleanest deal in terms of paperwork, what the contract looks like. In the final analysis, you're all business people and you'll know what each territory is worth and what you can get on a worldwide deal. There is a lot to be



said in home video about consistency of marketing.

**Q:** *You predict that in 1987 pay television and home video will have about the same amount of units. As a distributor, I'd be concerned with the bottom end of the product. What do you think will happen at the lower end?*

**A:** I think it's going to be wanted as a replacement. In order to be an active, viable video distributor in America, or any country, you need fifty titles a year to release (if you have all RAIDERS OF THE LOST ARK maybe you can do it on two). Basically you need a lot of product and also I think that we are five years or longer away from doing what HBO and Showtime are doing, and that is taking half of our revenue and putting it into original production. I think we're going to be a buyer of product as opposed to a producer of product.

**Q:** *What is the strength of the U.S. dollar?*

**A:** Now I've been in the business for seven years and it has worked for me and against me. In the first three years, it worked very much in our favor, meaning the exchange rate. Now the dollar's so strong that when you sell overseas by the time you get the money turned into dollars, it can work against you. If we were exporting finished product for dollars it would help. But we're not. We all tend to manufacture locally. Therefore the revenue that has to come back has to go through a second shock which is the strength of the American dollar.

**Q:** *Has there been any progress in developing a process that will block piracy of copies?*

**A:** I haven't seen anything, ever since that flurry we all had in 1978 when we were supposed to have a system. I just read in the trades recently that a company has a system for locking computer software. I haven't had a chance to check it out because it's fairly fresh information. It's kind of like high speed duplication. You wonder why, if we are able to send people all over the universe, we can't control piracy electronically and why we can't duplicate video cassettes at high speed. I would like to believe that it'll be solved but I don't think there is anything right here now.

**Q:** *Would you project a growth in the video market both domestic and foreign? How do you see this affecting the timing of the releasing of video product vis-a-vis the other methods of distribution?*

**A:** I think that the first release is always going to be theatrical. The question is the timing after theatrical. On a film that you expect is going to die, I would try to have the cassettes in the warehouse and get your flyers out and go through your thirty day presell

period and ship them as fast as you can. The quick theatrical cassette release after theatrical definitely helps the sale. On the other hand, when a film is working, you just try to reach that optimum point. I think that the timing is somewhere from two months to six months for best results.

**Q:** *Could you tell us a little bit about the worldwide organization that Embassy has and how many people are out there in the video business? And the typical country -- how many people are in the operations and what do they do?*

**A:** Embassy has thirty plus people in America. And we have an acquisition staff of at least another four or five people. We have salesmen spotted all over the United States. In England we have about 25 people and they control, in addition to the domestic market, the French and the Scandinavian markets. In Germany we have a joint venture with Neue Constantin, a fifty-fifty on home video. The company has about ten employees. Currently the rest of the world operates through licensing deals, except Japan and Singapore where we expect to open an office this year.

**Q:** *Will you ever see the day when home video will be advertised on national media?*

**A:** In a two to five year period I do see a \$2,000,000 advertising blitz on a film or a \$3,000,000 dollar advertising blitz on a cassette after theatrical release. We are at a 10% penetration now of American homes. Once we get up to 30% we can start thinking of using mass media for advertising. This year we are quadrupling our advertising and 1/3 of it will go into consumer advertising.

**Thank you.**



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