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## THE AUDIOVISUAL BUSINESS: AN INTRODUCTION



The amount of leisure time has been slowly increasing, if at all, in recent years. At the same time, entertainment has become one of modern society's essential pastimes, once a certain level of disposable income is achieved. As a result, audiovisual enterprises primarily focus on producing information and entertainment, the latter being the more profitable.

It has been said that a motion picture takes two years to make, two hours to watch, two minutes to criticize and two seconds to forget. Moviemaking is very often an ungrateful enterprise, with no relationship whatsoever between effort and result, suffering and applause.

Some people would argue that audiovisual production is about money and negotiation. A well-known European producer who temporarily ran a Hollywood studio once said that they make deals, not movies. However, the bottom line is not the only aspect to consider when making a picture. Entertainment also has creative, social, cultural and governmental implications. Being responsible for the project, it is the producer's job to find the difficult balance between artistic quality, social and cultural values and business profitability.

## **1.1. UNIQUE CHARACTERISTICS OF THE AUDIOVISUAL INDUSTRY**

Cinema, television and today's new media have been variously defined as industrial arts, forms of mass communication and cultural or creative industries. The creation of fictional audiovisual content, or 'cultural entertainment' (movies, TV series or video-games), should be contemplated from a three-dimensional perspective: art, communication, business. Any motion picture should be both profitable and a socially enriching work of art. Attaining this combination becomes more complex when government decides to get involved, in terms of content and/or economic regulation.

### **1.1.1. Cultural Aspects**

Cultural industries are those which produce commodities that somehow illustrate a society's way of life. Through sounds, images, words and pictures, they express social imaginary and behavioural patterns, the terms and symbols with which people think and communicate, shared social values and ideals and the experience of social changes. Essentially, they act as both mirror and modeller of society.

As such, movies, television programmes and other audiovisual works are not simply products like any others. To begin with, they must overcome cultural barriers when traded across international borders, which means that viewers in importing markets may find it difficult to identify with the way of life, values, history, and even physical environment depicted, not to mention language diversity (in spite of dubbing or subtitling).

Having said that however, the demand for entertainment itself cuts across all cultural and national boundaries, and many preferences (for laughter, music, or gambling) have deep-seated psychological roots. This means that many entertainment products can achieve worldwide market appeal and the resulting incremental revenues from international sources have an important effect on profitability.<sup>1</sup>

1: Vogel, Harold L., *Entertainment Industry Economics: A Guide for Financial Analysis*, 4th ed., Cambridge University press, Cambridge, 1998.

Certain films or programmes with added social values, known as “external impacts”, are worthy enough in themselves to merit being made in spite of insufficient demand or production costs that exceed the expected market return. In those cases, government funding and support is appropriate. At the same time, a very profitable business with a high negative external impact – like pornography or child abuse – should be deterred by the industry and key market players.

The belief that audiovisual contents and films can make viewers better citizens is at the heart of both the economic and cultural arguments. Although it is not always appreciated, it emerges as a positive influence in the long run.

## **1.1.2. Government Regulation**

Some critics believe media products’ added social values influence societal behaviour. This raises the crucial issue of whether industry professionals, social agents and government should be held responsible for such audiovisual content.

Motion pictures are also among that vast array of communication mass media that are covered by constitutional protection against government infringement of free speech. While motion pictures are often thought by many to be exclusively entertainment oriented there is no clear cut division between information, news and entertainment, and all should receive the same constitutional guarantees. Nonetheless, there is never complete freedom of speech in any mass media, especially when content approaches the limits of taste or depicts extreme acts of violence. Government must tread softly when it seeks to limit motion picture content, yet it cannot stand idly by and permit extremely distasteful and potentially harmful actions in such an influential, persuasive, and imitative medium as is film. Under the threat of rigid government rules, the industry has established its own set of self-censorship standards and a corresponding “rating system” to guide viewers with respect to the level of sex and violence portrayed in any particular movie.

The protection of the marketplace of discourse has led to a different response from those government agencies who are responsible for protecting the economic system against the entrenchment of monopoly power and restoring competition wherever possible. The antitrust authorities have paid special attention to motion pictures and other mass media because the concentration of market power, especially in the hands of the major studios, could tamper with the free play of forces in the marketplace of ideas and thus threaten the vitality of any freedom of speech. With censorship, the role of government was to remove itself or else play an advisory role; however, with antitrust, government must play an active role in restructuring the industry by breaking down barriers to entry, preventing harmful mergers, or exposing and then undoing illegal conspiracies that undermine the automatic functioning of the marketplace and substitute private gain for social good.

## **1.2. ECONOMIC ISSUES OF THE AUDIOVISUAL BUSINESS**

Creating an audiovisual product demands a significant investment of time, money and human resources and mistakes can be crucial. It is a highly risky business due to the huge initial capital investment necessary and the slow process of amortisation, in a market which

is very uncertain and unpredictable. There is no direct relation between cost and profitability, budget and artistic quality.

Of course, these parameters don't exactly apply to television, where mass production is standardised and prototypes are just the initial step. Also, production budgets are not as high as in film and the relation between investment and amortisation is more balanced.

The entertainment sector is a growing and rapidly changing international business and the study of its economic characteristics is still at an early stage. However, there are certain characteristics that distinguish it from other more conventional businesses. What follows is a brief description of some of the more relevant <sup>2</sup>.

### **An Industry of Prototypes**

Each product (film, television programme or series) is like a new company, requiring the close attention of a team of people (actors, writers, director, technicians) and technical elements that do not necessarily coincide with previous productions.

### **Importance of Development**

The development process is key in obtaining a quality product. Successive script revisions, choosing the cast and crew, deciding locations, etc. are all aspects contributing to this goal.

### **No Guarantees**

Success of one product does not guarantee success in the future. Obviously, a series of continuous successes contributes to consolidating a company's market value (producer, distributor, TV network), making it more attractive to investors and creative talent. However, there is never an absolute guarantee the next project will be a success: the final verdict depends on the public, which is difficult to predict.

### **Joint-Consumption Goods**

Audiovisual works are considered joint-consumption goods, which means that the individual viewing of a film or a television programme does not use up the product or detract from the viewing experience of others. In other words, additional viewers have no effect on cost in a given market. Movies and programmes are long-life, easily copied and distributed products. In fact, copying and distributing costs are very low compared to production costs. (In this sense, television is a much easier and cheaper medium than cinema from the trade point of view, since it doesn't need a number of physical copies as does theatrical distribution.

### **Slow Recoupment**

Recovering (*or recouping*) the investment occurs over a relatively long period of time and the degree of uncertainty with respect to the capacity to recover is high in the audiovisual sector.

### **Access to Capital**

The cost of capital and the amount of it required for audiovisual operations is a formidable barrier to entry by new competitors. Most entertainment industry segments thus come to be ruled by large companies with relatively easy access to large pools of capital. Such

2: Vogel, Harold L., *Entertainment Industry Economics: A Guide for Financial Analysis*, 4th ed., Cambridge University press, Cambridge, 1998.

tendencies can, for example, be seen in distribution of recorded music and movies, and in the gaming, theme park, cable, video game, and broadcasting industries.

## ***US Dominance***

International hegemony of the *majors* is not only present during production but also throughout the entire distribution process, exercising considerable pressure on exhibitors to eliminate competition.

## ***Joining Forces***

Market competition and the standardisation of the American box-office hit have forced filmmakers to unite their efforts (co-productions) in order to undertake productions of similar scale, including the increased complexity that comes with it.

## ***Reliance on Blockbuster Success***

During the steady-state growth phase of the entertainment business (i.e., after a segment has attained a size at which long-run domination by several large companies has been established), profits generated by a very few highly popular products are necessary to offset losses incurred by many mediocre projects. This is evident in movies, of network television production, toys and video games, and recorded music. (This tendency is relatively uncommon in the performing arts category, where even a few occasional hits cannot counterbalance chronic operating deficits).

## ***Importance of Marketing***

Potential consumers of entertainment products or services must be constantly made aware of the products' unique features. In addition, the life cycle of an entertainment product may be very brief. Therefore, be it theme parks or a new video game, per-unit marketing expenditures tend to be large relative to total unit costs of operation or production, typically adding at least 50% to the cost of the average major feature film release. In economic terms, such spending on marketing tends to make demand less sensitive to price (i.e., more price-inelastic).

## ***Determining Role of Ancillary Markets***

As a result of sunk-cost characteristics - in which almost every dollar of revenue goes first towards recouping direct costs - entertainment products often derive a large proportion of their returns from ancillary or secondary markets. This also means that price-discrimination opportunities between classes of consumers having different demand elasticities can be exploited. Films, for instance, on average now derive over half their revenues from exposure on cable and home video as opposed to initial theatrical release. Spin-offs of character licenses into popular TV series or movie sequels and novelisations may often be sources of significant additional income. Price-discrimination effects are readily observed in the pricing of tickets to cultural events and in the sequencing of a movie through the various exhibition windows.

## ***Lack of Standardisation***

This reality benefits entrepreneurs but damages relative-productive gains. There are two important consequences of such nonstandardisation:

- i) Despite the oligopolistic framework, there is considerable freedom for the entrepreneurial spirit to thrive. Operas, plays, movies, ballets, songs and video games

are uniquely produced, often originated by individuals working alone or in small groups and not by giant corporate committees. One can become rich and famous as a direct result of one's own creative efforts.

- ii) The entrepreneurial spirit, and thus the importance of the individual to the productive process, is accommodated by means of widely varying, uniquely tailored financing arrangements. This is especially evident in movies, recorded music and sports.

### ***Advantages Offered by New Technologies***

Fortunately, ongoing technological development continues to make it easier and less expensive to manufacture, distribute and receive entertainment products and services. Over the long term, this leads to more varied and more affordable mass-market entertainment.

### ***High Costs, Low Returns***

Also, because pictures are financed largely with other people's money, there is an almost unavoidable bias for costs to rise at least as fast as anticipated revenues. This implies that much of the incremental income expected from the growth of new-media sources is likely to be absorbed, dissipated, and diverted as cost—an especially daunting consideration if, as is now common for a film released by a major studio, only a much diminished 50% (or more) share of such costs are recovered directly from domestic theatrical rentals. Costs have often grown faster than revenues and industry operating margins have been erratic.

Using data on the number of releases, the effects of ancillary-market revenue growth, average negative costs, average marketing costs, and aggregate rentals, there emerges a profile suggesting that, statistically speaking, most major-distributed films do no better than financially break-even—with deviations from this mean extreme in both directions. Yet, remarkably, and despite the potential for loss on an “average” picture, most major studios, bolstered by distribution revenues related to library titles and television programmes, have long been successfully engaged in this business.

The existence of profitable studio enterprises in the face of losses for the “average” picture can be reconciled only when it is realised that the heart of a studio's business is distribution and financing and that, therefore, the brunt of marketing and production-cost risk is often deflected and/or transferred to (sometimes tax-sheltered) outside investors and producers.

## ***1.3. A BRIEF HISTORY OF THE AUDIOVISUAL INDUSTRY***

### ***1.3.1. Film Industry Pioneers***

The first movements in filmmaking activity were defined by technological competence in what was referred to as the “patents war”. Film industry pioneers on both sides of the Atlantic achieved prestige and popularity thanks to their technological innovations in the registration and reproduction of images. During the last decade of the 19th century, men like Thomas A. Edison in the United States, the Lumière brothers in France, the Skladanowsky brothers in Germany and Robert W. Paul in the United Kingdom, patented similar machines for recording and projecting moving images: the Kinetograph and Kinetoscope (Edison), Cinematograph (Lumières), Biograph and Bioscope (Skladanowskys), Animatograph (Paul), Vitagraph and Vitascope (Armat and Edison).

It soon became apparent that what was truly interesting about this new spectacle wasn't the mechanical inventions, but the moving images themselves. Rival projector manufacturers had to produce their own films, since they sold their machines together with a small stock of content. It was a one-man industrial process.

By the early 1900s, filmmaking was long overdue for film directors who "invented" the basics of film language and became the storytellers of the new century. Names like Segundo de Chomón, George Méliès, Abel Gance and Fritz Lang, (in Europe); and Edwin S. Porter, D.W. Griffith, and Charles Chaplin (in the United States), would contribute to create films as we know them, incorporating complex production techniques and manipulating time and space through crosscut editing. Stories of approximately fifteen-minutes (a so-called *one-reeler*) soon became the industry standard. Essentially, the movie industry had crossed the imaginary line from mere novelty to art form; and, more importantly, a new and powerful cultural influence.

However, entrepreneurial instinct was still seriously lacking in the new industry. A new generation of entrepreneurs was needed - like Charles Pathé, Léon Gaumont and Ole Olsen - who developed the first film production and distribution companies and initially dominated the new film market. Surprisingly, all of them were European.

The development of cinema in the U.S. took a step further when the nickelodeon theatre arrived in 1905, which gave the movie industry its first real opportunity to stand on its own as an entertainment industry rather than as a mere complement to vaudeville shows. While problems of film product incompatibility still remained, the newly forming exchange system of distribution was clearly standardising the product to facilitate leasing practices. In short, the arrival of nickelodeons was the first step in the development of motion pictures as a full-fledged mass medium, which had already happened in Europe.

During cinema's early decades hegemony was clearly European. But the U.S. was a sleeping giant that when awoken, started to re-conquer its own territory first. The patent manufacturers decided to join forces, forming a film production trust called Motion Picture Patents Corporation (MPPC) in 1908 to control the domestic market and two years later added the distribution arm, a subsidiary firm named General Film Company. By 1912, 80% of domestic releases in the U.S. were American. Unfortunately, Pathé and Olsen didn't emulate this strategy and missed the opportunity to create a big European consortium against the American colossus. From then on, the European power never managed to recover.

### **1.3.2. The Hollywood Studio System and the European Response**

While the popularity of films grew, a small group of companies tried to acquire monopoly power in the fledgling industry by manipulating the patent process. The industry was broken down into four, largely separate, sectors: equipment manufacturing, production of film product, distribution of product via local exchanges, and, lastly, exhibition of product at nickelodeons. Of all these areas, the exhibition sector was the most competitive, since the capital cost of setting up a single nickelodeon was minimal.

By applying the same management principles to the film business which sustained other mass manufacturing industries – such as the automobile industry - the founders of the



Hollywood studio system succeeded in creating the most efficient movie factories in the world. These *movie moguls* were: Marcus Loew (Loew's Inc., 1905), Carl Laemmle (Universal, 1912), William Fox (Fox Film Corporation, 1915), Samuel Goldwyn (Goldwyn Pictures, 1916), Adolph Zukor (Paramount Pictures, 1916), Louis B. Mayer (Mayer Production Co., 1919), and the Warner Brothers (Warner Brothers, 1923). Basically, the studio system was characterised by three factors: vertical integration as industry structure and market oligopoly; a management strategy based on decentralisation, work division and specialisation and mass production; and finally, the search for simultaneous style uniformity together with product differentiation via different *genres* and the *star system*.

By 1925 a *monopoly scenario* was present, controlled by five fully developed companies: (Paramount, Loew's, 20<sup>th</sup> Century-Fox, Warner Brothers and Radio-Keith-Orpheum/RKO), who were the primary producer-distributors of "A" quality films, known as the Big Five or *majors*. Operating only production and distribution arms, and providing the lower quality "B" films, that filled the lower half of the double bill were three partially developed companies (Universal, Columbia and United Artists). These were called the Little Three or *mini-majors*. Finally, there were three other independent small companies (Disney, Monogram and Republic), whose main activity was producing secondary genres, such as cartoons or *westerns*.

Acting simultaneously, the Big Five, Little Three and the aligned independents created an impenetrable entry barrier to the movie business. Together the Big Five owned one third of cinema circuits, but generated three quarters of the total box office gross. During this period, they released three quarters of the total number of non-Western films. Of course, they had to fight time and again against the antitrust menace.

In the studio system producers were the key figures; they were the central pieces in the gears of the entire industry. As far as the director and company were concerned, the producer was the immediate boss on the project.

After World War One, there were different attempts in Europe to re-establish big production and distribution companies, with local government support. From about 1915 to 1925 national alliances of producers and distributors emerged in several European countries as a way to compete against the American colossus. This movement was called "Film Europe" which included Universum-Film Ag (UFA) in Germany (1917), Unione Cinematografica Italiana (UCI) in Italy (1919), and Sovkino in Soviet Union (1925). Additionally, partners from different countries joined forces to create two big European studios, Pathé-West (1924) and the Alliance Cinématographique Européen (ACE), formed by the Swedish Svenska, UFA and some French investors.

With UFA's rise to become the second largest production company in the world, Europe seemed to recover some of its splendour, but this was a brief mirage. Once again, the controversial circumstances of its political and social life prevented these initiatives from being consolidated. European film industries didn't grasp or couldn't apply the managerial principles that founded the Hollywood studio system. In Europe, cinema was conceived either as political and social propaganda or as an exclusively artistic language. In the end, the effect was inevitable: Europe lost its audience to never recover it. When it finally made this realisation, film audiences' tastes all over the world were "Americanised", thanks to the classical style of storytelling and the universally appealing star system.

Meanwhile, exhibitors tried to defend their interests by forming their own organisation called First National Exhibitors Circuit. This triggered a vast merger race as all the large companies in each stage of production sought merger partners to guarantee either an assured supply of films or access at reasonable terms. By 1925, there were only a handful of giant vertically integrated firms left in the industry and, from this point on, the industry would forever fall under the control of strong oligopoly firms.

### ***1.3.3. The Dismantling of the Studio System and the European Renaissance***

Several factors contributed to the decline and disappearance of the Hollywood studio system, including the Great Depression and the Second World War, which reduced overseas grosses. But the principal catalysts were television and the Antitrust legislation.

After a long fierce legal battle that lasted almost ten years, Hollywood motion picture corporations were obliged to dismantle the vertical monopoly in 1949 and reduce their interests in the exhibition sector. This naturally opened up the market for independent producers and distributors, as the majors decided to reduce their risks by cutting back on in-house productions and to obtain economies of scale in distribution. Paradoxically, the same group of people they had sought to eliminate only a few years before had now become crucially important for their survival.

From then on, distribution would rapidly become the new core of business and profits for the industry, although it suffered competition from television during the first few years of coexistence.

Europe witnessed this disintegration process with hope. After World War Two, European countries tried to re-build their damaged economies. From the film industry's standpoint, Europe didn't manage to promote favourable conditions for the movie making business, since the three segments (production, distribution and exhibition) weren't vertically integrated in any way in most countries. Moreover, there wasn't a real film economy, but an artificial one, since financial support was mainly state-funded. On top of that, the European film industry was primarily "director-driven", eclipsing the producer figure, causing the business sense of the film activity to almost disappear. It was an industry made by individuals, not by companies.

Despite these obstacles, the reconstruction of most European film industries was led by single producers who emulated their classical Hollywood counterparts - men like Pierre Braunberger in France, Cecchi Gori in Italy and Alfredo Matas in Spain. Little by little, national film industries grew and consolidated a minimal offer of local cinema, enough for their market demand, though by then Hollywood dominance was absolute.

The late fifties and the sixties marked the so-called "golden age" of European film, defined by the boom of co-productions and greater film audiences. From 1955 to 1965, the percentage of co-productions in Europe increased from 10% to 50%. Paris, London and

especially Rome were the new sets for Hollywood productions. Many local film industries benefited from American financial support, achieving a never before seen quality of production and distribution.

### **1.3.4. The Impact of Television**

The initial reaction of the motion picture industry to the emerging television industry was one of contempt. Not only was the small screen audiovisual experience poor, but the production standard and quality was inferior. In addition, the cost of industrial adaptation to television technology was expensive and beyond many studios' investment capabilities.

However, as television became more popular and people stayed home to watch free programmes and movies, the motion picture industry began to realise the real danger of the new competitor: in the first ten years of competition, (1946 to 1956), U.S. theatre admissions suffered a 50% decrease and the majors' profits decreased 25% during the first three years of coexistence.

Initial disdain then became an attempt to boycott this new industry, forbidding creative personnel under contract (primarily actors) to work for television, and pressuring large producer-distributors not to license current or past films from their library for television broadcasting. But the popularity of the new medium made it evident that it was a lost war.

So the studios decided to compete with and make profitable use of television, concentrating their efforts on magnifying the cinema experience, by producing *event-movies*, and initiating a revolution in subject matter, breaking with social taboos like violence, profanity and sex, and exploring politically incorrect topics.

Secondly, they created their own television divisions from 1955 onwards and such famous studio-sponsored programmes as "Warner Bros. presents", "The 20<sup>th</sup> Century-Fox Hour", "MGM Parade" or "Disneyland".

Lastly, the studios realised that television networks could become subsidiary markets for licensing recent and classic theatrical films, once those films had reached the saturation level of theatrical exhibition. This provided films a new commercial window and a chance to increase profits. In 1966 history was made when ABC paid 2 million dollars for the rights of *The Bridge Over the Kwai River*. What had begun as a major confrontation between two entertainment media ended up a mutually dependent partnership and economic symbiosis.

In Europe, television development followed a different path. While Germany and Britain paralleled America's pace of TV penetration, France, Spain and Italy lagged behind. In most of Europe television was initially established as a public and monopolised industry until deregulation took place.

Although once commercialised television had excellent consequences for film producers by becoming the first financial allies of motion pictures, from the cinemas' point of view, the

arrival of television brought with it a significant decrease in admission revenue throughout all of Europe, the decline being the most staggering in those countries where cinema was most popular (Britain, Germany and Italy), whose audiences were drastically reduced by more than 80%.

### **1.3.5. Diversification and Consolidation**

The long period from the 1960s to the 1990s is as complex as it is interesting. The end of the studio system and the coming of television acted as an earthquake, shaking up the entire audiovisual panorama, in both the U.S. and Europe. The industry forcibly underwent a process of diversification thanks to the new leisure offers, including domestic video, while technological innovation and the new economy spurred trends of concentrating business efforts.

The market expansion that television brought didn't succeed in mitigating the majors' financial crisis. Ticket prices had risen 50% in real terms since the post-war years but movie going was on the decline worldwide.

The 60s marked the beginning of a long succession of large-scale entrepreneurial alliances which threw some of the most renowned majors into the arms of great corporations, not necessarily related to the entertainment business. Universal was sold in 1962 to Music Corporation of America (MCA); Transamerica Corporation took over United Artists in 1967; and in 1968 Warner Brothers and Seven Arts were incorporated by Kinney National Services.

From the mid-80s onwards, this tendency increased. By the end of the decade Japanese hardware firms Sony and Matsushita landed in Hollywood and became the new owners of Columbia and MCA-Universal respectively. These mergers were the first in a long chain of joint ventures and buy-outs - which continues today - aimed at creating big multimedia corporations as a way to survive in a more competitive, sophisticated and global market.

#### ***The 'Condominium Era'***

Changes also occurred in the production-distribution relationship. In what is commonly referred to as the condominium era of motion picture-making, studios rented out space on their lots to independent producers aligned with the majors and established different production agreements in order to share risks (output deals, first-look deals, etc.). Not surprisingly, when a major agreed to distribute an independent's picture or provide financing, the independent was often virtually forced to mortgage all its rights and split the profits as a quid pro quo for landing the distribution contract with a major.

#### ***Multiplexes***

New developments also occurred in the exhibition sector. The most prominent was the population migration out of cities to suburbs, a worldwide phenomenon from 1960 onwards. The new residential areas attracted all kind of services and facilities, including leisure. Movie theatres moved from the downtown area to shopping malls in nearby suburbs, transformed from single-screen to multi-screen theatres - the multiplex.

This transformation affected the economics of operating motion picture theatres. Multiplexes permitted theatre owners to book movies for various screens, giving the audience a wide

offer of titles to choose from at the same physical site. In addition, the multiple-screen concept is tied in with the shopping mall phenomenon, where the different shops benefit from the huge foot traffic the diversity of the mall offering creates. Multiplex owners understood that the secret to attracting greater audience numbers was investing in improving theatres' technological conditions - sound and screen projection standards, seating comfort, etc. Film audiences started growing at the end of the 80s, the same time multiplexes were generally adopted as the theatrical standard in many countries.

### **Video**

Lastly, the video industry and market emerged as a necessary technological development for the television industry. Over time, new video technical standards improved television production thanks to its recording and storing capability as well as its portability. The domestic video industry really took hold in the 80s, thanks to the popularity of videocassette recorders. Not only had a new industry been created, but a whole new market for movies was born.

Initially the studios didn't pay too much attention to the possibilities video offered. A few small production and distribution companies, like Vestron, Carolco, Cannon and Hemdale, took over the emerging market, offering low-budget mass appeal movies. However, their reign didn't last long as the majors found no real competition when they decided to enter into the new market. All of them opened video divisions as a part of their distribution business at practically no cost, and made their libraries available to the new market. It was the beginning of the third commercial window, which would become the most profitable for many years.

### **1.3.6. The Digital Revolution**

The new configuration of the audiovisual industry and markets has been propelled by the digital revolution, which marks the beginning of a new era in the historical evolution of the audiovisual industry. Following the industrial standardisation imposed by the first entrepreneurs, the new order unites three kinds of companies: hardware manufacturers, software and content providers, and telecommunications technology suppliers.

Having learnt from their previous mistakes of under-estimating the business potential of television and video, Hollywood studios and large international corporations didn't want to miss the new technology train. Even with an uncertain future ahead, most of the majors made risky investments to get ready in advance for the upcoming multimedia market, developing their own multimedia divisions. Some symptoms forecasted the positive industry reaction, such as the rapid growth rate of interactive software providers, like Sega, Nintendo, Xiphias. In addition, the Internet was soon used as a marketing tool for movies. Then the new multimedia window was consolidated through *webcasting* (online radio and television).

The key strategic reason behind studios' operations was to control the entire process of production, distribution and commercialisation of content (information and entertainment), in a new form of vertical integration. By controlling the successive value of products through all commercial windows, the audiovisual giants could maximise profitability. Curiously, the audiovisual panorama has again acquired the form of a monopoly, where a few multimedia

groups control most of the information and entertainment products. These groups currently produce 80% of movies, 70% of fiction for television and 50% of music. A realignment of power between the major studios has taken place and once marginal mini-majors have become leaders in the 1980s and 1990s, such as Disney and Universal.

The synergy between the motion picture and television industries and the multimedia-interactive industry is still in its early stages. Digital technology is opening up a whole new world without creative frontiers, where the only limit is the filmmaker's imagination (as opposed to cost). The success of audiovisual products is now measured by its potential to be globally exploited in each window, from theatres to video games, comics to musicals.