10 The development of Chinese cinema circuits and the Chinese film market in 2018

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China's economy has been prosperous in many fields because of China's Reform and Open Door policies over the past 40 years. Unlike other industries in China, Chinese film industrialization reached only its 16th year in 2018, after the cinema circuit system reform in 2002. The year of 2018 saw a seemingly stable screening market concentration but was threatened by a growing crisis. The market needs to open up further, deepen the reform, and seek breakthroughs until a new turning point comes. The continuous high rate of cinema construction has also led to numerous cinema bankruptcies, while the gross per screen continues to decline. The film exhibition industry is facing a crisis, challenges, and new opportunities.

The developmental interpretation of cinema circuits

The number of city commercial circuits remained at 48 which appears to be a stable market structure in 2018. The top eight companies accounted for 61.8 percent of total film sales nationwide and the market concentration was slightly higher than in 2017 (Table 10.1). Apart from the absolute top place (Wanda Cinema), the ranking has alternated between the other top eight players over a few years. From 2015 to 2018, the market share of China Film Stellar Theater Chain (hereafter referred to as Stellar) continually declined, shrinking by 1 per cent in 2018, with hundreds of cinemas closing down.¹ As the company was dragged into labor disputes, Stellar suffered from underwhelming performance. 2018's film exhibition market did not deviate from the trend of box office polarization: the top ten cinema circuits accounted for more than 66 percent of total film sales and the top 20 were as high as 84.5 percent. The remaining cinema circuits only contributed 15.5 percent to the total box office outcome nationally.

Low profitability of large cinema circuits: horizontal consolidation becomes inevitable

Numerous cinema circuits and cinemas faced a business crisis in 2018. Large cinema circuits, including Wanda Cinema, Dadi Theater Circuit, Shanghai

Table 10.1 Market share of top eight cinema circuits, 2015–2018 (in terms of box office revenue) (%)

<i>Cinema circuits</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Wanda Cinema	13.6	13.4	12.9	13.5
Dadi Theater Circuit	8.0	8.1	8.6	9.9
Shanghai United Circuit	7.1	7.8	8.1	8.0
China Film South Cinema	6.8	7.1	7.3	7.4
China Film Group Digital	4.8	6.5	7.3	7.3
China Film Stellar Theater Chain	8.6	7.6	7.1	6.4
GZ. Jinyi Zhujiang Movie Circuit	6.6	6.1	5.3	5.0
HG Entertainment	4.5	4.5	4.4	4.3
Top eight in total	60	61.1	61	61.8

Source: Endata, statistics by 5 Jan. 2019.

United Cinema, GZ. Jinyi Zhujiang Movie Circuit (hereafter referred to as Jinyi), suffered different degrees of difficulties represented by their 2018 quarterly financial figures. In the third quarter of 2018, the net profit of Wanda increased by only 0.31 percent compared to the previous year. In the first half of 2018, Dadi's net profit decreased by 9.8 percent. Due to its loose franchise mode, it suffered from frequent problems of “box office splits”² by its franchising cinemas. The long payback period of capital resulting in the shortage of cash flow, and limited stock financing capacity, caused Dadi to be officially removed from the New Third Board in December 2018. Shanghai Film's net profits fell significantly for three consecutive quarters over the previous year (-45 percent in the second quarter, -34 percent in the third quarter).³ Jinyi Film also performed poorly.⁴ Revenues decreased 5 percent in both the second and third quarters.⁵

The year 2018 revealed that the film exhibition industry from cinema circuits to cinemas had sunk into an operating predicament. Average admissions per screen and the occupancy rate of the top ten circuits were tallied at 16.8 percent and 12.5 percent respectively, which showed reductions over successive years (Figure 10.1). This decrease could be seen to a different extent in other theater circuits, the admissions per screen and occupancy rate of the top 20 circuits reflecting decreases of 2–5 percent and 0.8–2.5 percent over the previous year. The “ticket subsidy” was prohibited from 2018 by the government. Withdrawal of the ticket subsidy lifted the average ticket price to a regular level that has made moviegoers reluctant to go to the cinema. Moreover, since the number of cinemas has been continuously increasing, cinemas have been facing tougher competition. This together with “one movie, one thousand cinemas” (content homogenization) pushed cinema circuits to their present low profitability.

An operational crisis of large circuits appeared everywhere. The contradictions between expansion and efficiency, development and management have been increasingly prominent, while companies are getting bigger

Figure 10.1 Average admission per screen and occupancy rate of the top 10 cinema circuits, 2015–2018.

and stronger. Generally, cinema circuits are aiming to seek new breakthroughs by acquisitions or cross-boundary financing; the industry reshuffle is accelerating.

Against the background of an overall slowdown of the screening industry, Wanda Film adopted expansionist strategies. Primarily, it promoted vertical integration through the merging of Wanda Film and Wanda Cinema. Moreover, relying on its strong cinema operation ability, it opened 103 new cinemas in 2018 and claimed that 80–100 more (excluding acquisitions) will be opened each year in the future, which complies with the trend of industry concentration. Wanda aims to win in the restructuring.

By fall 2018, as cinemas over-supplied in the third- and fourth-tier cities, there were signs of saturation and competition in the Chinese film exhibition industry, and the box office dropped. It has become unrealistic to increase film revenue by constructing cinema complexes in the third- and fourth-tier cities. The era of cinema circuits winning by volume has passed. Only horizontal mergers or deep resource integration can help some of them to stand out at this turning point for the Chinese film industry. Many theater chains had invested in the acquisition of high-quality cinemas and assets. Compared with 2017, mergers and acquisitions were not frequent. Instead, cinema investment companies that were established by some cross-boundary enterprises had very impressive performances, reflecting the new forces rising in the film exhibition market.

Medium-sized cinema circuits struggled: numbers of investment companies rising

The cinema circuits that were ranked 10–20, such as Zhejiang Times (no. 11), Sichuan Pacific (no. 12), Poly Wanhe (no. 13), Henan Oscar (no. 14), Perfect

Table 10.2 Operating statistics of the top 20 cinema circuits in 2018

Rank	Cinema circuits	Box office (¥100 million)	Average ticket price (¥)	Average admissions per Screen	Occupancy rate(%)
1	Wanda Cinema	81.3	41	21	13.47
2	Dadi Theater Circuit	60.1	34	15	12.14
3	Shanghai United Circuit	48.4	37	19	13.89
4	China Film South Cinema	45.1	35	15	12.8
5	China Film Group Digital	44.5	34	14	10.66
6	China Film Stellar Theater Chain	38.7	36	18	13.95
7	GZ. Jinyi Zhujiang Movie Circuit	30.3	37	18	12
8	HG Entertainment	26.3	33	16	11.55
9	Hua Xia United Circuit	21.1	34	14	11.36
10	Omnijoi Cinema Circuit	20.7	34	18	13.47
11	Zhejiang Time Cinema Circuit	18.8	34	15	12.78
12	Sichuan Pacific Cinemas	17.5	35	18	14.9
13	Poly Wanhe Cinemas	14.3	36	18	12.91
14	Henan Oscar Circuit	11.8	32	14	12.22
15	Beijing Hong Liyu Cinema	11.2	36	7	7.1
16	Perfect World Cinemas	10.5	33	13	11.21
17	Beijing New Film Association	10.1	38	21	16.02
18	Hubei Insun Cinema Chain	9.4	33	19	13.67
19	Zhejiang Star Lights Cinema Chain	7.7	35	17	13.27
20	Liaoning North Theater Chains	7.6	31	15	12.82

Source: Endata, statistics by 31 Dec. 2018.

World Cinemas (no. 16), showed stable performance (Table 10.2) in 2018. Beijing Hong Liyu Cinema jumped to no. 15 and has kept rising for four consecutive years. The driving force came from the newly built affiliated cinemas of the Edko Films investment company.

Another thing to note is the Beijing New Film Association's drop from its top five position at the early stage of the cinema circuit reform. It slipped gradually, ending up in 17th place in 2018 due to its rigid inner mechanisms and lack of capital, and is unlikely to go back to a top position. Companies ranking around 20 were fixed, including Hubei Insun and Zhejiang Star Lights, which hardly break developmental barriers. Medium-sized cinema chains have been struggling to survive, revealing they have an unlikely chance of expanding without outside impetus like recapitalization or reorganization.

In 2018, the number of cinema investment management companies reached 496, an increase of 136 from the previous year. Although the growth rate of cinema construction slowed down, new companies focusing on cinema management and acquiring high-quality cinema equity are rising. Compared with the traditional cinema circuits, companies controlling the cinema investment management market were backed by abundant capital. Movie exhibitors are cinema investment management companies that own and operate cinemas. They receive screening copies from the cinema circuits but retain control over the screening schedule (CJ CGV is an operator but not a theater circuit while Wanda Cinema is both). They generate revenue from their share of the box office, in-theater advertising and concessionaire sales.

Wanda has taken a dominant position due to the advantage of its centralized management structure of wholly self-owned cinemas. It had film sales of 5 billion yuan and 1.5 percent occupancy rate higher than the second largest, Dadi (Table 10.3). Wanda had the highest operating efficiency in 2018 nationwide, which reveals its strong business model and successful cinema control.

Dadi's own cinemas have only brought in 2.88 billion yuan in film grossing, and over 50 percent was contributed by franchised cinemas. The operating mode of half being direct investment and half being franchised has brought some revenue instability, which offers an unknown future. Likewise, Shanghai Film failed to meet profit expectations so that it dropped five places from 2017 and sold off cinema assets consequently.

Cinema investment management companies supported by foreign or cross-boundary capitals bucked the slowdown trend, such as CGV Cinemas, Bona Cinema Investment, Evergrande Cinema Line, Macalline Film. CGV demonstrated an eye-opening operating efficiency; its high-level and experienced management competence will gradually be increased.

Most newly established cinema investment management companies are not only financed by movie-related companies. It is common for real estate giants to build self-owned cinemas, so-called "build your own multiplexes in your own shopping mall." Companies intend to copy the Wanda model by taking advantage of rentals which could maximize profits, such as Evergrande Cinemas of the Evergrande Group, Bestar Cinemas of the Future Holding Group, BHG Cinemas of the Beijing Hualian Group, Dashang Cinemas of the Dashang Group, and Huayi Cinema of the Liqun Group, etc. Cinemas are easy to build but difficult to operate well. Under this investment model, the operation status of cinemas and shopping malls are closely related.

Multiplexes like Evergrande and BeStar, located in advanced fifth-generation commercial complexes (large-scale shopping malls), have obvious advantages and good operational conditions, while their ranking keeps rising. In contrast, in older department stores like Mykal, whose lack of experiential entertainment projections and fashionable atmosphere are facing upgrading, their cinemas have lower results (Table 10.4). Conversely, Suning Film Investment showed a remarkable performance. It expanded rapidly in

Table 10.3 Operating statistics of the top 20 investment management companies in 2018

<i>Rank</i>	<i>Investment- management companies</i>	<i>Box office (¥ 100 million)</i>	<i>Screening times (10,000)</i>	<i>Admissions (100 million)</i>	<i>Occupancy rate(%)</i>
1	Wanda Cinema	81.3	933.3	19.9	13.49
2	Dadi Theater Circuit	28.8	510.1	8.3	11.94
3	HG Entertainment	22.6	420.5	6.8	11.59
4	CGV Cinemas	17.5	183.5	4.2	13.5
5	China Film Group Cinema Investment	17.4	194.8	4.9	15.91
6	Jinyi Film	16.9	230.1	4.4	11.69
7	Stellar Cinema Investment	12.5	194.8	3.4	12.72
8	Pacific Cinema Management	10.1	130.2	2.8	17.14
9	HK. Broadway China	9.6	77.7	2	16.11
10	Jackie Chan Cinema	9.1	138.2	2.7	14.94
11	Poly Cinemas	8.8	103	2.3	13.73
12	Bona Cinema Investment	8.8	93.8	2.3	17.09
13	UME Cineplex	8.7	116.2	2.1	15.58
14	Shanghai Film	8.3	84.2	1.9	15.81
15	OSGH Cinemas	7.9	106.3	2.1	13.38
16	Omnijoi Cinema	7.8	100.3	2.3	14.49
17	Lumiere Pavilions	7.3	62.7	1.8	19.21
18	Red Star Macalline Film	6.9	83.5	1.8	15.55
19	Evergrande Cinemas	6.1	162.4	1.8	7.02
20	Sichuan Pacific Cinemas	5.6	76.1	1.6	16.78

Source: Endata, statistics, 31 Dec. 2018.

Table 10.4 Rank changes of some cross-boundary cinema investment management companies, 2015–2018

<i>Companies</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Red Star Macalline Film	71	48	21	18
Evergrande Cinemas	41	21	20	19
Shanghai Bestar Cinemas	—	206	49	26
Suning Film	—	141	58	34
BHG Cinemas	79	74	67	67
Dashang Group	57	51	63	79
Liqun Group	12	13	108	121
China Resources the Mixc	—	—	—	138

Source: Endata, statistics, 31 Dec. 2018.

the downturn of the industry, with film grossing of 210 million yuan, an increase of 78.4 percent. Likewise, Red Star Macalline's film industry rose steadily as well. As a home appliance retailer and a furniture retailer, Suning and Macalline have become successful models for outsider capital to enter the movie market.

Small cinema circuits acquired: rural cinemas continue to grow

In terms of small circuits, Sichuan Emei Circuit's ranking dropped five places and its box office decreased by 8 percent. On the contrary, Star Time Circuit showed a striking performance after its reorganization, with a 50 percent increase in box office and ranking up three places. The box office growth of Xinjiang Huaxia Tianshan Circuit and Inner Mongolia Cinema Line was over 26 percent, higher than the average growth of the market. Although no apparent change appears in the ranking, it reveals that China's ethnic minority film market in the western region is constantly expanding, and its great potential ought to be explored. But in the near term, small circuits are hardly comparable to those well-capitalized large circuits.

Most low-ranking small cinemas, established by provincial distribution companies in the early stage of the cinema circuit system reform, missed the ten-year golden development period of the Chinese film industry due to the relatively undeveloped economy or mechanism limitations.

The Guidance on Accelerating Cinema Construction and Promoting Film Market Prosperity was issued by the China Film Administration in December 2018, which was the first significant breakthrough in in-depth circuit reform since June 2002. The Guidance "encourages cinema circuit development" and laid down five conditions to apply for a "circuit license": investment companies that own over 50 cinemas or 300 screens, with an annual box office revenue no less than 500 million yuan, with no illegal records, are eligible to apply.

The Guidance redefined the threshold of the cinema circuit, according to its own criteria. The small or medium-sized cinema circuits lower in ranking than the 24th place in 2018 were not up to standard. The policies resulted in some small and medium-sized cinema circuits being eliminated or they will be acquired in the near future.

The number of rural cinema circuits was 330, and more attention was paid to improving the quality and efficiency of rural screenings, which offered more potential in the rural market. High-quality main ideology films, documentaries and traditional operatic films were popular with rural audiences, and frequently ordered by rural circuits. Some low or mid-budget films failed to get the ideal box office in city cinemas, so instead were promoted with long-term screenings in the rural market, with sales far exceeding expectations. Economically developed provinces like Zhejiang, Shandong and Hebei remained big buyers, and other provinces had different degrees of growth to meet the growing spiritual and cultural needs of rural cinema audiences.

Table 10.5 Box office and cinema screens growth, 2015–2018

Year	Box office (¥100 million)	Box office growth rate (%)	Numbers of cinemas nationwide	Cinemas growth rate (%)	Numbers of screens nationwide	Screens growth rate(%)
2015	440.69	48.6	6000	41.9	31726	34
2016	492.83*	11.83	7882	31.3	41179	29.7
2017	559.11*	13.56	9504	20.5	50776	23.3
2018	609.76*	9.04	10958	15.3	60079	18.3

Source: Endata, statistics, 31 Dec. 2018.

Note : *Box office figures include the service fee of online ticketing vendors (2017–2018).

Developmental interpretation of cinemas

In 2018, the number of cinemas reached 10,485 and the number of screens exceeded 60,000, which is an increase of 9,303, or 18.3 percent over the previous year. However, the average box office per screen dropped by 8 percent. The growth rate of urban cinema construction had declined for three consecutive years, falling to 15.3 percent in 2018, but was still higher than the growth rate of 9 percent of the annual box office (Table 10.5). The cinemas in the first-, second- and third-tier cities have been saturated, and an imbalance between supply and demand in the film exhibition market is increasingly apparent.

On the one hand, the increase in scale has reduced output efficiency, and cinemas are facing intensive competition. On the other hand, online ticketing reached 84.5 percent⁶ and MaoYan (the biggest third-party online ticketing vendor) promoted the overall popularity of online movie ticketing. How to explore cinemas' advantages in developing new audiences, by optimizing the audience experience, and improving the operating competences has become an urgent task for cinema operators as online sales become mainstream.

The management mode needs to be transformed

Over the past three years, with China becoming the largest film exhibition market globally, the paradox of the high growth rate of cinemas with the decline of output efficiency per screen has puzzled the Chinese film industry, which perhaps signals the need to adjust investment, cinema construction, and management methods. From 2010 to 2018, the incredible speed of cinema construction made China the country with the largest screen ownership, from thousands to more than 60,000. However, in the past two years, the decor and equipment in cinemas are becoming widely worn out and cannot guarantee screening quality or even meet the increasingly critical audience quality requirements.

Table 10.6 Number of cinemas closed in 2017 and 2018

Year	First-tier cities	Second-tier cities	Third-tier cities	Fourth-tier cities	Total	Growth rate (%)
2017	12	62	30	77	181	—
2018	29	82	57	120	288	59.12

Source: MaoYan Research Institute.

Table 10.7 Cinema category by box office volume in 2018

Rank	Box office	Cinema numbers	Ratio of cinemas to total(%)	Box office (¥ 100 million)	Ratio of box office to total (%)
1	Over RMB 70 million	1	0.01	0.79	0.13
2	RMB 60–70 million	3	0.03	2.01	0.33
3	RMB 50–60 million	9	0.08	4.8	0.79
4	RMB 40–50 million	23	0.2	10.55	1.73
5	RMB 30–40 million	112	1.02	38.47	6.3
6	RMB 20–30 million	365	3.33	87.31	14.4
7	RMB 10–20 million	1356	12.4	189.1	31.2
	Total	1869	17.07	333.03	54.88

Source: Endata, statistics, 31 Dec. 2018.

As long as no solutions to the problem of low screening efficiency are found, and with more new cinemas opening, the profits will be diluted, and it will be more difficult for cinemas to survive. At the beginning of December 2018, Stellar announced “140 cinemas have been temporarily closed down out of some 320 cinemas operating in China,” signaling that cinema circuits are facing reforms. According to data released by the MaoYan Research Institute (Table 10.6), 288 cinemas were closed in 2018; almost one closed every day, 29 in first-tier cities, 82 in second-tier cities, 57 in third-tier cities, and 120 in fourth-tier cities.

In 2018, of the 10,485 cinemas with statistics available, the top cinema gained an annual box office of more than 70 million yuan (Table 10.7), and the top 13 gained over 50 million yuan. In 2017, these figures were the top 3 and the top 18 respectively. Most of these super high grossing cinemas are located in first- and second-tier cities, such as Beijing, Shanghai and Guangzhou. Fierce regional competition caused revenues to be diluted in this cruel and competitive environment. Some 1,869 cinemas (an increase of nearly 100), with an annual box office over 10 million yuan, accounted for 54.88 percent of the total box office, but the contribution was 5 percent lower than that in 2017. The data prove the phenomenon generally felt by the industry: “the market is good; but the downstream is difficult.”⁷

The main reason for this trend of collapse is cinema over-supply. The market rule of “survival of the fittest” has proved to be true, since the growth rate of the demand was far behind the supply. One of the top five, Stellar, which had intended to expand the number of cinemas to 450, met its “Waterloo” with a debt crisis resulting from staff remuneration and film studios, leading to the closure of 145 cinemas.⁸

The film exhibition market of the third- or fourth-tier cities has changed from the “Blue Ocean” to the “Red Sea.” Market bubbles caused by the ticket subsidy vanished, and actual price increases dispelled moviegoers’ willingness to visit cinemas. Qingdao’s West-Coast Economic New Area screening market is an example. It was established as the ninth national “new area” in 2014 with an enormous inflow of capital. During 2014–2018, the number of cinemas in this area increased from 2 to 15, and the locations of 4 cinemas were less than 2 kilometers distant from each other. It was difficult for the profits from newly built cinemas to meet expectations. Old worn-out cinemas and new ones found it hard to break even. Film sales have been declining year by year and each cinema is struggling to survive. It is a long process to cultivate the movie-watching habits of third- and fourth-tier residents. Only by keeping a reasonable number of cinemas in the region can a healthy and stable development be maintained.

Cinema managers should draw lessons from cinema collapses caused by over-focusing on investment rather than on management, and by failing to use the way of “the Internet-of-Things” to upgrade management competences in time. With the Internet era, simply using third-party vendors, they ignored the development of their own cinema’s special features. Once a new cinema opens, it will inevitably face the diversion of viewers. The homogenized competition made managers passively over-reliant on online sales vendors, losing the initiative to control their cinema’s own operations.

Increase non-ticket revenue and develop films’ marginal benefits

An improvement in a cinema’s competitive advantage can result from many innovations. These include renovating equipment, redecorating interiors, joining the Nationwide Alliance of Arthouse Cinemas⁹ to obtain different film sources, programming screening schedules to reflect local viewing habits, and researching the regional market, which could lead to greater brand recognition and satisfaction. On the basis of maximized audience numbers, we should think about how to maximize the consumption of every customer, including “movie derivatives” to increase consumption, and how to find more revenue growth points. Cinemas could generate revenues not only from admission tickets but also from non-ticket revenues (food & beverages retailing, in-theater advertising, venue rental, concessionaire sales).

Wanda’s non-ticket revenue ranked number one in the industry with 2.53 billion yuan in the first half of 2018, accounting for 34.4 percent (38 percent in 2017) of its total revenue.¹⁰ The figure for HG Entertainment reached

500 million yuan, accounting for 24.5 percent of its total revenue in the first three quarters of 2018. As retailing sales generate a much higher margin than ticket sales, companies are delighted to expand this business to further boost cinemas' revenue and improve overall profit margins.

Wanda's development strategy in the non-ticket business is worth taking a lesson from. In 2016, Wanda Cinema Media was established to create self-management in full screen advertising resources. They introduced a "membership +" strategy, innovated offline cinema consumption scenarios, interactive games, VR experience, etc. In terms of food and beverage retailing, they found that monotonous popcorn and cola cannot meet the diverse needs of the audience, so innovation in food categories and taste was the key. After forming an alliance with CJ CGV cinemas, its parent company, CJ Group, imported food from South Korea, which also helps Wanda's retailing business.

Compared with the US film market, where concessionaire sales are as high as 70 percent in total revenue, China's film derivatives are still in the early stage. Primarily, there is a lack of local blockbusters and serialized film products, so the development capacity of the derivatives is insufficient. Moreover, fraud was pervasive, there was a lack of marketing, and ticket prices were too high for the customers. All these factors restrict the development of a derivative business. Wanda adheres to the establishment of the "derivative" experience store, developing dozens of stores where it has cultivated the buying habits of audiences, gradually establishing brand awareness and identification.

Some mature theater management brands have made outstanding achievements in non-ticket revenue. Stellar's ratio is 41 percent and CGV cinemas' rate is 30 percent. Premier cinemas have unified logos and design standardization, reflecting a strong brand influence with cultural characteristics. This has a strong attraction for the main consumers, who are white-collar customers in the first- and second-tier cities, and the post-1980s and 1990s and 2000s generations who pursue new trends. The price of the retail products may be high, but the exquisite packaging, precise selections (such as the hot dogs, hamburgers, pizzas, which are common in high-end cinemas of the first- and second-tier cities), the comfortable environment and atmosphere are all reasons to encourage consumers to pay more.

The era of relying on investment increment to win has passed. Cinemas need to seek new core competitiveness to bring profit growth. In the current consumption mode of most Chinese moviegoers, there is little marketing room left for cinemas. People have certain movie-watching desires, they search the relevant movie reviews, select times and seats online, get to the cinema five minutes before the movie begins, and then give online feedback. It is more difficult to find the focus of theater management. Many theater managers are only doing executive and internal management, and cinema innovation shows a weakening trend. However, when most of the cinema's business models are solidified, it also provides opportunities for innovation.

Conclusion

The box office performance of the cinema circuit and investment management companies depends directly on the box office performance of their cinemas. The Guidance pointed out that the establishment of a cinema circuit must meet five conditions, including the number of direct-invest cinemas to be not less than 50, or the number of screens not less than 300, and revenues from direct-invest cinemas not less than 500 million yuan.

There are 48 city cinema circuits in China, where large differences exist among them. The top cinema circuits could reach an annual box office of 8 billion yuan with more than 200 million admissions, and with the added value of films, the annual turnover was more than 10 billion yuan. When considering the cinema circuit ranking after 40, the total annual box office of several cinema circuits is less than one financially strong cinema circuit in the top list. Under the current profit distribution model, it is hard for these circuits to survive, not to mention develop.

The Guidance proposed that the new cinema circuit establishment and its “exit mechanism” should be implemented at the same time. According to the statistics, of over 10,000 cinemas, 60 percent are franchised cinemas. Such a huge cinema self-focus is undoubtedly the biggest obstacle to the operation and management of cinemas. The opening application of a “cinema circuit license” will help to promote the reorganization and merger among cinemas. “To improve the mechanism of rewards and penalties, and mechanism of withdrawal in cinema circuit” is essential to optimize the cinema circuit environment and the market.

There are 3,079 low-quality cinemas with a box office of less than 1 million yuan in 2018, accounting for 28 percent of the total number of cinemas. This is in contrast to the goal of “the total number of screens joining the city cinemas circuits which should reach more than 80,000 by 2020.” By 2020, there will be an explosion of cinema construction, but the “survival of the fittest” means that not all will survive, posing even more severe challenges for cinema operators.

Notes

- 1 Statistics from Endata or compiled by the author according to the data published by the Chinese Film Bureau and *China Film Daily*.
- 2 China-produced film box office revenue split: the upstream operators (i.e., the film producers and distributors) receive 43 percent of the box office split and downstream operators (i.e., the cinema circuits and cinema operators) receive 57 percent of the box office split in China. From *Guidance on the Modification of Domestic Films' Box Office Split*, SARFT, 2008. Cinemas are divided into direct investment and franchises. The actual split between cinema circuits and franchising cinemas depends on bargaining power. Generally speaking, the cinemas have stronger bargaining power when they are expected to generate greater films sales in the market.

- 3 Shanghai Film, the parent company of Shanghai United Circuit, mainly engages in operating cinemas.
- 4 Jinyi Film: Parent company of GZ. Jinyi Zhujiang Movie Circuit mainly engages in operating cinemas.
- 5 Tong hua shun Finance: Wanda Cinema, Dadi Cinema, Shanghai Film, Jinyi Film, September 2018.
- 6 “Goodbye 2018! China film market growth diary behind the 60 billion report,” available at: Huanqiu.com, January 2019.
- 7 “The darkest moment of Chinese cinema,” available at: Sohu.com, December 2018.
- 8 “Will Stellar be the first big Mac to fall in the cold winter?” available at: China Economic.com, January 2019.
- 9 “Nationwide Alliance of Arthouse Cinemas” established by China Film Archive in October 2016. Cinemas joining this alliance should guarantee showing art films at least three times daily and ten times weekly.
- 10 Tong Huashun Finance: Wanda Cinemas, June 2018.