

The Impact of China's Selective Distribution System on Hollywood's Entry into the Chinese Market

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Abstract. October 26, 2023, at the 24th National Film Promotion and the First National Film Exhibition, 24 films were officially signed for online distribution. China's online film distribution model officially kicked off, adhering to the principle of "one-time release, one-time screening," exploring a new market-oriented, flexible negotiation transaction form. Market-oriented Selective Distribution helps to revitalize cinemas, boost the confidence of creators and investors, and enrich the content of local films, making them more diverse in subject matter. Since 2012, the acceleration of Hollywood movies has boosted domestic film spending, and the rapidly expanding Chinese market has become a driving force for Hollywood movies. Between 2012 and 2017, Chinese box office sales rose from 17 billion yuan to 55.9 billion yuan, and the number of imported movies grew from 8.8 billion yuan to 25.8 billion yuan, according to the National Film Bureau. In 2019, Chinese box office rose to 64.2 billion yuan, but the number of imported movies remained at around 23 billion yuan. That is to say, Hollywood films, as the world's largest source of foreign movies, have ceased to grow in the Chinese market. By 2021, Hollywood movies' box office in China has fallen to \$900 million, and their market share has fallen from more than 30 percent to 12.3 percent. This indicates that Hollywood movies have been losing market share in China. The best way to overcome this dilemma is to understand the latest Chinese movie policies and to make targeted changes.

Keywords: Hollywood Films, Selective Distribution, Differentiation.

1. Introduction

1.1. Definition of Selective Distribution

Selective Distribution is a concept that has emerged in the process of market development, and there is no consensus in academia on its definition. In fact, Selective Distribution refers to the practice where the film distributor selects specific cinema chains or individual cinemas to screen a film based on the characteristics of the film and the demands of the audience, forming an exclusive "franchise" distribution to optimize resource allocation.

In essence, Selective Distribution is a diversified and differentiated distribution model driven by the market, characterized by flexible mechanisms. First, Selective Distribution is not an

administrative order but a market tool. The signing of Selective Distribution contracts at the Hengdian trade fair led some industry participants to believe that it was an administrative requirement or mandate. However, Selective Distribution is not the goal, but rather a means to reform the film market, stimulate market vitality, and promote the high-quality development of the film industry. By implementing Selective Distribution, various films can more fully reach their target audience, promote differentiated management of cinemas, and thus improve market efficiency. As a market-driven approach, Selective Distribution requires all participants to reach distribution agreements and achieve win-win outcomes, rather than relying on administrative enforcement, which cannot achieve the goal of improving market efficiency. Even if some mismatches in resource allocation occur during Selective Distribution, the market system should continuously self-adjust rather than relying on government intervention. Secondly, Selective Distribution is not about dividing the market but about expanding market capacity. For instance, during the 2024 Chinese New Year, five films simultaneously demanded specific screening ratios from cinemas. If a cinema screens all five films simultaneously, it would occupy 88% of the market share, leaving only 12% for other films. Such simple division not only deviates from the original intent of Selective Distribution but also harms the film market. The focus of Selective Distribution is precise positioning and meticulous audience selection, enhancing the per-screen box office output of cinemas and achieving a box office share higher than the screening share. While improving the efficiency of film distribution, more space is left for small to medium-budget films, thereby expanding the film capacity during the release period. Lastly, Selective Distribution is not just an agreement on screening rates but aims to improve distribution efficiency through various methods. From the practical operations of Selective Distribution after the Hengdian trade fair, discussions between film distributors and cinema chains/cinemas primarily revolved around screening ratios. That is, as long as the cinema meets a certain screening ratio, the distributor continues to supply the film. For distributors, such an agreement can cancel the "gray area" of screening fees, which is undoubtedly beneficial. However, limiting the methods of Selective Distribution to negotiations on screening rates cannot achieve the goal of stimulating the market [1]. On the one hand, cinema managers, having not seen the film, are taking a gamble by agreeing to screening rates. This means that cinemas face the risk of per-screen attendance not meeting expectations within the first few days of the film's release. On the other hand, even if the distributor achieves the ideal screening rate, it may not generate high box office revenue if the film is of average quality or poorly promoted. For example, many low-budget art films, even if they achieve a 10% screening rate on the first day, may struggle to generate a box office exceeding one million yuan. In the context of limited screening slots becoming a scarce resource, Selective Distribution needs to employ diverse methods to accurately target audiences, better match films with their intended viewers, and enhance distribution efficiency by optimizing the use of limited screening slots through multi-dimensional negotiations with cinema chains. This also raises the bar for cinemas, requiring them to understand their audience groups and their viewing and consumption habits, while building their brand and providing essential data references for the two-way selection involved in Selective Distribution [2].

1.2. Analyzing the new opportunities and challenges for Hollywood films in the Chinese market

Since 2012, the accelerated introduction of Hollywood films has stimulated domestic film consumption, and the rapidly growing Chinese market has become an engine for the growth of Hollywood blockbusters. According to data from the National Film Administration, from 2012 to 2017, China's box office revenue increased from 17 billion RMB to 55.9 billion RMB, while the box

office revenue of imported films expanded from 8.8 billion RMB to 25.8 billion RMB. In 2019, China's total box office revenue rose to 64.2 billion RMB, but the box office revenue of imported films remained around 23 billion RMB. Simply put, Hollywood films, as the main force of imported films, stopped growing in the Chinese market. In 2021, Hollywood's box office profits in China plummeted to \$900 million, and its market share dropped from over 30% to 12.3%. It is evident that the marketplace share of Hollywood films in China is decreasing. To alter this circumstance, comprehending China's newest film policies and making targeted modifications is the very best method.

2. The impact of the selective distribution system on Hollywood film distribution

2.1. Changes in distribution channels and screening models

The distribution model for imported films in China is a carefully developed and well regulated system, with its core idea being "one import, two circulations." This design makes sure that imported films can enter the Chinese market in an organized and legal way, while likewise promoting the exchange and combination of Chinese and foreign movie cultures.

Initially, the China Film Group Corporation's Film Import and Export Branch, as the only authorized import system, is responsible for choosing films from the worldwide market that fulfill the requirements and cultural background of the Chinese market [3]. This step not just shows the state's control over the content of imported films however likewise ensures the quality and standards of the imported films

Second, the Beijing Film Distribution Branch of China Film Co., Ltd., and Huaxia Film Distribution Co., Ltd., as the two organizations with distribution qualifications, are responsible for promoting the imported films nationwide. These two business, through their distribution networks and channel resources, bring imported films to a broad audience, enhancing the supply of the domestic movie market In terms of distribution designs, imported films are mainly divided into revenue-sharing films and flat-fee films. Revenue-sharing films follow international conventions for box office earnings sharing, with the production, distribution, and exhibition celebrations sharing package workplace earnings.

Flat-fee films, on the other hand, are imported by purchasing the copyright, iving the distributor special screening rights without participating in ticket office sharing. This varied distribution model fulfills the needs of various films and markets, promoting the flourishing development of the imported movie market.

2.2. The Transition from Unified Distribution to Selective Distribution

The Transition from Unified Distribution to Selective Distribution China's movie market is going through a significant transition from unified distribution to Selective Distribution, a transformation driven by the intrinsic needs of market development and the inevitable pattern of industry development.

Generally, Chinese films have adopted a unified distribution model, where all films are uniformly dispersed across the country by a few companies such as China Film. Under this design, the screening times and locations of films are relatively fixed, making it tough to meet the personalized needs of different areas and audience groups. As the film market continues to expand and audience needs end up being significantly varied, the limitations of the unified distribution design have gradually emerged.

The emergence of the Selective Distribution model is a favorable response to this obstacle. Selective Distribution enables various movie theater chains to selectively screen different films based upon their qualities and audience needs. This design not just boosts the operational efficiency and market competitiveness of movie theaters but likewise enhances the seeing choices of audiences, promoting the diversified development of the movie market. In terms of theoretical basis, the Selective Distribution design lines up with the fundamental concepts of market economics, namely the optimization of supply need relationships and resource allocation. Through a market-driven, versatile negotiation mechanism, Selective Distribution can better match movie resources with audience demands, thereby attaining optimal resource allotment and healthy market advancement [4].

In conclusion, the shift from unified distribution to Selective Distribution in China's movie industry is a required requirement for industry development and a reflection of market guidelines. In the future, as the movie market matures and improves further, the Selective Distribution design is expected to become the traditional trend in China's movie market.

2.3. Adjustment requirements for Hollywood film distribution strategies

The Selective Distribution system enforces new requirements for the entry of imported films into the Chinese market, mostly reflected in the following elements: Market Positioning and Differentiated Competition: Imported films need to carry out more exact market positioning to fulfill the distinguished requirements of various areas and audience groups. Under the Selective Distribution model, films are no longer limited to an across the country uniform screening schedule however can be flexibly changed based upon the characteristics and choices of the target audience [5]. This needs imported films to have actually stronger targeted content, styles, designs, and separated competitiveness.

Marketing Strategies and Localization Promotion: The Selective Distribution system requires that imported films pay more attention to localization in their marketing techniques. Distributors require to deeply understand the cultural background, audience preferences, and seeing practices of the target audience to formulate marketing strategies that satisfy local market demands, including the selection of promotion channels, customization of promotional content, and company of advertising activities, to increase the movie's presence and appeal in the target audience [6].

Collaboration and Win-Win Cooperation: The Selective Distribution model highlights collaboration and win-win cooperation in between producers, suppliers, and exhibitors. When going into the Chinese market, imported films need to establish close cooperative relationships with regional distribution business and cinema chains, jointly creating distribution plans, sharing market resources, and bearish market dangers [7]. By strengthening cooperation, resources can be shared, and complementary advantages can be achieved, jointly promoting the successful distribution and screening of imported films in the Chinese market.

In summary, the Selective Distribution system poses new requirements for the entry of imported films into the Chinese market in terms of market positioning , marketing strategies, and win-win cooperation [8]. These requirements help promote the diversified development of imported films, enhance market competitiveness, and bring more high- quality viewing choices to Chinese audiences.

3. Case analysis

Hollywood is the center of the global film and music industry. As a leader in the global film industry, Hollywood has not only produced and published many classic and excellent movies, but also made many new attempts in the distribution of movies. Turning our attention to China on the other side of the world, as we enter the 21st century, the Chinese film market is developing rapidly and on a huge scale. Releasing a movie here usually earns high box office revenue, which attracts many film companies to invest here. However, at the same time, due to the large number of audiences in China, movies released here also face the challenge of facing a massive amount of different reviews. With the rise of selective distribution of movies, some Hollywood movies have also adopted this distribution method [9]. Our research will explore the impact of selective distribution on Hollywood films entering the Chinese film market, and see how selective distribution will bring about changes when the world's highest quality films enter the hottest film market [10].

3.1. Real movie cases

Our group chose *Manchester by the sea* as the main research object. This movie is published by Universal Pictures in the United States and belongs to the categories of literature and art in terms of plot classification. This movie was released in North America in 2016, with good box office revenue and a series of awards, indicating its excellent quality [11]. When *Manchester by the Sea* was released in China in 2017, as the distributor of the film in China, the China Arts Film Projection Alliance chose the selective release method to show the film, which was the first art film released in this way. The reason given by the China Art Film Screening Alliance for this is that they believe this distribution method can help provide more targeted films to audiences with artistic film viewing needs, which can enhance the box office and reputation of the films.

3.2. Data comparison

In the end, this movie was selectively released in a specific number of cinemas in China, including 180 cinemas in 66 cities. The producer believes that this distribution method provides exclusive viewing space for art film enthusiasts and helps to make the Chinese film market more specialized [12]. However, although the Chinese audience who saw *Manchester by the Sea* in the cinema spoke highly of the film, in fact, its box office revenue in the Chinese market is not satisfactory, only 8.2 million yuan, which is not only significantly lower than expected, but also quite a failure in the entire film market. When we turn our attention to the *City of Philharmonic*, which was released in China in 2017, as a film of the same literary type as *Manchester by the sea*, the *City of Philharmonic* also won many awards and good box office in North America due to its high quality [13]. When it was released in the Chinese film market, the film's producer chose the same distribution method as usual, rather than the selective distribution in *Manchester by the sea*, and finally the box office of the *City of Philharmonic* in China was 115 million yuan. Compared with *Manchester by the sea*, the two films are also famous for their good quality as literary and artistic films released in China almost at the same time. But at least in terms of box office data in the Chinese region, *La Land City* is clearly more successful [14].

3.3. Preliminary conclusion

According to the intuitionistic box office data of Manchester by the sea and the City of Philharmonic, we can draw a preliminary conclusion that the selective distribution of Hollywood films is not yet mature, at least this method has not been successful in the Chinese film market. This comparison exposes many issues related to selective distribution. For example, many Chinese movie fans expressed that they prefer to watch movies in familiar cinemas, which are cinemas near their residences, rather than in certain specific cinemas, which can save a lot of time. In extreme cases, some movie fans located in small cities even need to drive for several hours to other cities' cinemas to watch movies, which obviously reduces people's living efficiency and is very unreasonable [15].

4. Conclusion

Through this entire case study, we can identify some of the challenges that Hollywood films face when using selective distribution for release in China. At the same time, our group is also trying to propose some speculative solutions to these objective problems or deficiencies.

Firstly, selective distribution requires research on the preferences of movie audiences and identifying the audience groups that theoretically contribute to the box office of a particular movie. Therefore, we believe that this work can be carried out in more detail, not only to understand the existence of these potential consumers, but also to provide more targeted screening services for these audiences. If we can study their frequent visits to cinemas and selectively release some movies based on this data, this approach may yield good box office results.

Secondly, movie distributors may need to have a deeper understanding of what kind of movies are more suitable for selective distribution. In our group's research, literary films are not suitable for this method, so what about science fiction and action Hollywood movies? Therefore, either continuing to try or conducting more comprehensive data analysis, the producers and distributors of these movies need to have more discussions and research, only in this way can we avoid the continued occurrence of the dismal situation of high-quality films like Manchester at the box office.

Thirdly, our group believes that prior to the selective release of the movie Manchester by the Sea, the Chinese Art Film Screening Alliance did not carry out corresponding promotion, and the distributors seemed to believe that promotion only needed to be done in the regions where the movie was released. But our point of view is that even if selective distribution is used, the same level of publicity as when releasing movies should be used. This may be a blind spot for film companies, and they may consider this shortcoming when using selective distribution in the future.

4.1. Summarize the paper and analyze its role

Finally, when summarizing this study, we need to consider the impact of selective issuance in the Chinese market. After discussion, we believe that although the initial trial did not achieve success in box office data, it can still provide a valuable trial and error experience for film distributors, who will discover some objective problems and make improvements in the future. Meanwhile, more and more distribution methods are being implemented in the Chinese region, which will also enhance the professionalism of the Chinese film market. So, this may not necessarily be a completely bad thing for Hollywood producers and the Chinese market. As loyal movie fans, we believe and hope that more excellent movies can be released in China, and more distribution methods can be used to bring audiences a richer viewing experience.

4.2. Shortcomings in the paper

Our paper investigates the definition of selective issuance, proposes its advantages and disadvantages, and analyzes the feasibility of this approach in the Chinese market through a comparative study with controlled variables. At the end of the paper, we also point out the objective problems and provide our own speculated solutions. Of course, there are still some issues with this paper, such as the use of examples that are not entirely comprehensive, and relying solely on artistic films may make the conclusions somewhat one-sided.

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