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Service bulletin

Film and Video Distribution

2006

Highlights

- Canada's film and video distributors reported total operating revenues of $1.7 billion in 2006, down marginally from 2005. However, firms reduced their operating expenses by 9% to $1.2 billion. As a result, operating profit margin increased to 25% in 2006 compared with 19% in 2005.
- The largest expense reported by surveyed firms was the cost of sales, which represented 45% of total expenses. Royalties, rights, licensing and franchise fees accounted for 23% of expenses, while advertising, marketing and promotions accounted for 12%.
- Ontario firms dominated Canadian distribution, earning 83% of total operating revenues in 2006, while Quebec firms accounted for 14%.

Domestic distribution revenue offsets drop in exports

Data analyzed in the remainder of this release are based on establishments whose combined revenues account for about 95% of the industry's total revenues.

The two primary sources of revenue for the industry are distribution of film and video titles and wholesaling of pre-recorded videos. Revenues from the distribution of film and video titles accounted for 71% of total national operating revenues in 2006, while wholesaling revenues accounted for 28%.

Industry distribution revenues from exports dropped significantly from 2005. Foreign sales generated revenues of just $32.8 million in 2006, down from $90.2 million the previous year.

However, this drop in exports was offset by an increase in revenues from the domestic market.

Film and video distributors increased their distribution revenues in four key markets: motion picture theatres, pay and specialty television, conventional television and home video.

The largest revenue increases were from pay and specialty television (+11.1%) and conventional television (+17.9%) markets. Combined revenues for the motion picture theatre market and home video market increased 2.6% from the year before.

Film and video distributors generate the bulk of their revenues from distributing film and video productions. However, they also make money by wholesaling these videos. Firms that engaged in some wholesaling (as a secondary activity) saw their revenues edge down 0.6% from a year earlier.

Top four companies increase their share of revenues

The top four companies, ranked on the basis of revenues earned, continued to dominate the industry in 2006. These companies accounted for about 73% of total national revenues, up from 71% in 2005.

Expenses for the top four companies decreased 2% over the two-year period and as a result, profits rose from $284 million to $322 million in 2006.

The profit margin for the top four companies stood at 27% while the rest of the industry showed a profit margin of 20%.

The sources of distribution revenue for the top four companies differ from those of the rest of the industry. The top four companies generated almost 70% of their distribution revenues from the home video and conventional television markets, whereas the rest of the industry generated almost 65% of its revenues from distributing to the conventional television and theatrical markets.

Note to readers

Data for 2006 for the Film and Video Distribution industry should not be compared with published data prior to 2005, as significant changes were made to the survey. Data are now collected using a sample that accounts for firms earning 95% of the industry's total revenues. Administrative data are used for the smallest firms.

Data for this publication include all provinces. However, provincial data are published only for firms in Ontario and Quebec to protect the confidentiality of survey respondents.

Film distribution companies are engaged primarily in distributing film and video productions to a variety of different markets including motion picture theatres, television stations and commercial exhibitors. They are the film industry's intermediaries, the liaison between producers and exhibitors. Distributors obtain the rights to market and distribute films and videos.

Data for 2005 has been revised.

Conventional television market contributes to increased market share in Canadian content

Distribution revenues from Canadian productions increased in 2006, especially in the conventional television market. In this market, Canadian content accounted for 13.1% of total revenues, up from 4.9% in 2005.

As a result, domestic distribution revenues from Canadian productions represented 11.2% of total domestic distribution revenues, rising from 8.1% in 2005.

In the pay and specialty market, Canadian content accounted for 40% of total revenues, unchanged from the year before. The same was true at movie theatres where Canadian content maintained its 3% share of the market.

Statistical tables

Table 1
Summary statistics for the film and video distribution industry,[1] by province, 2005 and 2006

	Operating revenue	Operating expenses	Salaries, wages and benefits	Operating profit margin
	thousands of dollars			percent
2006				
Canada	**1,651,519**	**1,237,456**	**73,118**	**25.1**
Quebec	235,578	166,944	13,264	29.1
Ontario	1,363,557	1,054,163	58,299	22.7
2005				
Canada	**1,664,496**	**1,353,702**	**76,641**	**18.7**
Quebec	291,149	223,409	14,726	23.3
Ontario	1,308,482	1,110,234	59,613	15.2

1. Data for this table includes all provinces. However, provincial data are published only for firms in Ontario and Quebec to protect the confidentiality of the survey respondents.

Note(s): According to the North American Industry Classification System (NAICS 512120). See "Data sources, definitions and methodology" at the end of tables for definition of terms. Due to rounding, components may not add to total.

Table 2
Distribution revenue for the film and video distribution industry,[1] by Canadian and non-Canadian productions, primary market, Canada, 2005 and 2006

	2005 r	2006
	thousands of dollars	
Distribution revenue of Canadian productions by domestic market		
Theatrical market	11,123	11,558
Pay TV market	47,607	52,702
Conventional TV market	12,335	38,719
Home video market	x	x
Other markets	x	x
Sub-total of domestic distribution revenue of Canadian productions	84,305	124,795
Distribution of Canadian productions to foreign clients	79,504	27,645
Total distribution revenue of Canadian productions	163,810	152,438
Distribution revenue of non-Canadian productions by domestic market		
Theatrical market	314,401	326,750
Pay TV market	71,490	79,659
Conventional TV market	237,808	256,217
Home video market	x	x
Other markets	x	x
Sub-total of domestic distribution revenue of non-Canadian productions	952,490	989,927
Distribution of non-Canadian productions to foreign clients	10,740	5,187
Total distribution revenue of non-Canadian productions	963,229	995,114
	percent	
Percentage share by domestic market		
Theatrical market [2]	3.4	3.4
All markets [3]	8.1	11.2

1. Industry estimates are based on the surveyed portion and are augmented by administrative data for establishments that were too small to be eligible for sampling. The surveyed portion includes only data for surveyed establishments weighted to represent other establishments that were eligible for sampling but were not selected. The surveyed portion represents approximately 95% of total industry revenue. Due to rounding, components may not add to total.
2. Revenue from distribution of Canadian productions to theatrical markets (percentage of total revenue from distribution to theatrical markets)
3. Domestic distribution revenues from Canadian productions (percentage of total domestic distribution revenues)

Table 3
Profile of the film and video distribution industry,[1] Canada, 2005 and 2006

	2005 r	2006
	thousands of dollars	
Operating revenue		
Total revenue from distribution of film and video titles	1,127,039	1,147,554
Wholesaling of pre-recorded videos [2]	449,702	447,037
All other operating revenue [3]	47,295	22,613
Total operating revenue	1,624,036	1,617,204
Operating expenses		
Salaries, wages and benefits	71,494	65,267
Licensing costs (rights, royalties and other fees)	238,402	271,217
Cost of goods sold	590,271	541,128
Advertising, marketing and promotions	167,350	140,272
All other operating expenses [4]	249,649	187,137
Total operating expenses	1,317,166	1,205,021
	percentage	
Operating profit margin (percentage of total revenue)	18.9	25.5
	number	
Employment		
Full-time	1,259	1,003
Part-time	50	110
Contract Workers	x	x

1. Industry estimates are based on the surveyed portion and are augmented by administrative data for establishments that were too small to be eligible for sampling. The surveyed portion includes only data for surveyed establishments weighted to represent other establishments that were eligible for sampling but were not selected. The surveyed portion represents approximately 95% of total industry revenue. Due to rounding, components may not add to total.
2. Wholesale revenue included in this table are from film distribution establishments classified under NAICS 512120. Wholesaling of pre-recorded videos is reported as a secondary revenue source. Establishments primarily engaged in wholesaling pre-recorded video cassettes are classified under NAICS 414450.
3. All other operating revenue includes sales from production of film and video titles, grants and subsidies and other revenue.
4. All other operating expenses include commissions paid to non-employees, professional and business services fees, payments for services provided by head office, office supplies, rental and leasing, repair and maintenance, insurance, travel, meals and entertainment, utilities, telephone and telecommunication, property and business taxes, licences and permits, delivery, warehousing, postage and courier, financial service fees, charitable donations, bad debts and all other expenses.

Data sources, definitions and methodology

The following information is to ensure a clear understanding of the basic concepts that are being measured, the underlying survey methodology (how the concepts are measured), and key aspects of data quality. This information will provide a better understanding of the strengths and limitations of the data, and of how they can be effectively analysed and used. The information may be of particular importance when making comparisons with data from other surveys or sources of information, and in drawing conclusions regarding changes over time.

Description

This survey collects the financial and operating data needed to produce statistics on the Film and Video Distribution industry in Canada. These data are aggregated with information from other sources to produce official estimates of the national and provincial economic production of the Film and Video Distribution industry in Canada. Data on this and other industries together contribute to the accurate measurement of national and provincial economies.

Target population

The target population consists of all establishments classified to the Film and Video Distribution industry (NAICS 512120) according to the North American Industry Classification System (NAICS) during the reference year. This industry comprises establishments primarily engaged in acquiring distribution rights and distributing film and video productions to motion picture theatres, television networks and stations, and other exhibitors.

Sampling

This is a sample survey with a cross-sectional design.

The frame is the list of establishments from which the portion eligible for sampling is determined and the sample is taken. The frame provides basic information about each firm including address, industry classification, and information from administrative data sources. The frame is maintained by Statistics Canada's Business Register and is updated using administrative data.

The basic objective of the survey is to produce estimates for the whole industry - incorporated and unincorporated businesses. The data come from two different sources: a sample of all businesses with revenue above or equal to a certain threshold (note: the threshold varies between surveys and sometimes between industries and provinces in the same survey) for which either survey or administrative data may be used; and administrative data only for businesses with revenue below the specified threshold. It should be noted that only financial information is available from businesses below the threshold; e.g., revenue, and expenses such as depreciation and salaries, wages and benefits. Detailed characteristics are collected only for surveyed establishments.

Prior to the selection of a random sample, establishments are classified into homogeneous groups (i.e., groups with the same NAICS code and same geography). Quality requirements are targeted, and then each group is divided into sub-groups called strata: take-all, must-take, and take-some.

The take-all stratum represents the largest firms in terms of performance (based on revenue) in an industry. The must-take stratum is comprised of units selected based on complex structural characteristics (multi-establishment, multi-legal, multi-NAICS, or multi-province enterprises). All take-all and must-take firms are selected to the sample. Units in the take-some strata are subject to simple random sampling.

The effective sample size for reference year 2006 was 52 collection entities.

Definitions

- **Operating revenue** excludes investment income, capital gains, extraordinary gains and other non-recurring items.
- **Operating expenses** exclude write-offs, capital losses, extraordinary losses, interest on borrowing, and other non-recurring items.
- **Operating profit margin** is derived as follows: operating revenue minus operating expenses, expressed as a percentage of operating revenue. The derived figure excludes corporation income tax paid by incorporated businesses and individual income tax paid by unincorporated businesses. For unincorporated businesses, operating profit margin includes unpaid remuneration to partners and proprietors, which is not recorded as salaries, wages and benefits. Therefore the profit estimate will be higher in industries where unincorporated proprietorships and partnerships are significant contributors.

- **Salaries, wages and benefits** include vacation pay and commissions for all employees for whom a T4 slip was completed. This category also includes the employer portion of employee benefits for items such as Canada/Quebec Pension Plan or Employment Insurance premiums. Salaries and wages do not include working owners' dividends nor do they include the remuneration of owners of unincorporated business. Therefore the relative level of salaries, wages and benefits will be lower in industries where unincorporated businesses are significant contributors.

- An active **statistical establishment** is one production entity or the smallest grouping of production entities which produces as homogeneous a set of goods and/or services as possible; which does not cross provincial boundaries; and for which records provide data on the value of output together with the cost of principal intermediate inputs used and cost and quantity of labour resources used to produce the output.

Data quality

While considerable effort is made to ensure high standards throughout all stages of collection and processing, the resulting estimates are inevitably subject to a certain degree of error. These errors can be broken down into two major types: non-sampling and sampling.

Non-sampling error is not related to sampling and may occur for many reasons. For example, non-response is an important source of non-sampling error. Population coverage, differences in the interpretation of questions, incorrect information from respondents, and mistakes in recording, coding and processing data are other examples of non-sampling errors.

Sampling error occurs because population estimates are derived from a sample of the population rather than the entire population. Sampling error depends on factors such as sample size, sampling design, and the method of estimation. An important property of probability sampling is that sampling error can be computed from the sample itself by using a statistical measure called the coefficient of variation (CV). The assumption is that over repeated surveys, the relative difference between a sample estimate and the estimate that would have been obtained from an enumeration of all units in the universe would be less than twice the CV, 95 times out of 100. The range of acceptable data values yielded by a sample is called a confidence interval. Confidence intervals can be constructed around the estimate using the CV. The standard error is calculated by multiplying the sample estimate by the CV. The sample estimate plus or minus twice the standard error is then referred to as a 95% confidence interval.

For this survey, the CVs are excellent (less than 5%) for operating revenue and operating expenses and wages, salaries and benefits of employees variables.

Quality evaluation

Prior to dissemination, combined survey results are analyzed for overall quality. In general, this includes a detailed review of individual responses (especially for the largest companies), an assessment of the general economic conditions portrayed by the data, historic trends, and comparisons with other data sources.

Disclosure control

Statistics Canada is prohibited by law from releasing any data which would divulge information obtained under the Statistics Act that relates to any identifiable person, business or organization without the prior knowledge or the consent in writing of that person, business or organization. Various confidentiality rules are applied to all data that are released or published to prevent the publication or disclosure of any information deemed confidential. If necessary, data are suppressed to prevent direct or residual disclosure of identifiable data.

Data accuracy

Of the units contributing to the estimate, the weighted response rate was 94.9%. CVs were calculated for each estimate and are available upon request.

Release date: December 2008

Symbols

The following standard symbols are used in Statistics Canada publications:

.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
^{p}	preliminary
^{r}	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E}	use with caution
F	too unreliable to be published

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Note of appreciation

Canada owes the success of its statistical system to a long standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued cooperation and goodwill.