

THE INTERNATIONAL FILM BUSINESS

A MARKET GUIDE BEYOND HOLLYWOOD

ANGUS FINNEY

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A market guide beyond Hollywood

Angus Finney



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The International Film Business

The International Film Business examines the independent film sector as a business, and addresses the specific skills and knowledge it demands. It describes both the present state of the industry, the significant technological developments that have begun to take place, and what changes these might effect.

The International Film Business:

- describes and analyses the present structure of the film industry as a business, with a specific focus on the film value chain
- discusses current digital technology and how it potentially may change the structure of the industry in the future
- provides information and advice on the different business and management skills and strategies
- includes case studies on a variety of films including *The Name of the Rose* (1986), *Cloverfield* (2008), *Pobby & Dingan* (aka *Opal Dream*, 2005), *Confessions of a Dangerous Mind* (2002), and *The Mother* (2003), and company case studies on EuropaCorp, Redbus and Zentropa.

Taking an entrepreneurial perspective on what future opportunities will be available to prepared and informed students and emerging practitioners, this text includes case studies that take students through the successes and failures of a variety of real film companies and projects and features exclusive interviews with leading practitioners in all sectors of the industry, from production to exhibition.

Angus Finney is a course director and visiting lecturer on film and media businesses at Cass Business School, City University London. He teaches at MSc and MBA level, and works with the UK's Regional Screen Agencies, the South African National Film and Video Foundation and the Abu Dhabi Film Commission as a trainer and consultant. He is Film London's Project Manager for the Production Finance Market, an annual event, and has had practitioner experience as Managing Director of Renaissance Films, a production, finance and sales company that was expanded with investment from the City in 1999. He has worked as a media specialist and journalist, and his previous books include: *Developing Feature Films in Europe: A Practical Guide* (1996), *The State of European Cinema* (1996) and *The Egos Have Landed: The Rise and Fall of Palace Pictures* (1996).

This really is the complete guide to today's film industry. Right up to date, but with a real understanding of the journey that the industry has taken to get here. Comprehensive and well researched; erudite and very readable. Quite simply the book that all practitioners and industry players alike have been waiting for. Many, I suspect, may pretend to themselves that they know it already, but privately will keep the book near at hand for constant reference and self assurance. I know I will.

Ken Dearsley, *Partner, DLA Piper Middle East LLP*

This book successfully accomplishes what many others on the same topic have failed to do. It not only captures the excitement of the international film industry, but it also delves deeply into its structure and practices. The author uses to full advantage his first-hand knowledge of the film business to develop a comprehensive analysis that will have enduring value for both film insiders and readers that are fascinated by this industry.

Joseph Lampel, *Professor of Strategy, and Entrepreneurship,
Cass Business School, City University London*

At last a book for the professional practitioners of filmmaking but accessible to the interested layman, full of insights into the digital age of distribution and production with a road map for the future development of the film business. If you are going to buy one book on the international business of film, this is it!

Sandy Lieberman, *Chairman of Film London,
former President of Production, Twentieth Century Fox*

For Michaela Eyston

Preface

Success is going from failure to failure without losing enthusiasm.

(Winston Churchill)

The inspiration for this book – which is not to be confused with any associated claims of ‘inspirational’ qualities – is born out of failure, not success. I spent an earlier decade of my career in journalism, consulting and book writing during the 1990s before being presented with the opportunity to cross the commentator/practitioner divide, and work as an entrepreneur and manager at the sharp end of the business. I ran Renaissance Films, a London-based film company, over a seven-year period, the first four with my former partner Stephen Evans. Ultimately, I was forced to close that company and place it into receivership in 2005. The challenge and associated pressures of combining development, production, finance, sales, marketing and the eternal search for distribution under one umbrella, while managing the expectations of institutional investors and later completing a sole management buyout of the company, were ultimately insurmountable. On reflection, however, that exposure and experience has been instructive. A large part of this book’s purpose is to capture some of that knowledge.

During the process of personal and professional rehabilitation, it became clear that buried inside those years of practitioner activity was a rich seam of experience and potential case studies. Many less formal film books and lectures on the subject veer towards the anecdotal and focus often on ‘successful exceptions’. This book attempts to use the majority of the case studies to explore the dysfunctional and often inefficient processes and people-generated problems rather than just throw a spotlight on the extraordinary and rare hits. It is also wide reaching across the industry’s complex architecture, in a strategic effort to cut across the pervasive ‘silo’ mentality of the fragmented and divided industry in question. This text is aimed directly at both the specialized film student and also the broader media education sector (both undergraduate and postgraduate). The book has also been designed in a way to make much of the material relevant to practitioners in the international film business. When reviewing existing literature on the film business, many texts seemed to focus on Hollywood and the predominantly ‘big six’ Studio approach to production and distribution. Whilst it is understandable why academic research is drawn to the Studios – who offer quantitative data and historical trends in abundance – what is left untended is the international film industry as practised and experienced by all outside (although

often connected to) the Hollywood hegemony. That exclusion has created a considerable knowledge gap. In addition, there exists a plethora of biographical books, alongside film theory, econometric, strategic and management-focused academic work, and a smorgasbord of production/finance/legal 'how to' texts. There are, however, remarkably few books that seriously address the industry that is termed 'Independent' – meaning everything outside the 'big six', and how that industry relates to Hollywood and the rapidly changing worldwide film business today.

The International Film Business – A Market Guide beyond Hollywood is split into three main sections: 1 The film value chain; 2 Users and the changing digital market; and 3 Business and management strategies. This book has been designed to enable the majority of the chapters and case studies to stand alone, and to be utilized for teaching and training purposes without the need to wade through the entire 100,000 word text in one linear session. However, the book is also aiming to be larger than just the sum of its parts. By analysing the horizontal and vertical structures that shape the film industry, in tandem with changing patterns of users and digital technology, I have aimed to concurrently examine the existing industry while acknowledging the high levels of current restructuring. When reviewing existing literature and exploring the above themes while teaching at MSc and MBA level at Cass Business School, City University London, it became clear that business, project and management skills needed to be welded into any industry and market analysis of the film sector. All too often those skills are an afterthought or deemed irrelevant to the creative pool, which is at best wrong-headed and at worst deeply damaging to the industry's future. And film, although not the largest of a number of key creative industries, remains one of the most visible. Indeed, feature film is not called a 'loss-leader' for nothing.

Acknowledgements

This book originated through discussions with Terry Ilott, Course Director at the Film Business Academy (FBA); Peter Bloore, then an associate director at the FBA and now an established academic at University of East Anglia and Bournemouth University; and Cass's Professor of Strategy, Joe Lampel. I subsequently received research support from the UK Film Council and Skillset, for which I am extremely grateful. John Woodward, Janine Marmot, Tina McFarling and others were extremely encouraging, and without their combined kick-start the process would have stalled.

Other practitioners and lecturers who have supported, aided and taught me much – often through joint lecturing, practitioner workshops and teaching/training sessions but also through general contact – include Stephen Evans, Jeremy Thomas, Mark Gill, Daniel Battsek, Andrew Macdonald, Simon Franks, Rebecca O'Brien, Peter Le Tessier, Michael Kuhn, David Kosse, Mark Beilby, Patrick Russo, Stewart Till, Kevin Loader, Sara Frain, Ashley Pharoah, Peter Bloore, Mike Kelly, Peter Broderick, Heather Mansfield, Pierre-Ange Le Pogam, Ian Hutchinson, Jake Eberts, Andy Harries, Geoff Gilmore, Philippe Carcasonne, Hilary Davis, Phil Hunt, Simon Bosanquet, Michael Henry, Nick Manzi, Alejandro Pardo, Simon Franks, Sean Steele, Howard Kaidaish, David Collins, Nik Powell, Stephen Woolley, Marc Boothe, Ralph Kamp, Charles Macdonald, Lars Hermann, Tina Sorensen, Soren Kragh Jacobsen and Kim Magnusson, to thank but a few I can recall. Those not listed who I've also learnt from – in particular during my trials and errors at Renaissance Films – thank you.

A number of organizations in the United Kingdom have indirectly helped shape my thinking, learning and the development of this book's themes. In particular, my associates at Film London, including Adrian Wootton, Sandy Lieberman, Helena Mackenzie, Libby Savill and Daniela Kirchner, have been extremely encouraging. My role as manager of the Production Finance Market on Film London's behalf has been instructive in the continual search for relevance and commercial realism, and hence thanks also to the PFM's co-ordinator, Chloe Laing, for her input. My intensive exposure to training and coaching outside the formal education system was made possible in part due to the FBA, but also thanks to South West Screen, Film Agency Wales, B3 Media and the Film Distributors' Association. My recent work has taken me far beyond the United Kingdom. Thanks are also due to the South African Film and Video Foundation – in particular Ryan Haidarian and Clarence Hamilton – the Danish National Film School (Ole John) and the Abu Dhabi Film Commission (David Shephard), all of whom have exposed me to different film cultures and industries and forced me to work beyond my comfort zone.

The vast majority of this book was written, while my three children were asleep, on holidays, while my partner patiently encouraged (and at times pressed) me to keep writing. For them I am greatly indebted, although the chances of this particular book keeping my young sons up at night with a torch are slim. Lastly, significant additional and personal thanks is due to Terry Illott, who played a critical role in advising and guiding this book's design, and in final editing notes; and my executive assistant, Eugenio Triana, whose outstanding research, academic flair and generational insight has been critical to this process reaching fruition. Thanks are also due to my editor, Aileen Storry, and her team at Routledge, and to Simon Gallant of Gallant Macmillian for his ever-reliable legal advice. Of course, all omissions, errors and mistakes remain my responsibility.

Angus Finney

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Part 1

The film value chain

1 Global film: a changing world

For centuries, mankind knew all there was to know about the shape of the Earth. It was a flat planet, shaped roughly like a circle, with lots of pointy things hanging down from the underside ... The oceans lapped against the sides of the Earth, and in places ran over, creating currents that would pull over the edge ships that ventured too far out to sea ...

(The Flat Earth Society, Mission Statement, 2008¹)

The word 'flat' ... means equalizing, because the flattening forces are empowering more and more individuals today to reach farther, faster, deeper, and cheaper than ever before. ... In my view, this flattening of the playing field is the most important thing happening in the world today.

(Thomas L. Friedman, *The World Is Flat*²)

The world's changing shape

Reference to the long-held yet fantastical notion of a flat earth may appear a strange point to begin an opening chapter of a book about the international film market. Yet the image of a horizontal planet, covered in firm earth and choppy seas, with lots of vertical, 'pointy things hanging down' offers an arresting visual image that serves the following analysis more appropriately than a perfectly formed sphere.

Why does the visual image fit the analysis? Because the film market can be analysed from a horizontal perspective, which assists us in understanding global, multi-national, and territory-by-territory strategies, and the respective values of scale and reach. As such, the horizontal approach allows us a degree of 'macro' analysis, taking into account global trends, key territorial distinctions and, in the rare instance of a film that hits worldwide, an extraordinary penetration and super-returns resulting from *Slumdog*-style universal exploitation. Big stuff. Sounds exciting, huh? Well, the use of the word 'rare' is advisory, and applies as much to the Hollywood Studio system as it does to the independent industry that works alongside the global machine. As we shall see all too soon, a 'hit-driven' business is normally predicated on the vast failure of the majority.

The film market can also be approached from a vertical perspective, which enables us to analyse specific film media characteristics and their relative values and roles within the film value and exploitation chain. Each film product is capable of being delivered and viewed a number of ways by the end-user. Up until recently, and still predominant, is the exploitation chain:

4 *The film value chain*

- 1 theatrical release window;
- 2 DVD window;
- 3 pay-TV window; and
- 4 free-TV window.

It is this chain, when analysed from vertical link-to-link, that helps us towards an understanding of how film can be valued and the business analysed on a 'micro' basis. Film exploitation remains somewhat dependent on both the vertical and horizontal aspects, and they tend not to mesh neatly on a regular basis to form the perfect sphere or circle. Up until recent times, it would be accurate to state that a film is nearly always released first in its domestic country of origin and then subsequently exploited in additional territories. It was also accurate to state that a film has been released first theatrically (if it succeeds in being booked), and then through DVD and then television. But as this book explores, much is set to change.

Why has the film industry followed such rigid, structured forms? The first reason is historical as the film industry was initially less global at the start of the last century. The first few cinemas catered to local passers-by.³ It was only with the development of the motion picture, and the associated costs in production and marketing, that the need to expand to new markets arose. The theatrical window is also the first vertical form because it was the first to be invented for transmitting films.

But the second reason lies at the heart of the economic structure of the business: it is no secret that the Hollywood Studios dominate the world film industry. These are the six major distributors⁴, based in Los Angeles but with worldwide exploitation systems that consistently hold the greatest share of the world film market. They utilize the vertical economic approach by releasing their films theatrically first, and ensuring increased revenues and profits through creating a system of 'windows' where the film is not released onto the next form of media until the exploitation in its previous one has been exhausted.

They also strategically apply the horizontal approach to the business of film by typically acquiring rights to any possible territories in which a film could be exploited (if not laying off risk by sharing territories with a partner). Any revenue returns are then governed by 'cross-lateralization' – meaning that high returns in some territories are evened out by losses in others. In Hollywood legalese, the Studios use the word the 'Universe' to avoid any later misunderstandings about new encounters with a third kind – meaning of course potential markets and audiences yet to be discovered (i.e. planets yet to be colonized – such an example might be extraordinary but it helps drive the point of the absurdity of 'Universe' in a more visual, almost cinematic way).

Increasingly, over the past decade in particular, the Studios have seen their dominance over both conduits of exploitation – horizontal and vertical – under increasing pressure and in certain cases, market erosion. As this book explores in detail, an increasing degree of flexibility between a vertical and horizontal landscape is now lifting off and expanding: the ball is beginning to take on an interesting shape.

The economic challenge facing film

The international film business stands on a delicate cusp. Changing technology and user demands are radically challenging the established 'windows' structure so favoured by the Studios and other leading gate-keeping distribution incumbents.