Building sustainable film businesses: the challenges for industry and government

An independent research report from Olsberg·SPI sponsored by Film i Väst, PACT and the Swedish Film Institute

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OLSBERG·SPI

This report was prepared by the UK-based international strategy consultancy

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Foreword from the sponsors

The challenge of creating sustainability in the independent film sector is an issue for every country, not just Sweden and the United Kingdom. The structure and economics of film production are not particularly well suited to building sustainable companies wherever one is situated around the world. Although this is a problem easily recognised, it is far from clear how to address it let alone devise solutions, whether for the companies themselves or those public sector agencies which support the film industry.

So when we were approached by Jonathan Olsberg with the request to sponsor a new, thorough study into the topic we immediately saw an opportunity. Not just to get the report written, but also to stimulate a discussion on a much wider platform both within Sweden and the UK and around the globe.

We hope that you, the reader, find the report to be a useful contribution to the debate. We certainly do and we are eager to engage in that debate with you.

Section 10 of the report contains information about our organisations and how to contact us and we look forward to seeing the dialogue expand.

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pact.

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Introduction from Jonathan Olsberg

Ever since we opened our doors in 1992 the question of how to find the elusive solution to creating viable, sustainable, independent film businesses involved in feature film development and production has been constantly on our minds. Is the idea of a healthy, vibrant, independent film sector a holy grail that can never be achieved? How do film companies become successful, wherever they are situated around the world? And how can governments adapt their policies to achieve greater sustainability in the light of uncertainties over financial realities and digital change?

We wanted to take a fresh look at these issues and provide our own thoughts and hopefully some solutions, hence this report.

We are hugely grateful to our three sponsors, Film i Väst, PACT and the Swedish Film Institute for their interest in the topic and willingness to make this report possible, although we take full responsibility for its contents. We thank them for permitting us to express our own opinions and perspectives and hope they are pleased that they did so. Do they endorse all of our views – you'll have to ask them!

SPI has been examining the issue of sustainability for many years on behalf of its clients wherever they are around the world. This has involved advising individual companies on their plans for growth and helping public agencies support independent film businesses without making them totally dependent on public subsidy.

The problem is a perennial one, and will not be easy to solve, particularly in the current financial climate. However, it is the tough economic environment itself which has led us to believe that now is absolutely the right time to look afresh at the issue of sustainability. The global financial crisis has led to very deep cuts, in many countries, in public funding. So perhaps now it is even more relevant to stimulate renewed efforts to help the film industry establish a refreshed business model; a model which will enable successful companies to leverage investment from the private sector and therefore lessen dependency on the public purse.

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Section 1.0

Executive summary

1.1 Introduction

This report presents a case for a renewed effort, by film production businesses in tandem with the screen agencies that support their activities, to focus policy on building sustainable film businesses. Such focus is already evident in a few such organisations and indeed (in our view) the sponsors of this report are among those that recognise the benefits of helping companies achieve long term success and develop robust, sustainable business models.

Regrettably, we cannot offer the reader one chapter which neatly summarises all the answers. This is because there is no 'one size fits all' solution. So it may be necessary to dig around a little to find indicators of solutions that could apply in the particular country or region in which the reader is based.

Some common themes do emerge however and they are analysed more deeply in the following chapters, such as:

- The suggestion that owner/managers of film businesses might in future think of themselves not as people who make great films, but as people who run businesses that make great films
- The fact that there is much talk about sustainability without necessarily defining what is meant by it – two different definitions are offered in this report; the Investment Ready definition and the Maintained Stability definition
- The fact that there are consistently recognisable factors common to film businesses that have reached a regular level of success
- And there are also a number of consistent factors that can be discerned in public support systems around the world that also contribute to this success.

1.2 Research and information provided in the report

In addition to the chapters which address those themes mentioned above, the report also contains some research and other information about subjects that are relevant to the core goal of company sustainability. This additional research we hope will be helpful as background to the main findings of this report.

They include:

- A discussion and explanation of the many benefits that accrue to governments as a result of having a thriving film sector
- A brief examination of current trends that can be observed in public policies aimed at the sector
- A high level analysis of the state of the global markets for film and some of the developments that are occurring
- A look at how digital innovations are continuing to change the film producer's options and opportunities, and finally
- An examination of conditions in seven countries where we have observed some of the most interesting policy and business tendencies: Australia, Brazil, France, Germany, Singapore, Sweden and the United Kingdom.

As our kind sponsors make clear in their foreword, all of us involved with this report are keen to see the debate expanded so that the notion of company development, in order to reach sustainability, becomes closer to centre stage in policy discussions and strategy formulations, wherever one is located around the world.

Section 2.0

Building sustainable film businesses

2.1
What is a sustainable film business?

It has been understood for some time that much of the independent film sector operates on a broken business model. The dominance of the US majors means that independent film struggles for market share, is highly risky and delivers relatively low rewards. Access to production finance is difficult for independents. Highly complex multi-party funding structures are required, and producers are forced to surrender most or all of their intellectual property rights to investors and trade partners in order to get a film made. This leaves them with little -- if any-- access to revenues generated from the distribution of the film, and prevents them from building on prior success since they are left with no equity to invest in future projects.

In order to address this problem, SPI has been conducting fresh research into factors that contribute to the success of those independent film businesses which have achieved sustainability in some form.

For the purposes of this report a 'film business' is defined as an independent company undertaking feature film production as its core – but not necessarily only – activity.

2.2
Definitions of sustainability

SPI has developed two possible broad definitions of the term 'sustainable' in relation to film businesses.

- **'Investment Ready'** One generic indicator of a successful business is when a company can be considered to be 'investment ready'. This market-driven definition could be applied to any growing small to medium sized enterprise in any sector, not just in film, if it meets the criteria.

Investment readiness depends on an examination of the financial strength of a business, as indicated by its financial statements including revenue forecasts. Where a company can show a robust financial track record and growth potential sufficient to attract private corporate finance (whether debt or equity), it can be considered to be 'sustainable'.

Nevertheless, there are film businesses which are considered both sustainable and successful without meeting this very commercial definition. An additional, alternative definition of sustainability is therefore required.

- **'Maintained Stability'** 'Maintained stability' describes the kind of sustainability seen in companies that do not have the financials to meet the 'investment ready' definition. However, they are able to produce high-quality films on a regular basis, by relying on some level of consistent public subsidy support.

These businesses have demonstrated that they are able to continue to supply films to the market over a sustained period, in countries where public subsidy of production is an important part of the film ecology. Their reliance on public assistance is therefore more a result of the system in which they are operating rather than any financial or corporate weakness.

The key indicator of this kind of sustainability is that the films being produced meet a market niche. This is to say that there is a proven audience for them, and the production company clearly understands its market and consistently produces films that meet these audiences' needs, although the commercial returns might not be substantial. This definition would therefore include companies producing films which may be considered to be more 'cultural' than 'mainstream'.

Section 3.0

Success factors for building sustainable film businesses

The two sustainability definitions describe what success might look like for independent film businesses, but for many companies the question remains of how to achieve it.

SPI has identified a number of common factors which have contributed to building individual successful film companies around the world. This is based on our experience in advising film production businesses, and supported by new research we have undertaken for this report, including interviews with owner/managers of successful film businesses in a number of different countries.

These factors are:

- The ability to share in downstream revenues generated by successful content
- Diversified revenue streams across a number of activities, each providing different risk/return parameters
- On-going relationships with successful talent
- Strong, entrepreneurial leadership
- Strong relationships with international business partners and networks, especially major, corporate players
- Working within a public policy environment system that is supportive, reliable, predictable and consistent
- Having more than a fair share of luck!

These are explored in greater detail in the following pages.

3.1
Sharing in downstream revenues generated by successful content

The single most important factor in determining a company's potential for sustainability and growth is its ability to take a meaningful share of revenues generated by any successful content that it makes. This has a better chance of occurring when the production company has greater leverage in negotiating financing for a project than has typically been the case for independent film.

Such leverage is likely to be based on a variety of business factors, such as having equity to invest in the project, or successfully securing the separation of particular rights within distribution or broadcaster deals.

The producer's negotiating position can also be affected by the public policy system within which it operates. Where the regulatory environment actively mandates greater IP ownership, or where public funding is designed to reward producers for box office success, or where terms of trade enable producers to take a superior recoupment position ahead of public funders and broadcasters, production companies can benefit from downstream revenue generation.

Crucially, many production incentive schemes – especially rebate style fiscal incentives – do not enable producers to take a greater share of revenues generated. Instead, rebate incentives reduce the costs of production, thereby reducing the risks for financiers. These schemes could, however, reward the producers of a successful project, and contribute to their sustainability, if they mandate that the incentive amount be treated as producer equity.

3.2
Achieving diversified revenue streams

Of all the activities involved along the film value chain, development and production is the most high-risk. Successful production companies are able to mitigate this risk by engaging in a diversified range of activities with lower risk profiles, thereby ensuring a more stable revenue stream.

Diversification might be horizontal (producing other forms of media such as television, commercials or new media) or vertical (engaging in film sales and distribution or providing post-production and other facilities and services). Ideally a company will have a portfolio of activities with a variety of different risk/reward profiles.

If companies are to meet the generic definition of sustainability – i.e. to be 'investment ready' – it is important that they can demonstrate some revenue streams which are 'predictable'. If film development and production is the only business producers are in, it will be a huge challenge to convince an investor that the business is sustainable.

3.3
On-going relationships with successful talent

Production companies which have demonstrated on-going success have often benefited from long-term relationships with successful creative talent, in particular with directors and writers. This appears to be a key factor in enabling a film business to build on prior achievements and strengthen its ability to get projects off the ground in future.

The creative dynamic between, for example, a producer and director, can often become the core of a film business. This might be an exclusive relationship, a first-look agreement, or some other form of partnership. The obvious benefit to the production company is where the talent has become established and can therefore be expected to attract audiences. This factor is of particular importance to companies which have achieved sustainability in the 'maintained stability' definition.

In some cases successful production companies have been in partnership with key creative talent from the beginning of their career, and in a sense have benefited from being part of the process of a director or writer making a name for his or herself, strengthening the relationship even further.

Additionally, working with familiar creatives on an on-going basis can help to establish a brand for a production company, giving stakeholders (public, private and even consumer) a sense of the kind of films it produces.

3.4
Strong, dynamic leadership

In this context, we mean strategic leadership with a clear, corporate vision of how the business should be developed. In our work with clients we have noticed the frequency with which successful companies are led by individuals with experience of the generic issues associated with company growth and expansion.

Most film production companies are owned, managed and run by creative individuals whose principal talents and experience lie in the business of bringing individual film projects to fruition. It is not always the case that these same individuals will have the knowledge and experience to push forward the company's growth because these are essentially different skills. They may reside in the individual who also has 'project' talent, but not necessarily.

A key recommendation to any film business with ambitions for sustainability therefore is to secure experienced entrepreneurial leadership. As explained above, this does not necessarily have to be embodied in the owner of the company. It could be a senior member of the management team, or even an outside adviser, who is given the task of devising and delivering a growth strategy, rather than addressing project-related issues.

If these skills cannot be found within the permanent management team, another way of achieving this is to appoint a non-executive director, to sit on the company board, with the sole remit of driving the business towards investment-readiness. The right individual might have a background in corporate finance, or in senior management with a larger company, even from an unrelated sector, but crucially will have an understanding of (and solid connections with) sources of investment. Remuneration for this non-executive director might be performance-related, based on his or her success at achieving that investment.

3.5
International and corporate business relationships

Another key success factor lies in the nature of the business and corporate relationships that a company enjoys. Our research shows that companies with the strongest international links tend to thrive, particularly if those networks include larger businesses which are run on more corporate lines. It appears that film entrepreneurs who are involved in these types of business relationships tend to build strong links, over time, with a few of them and this can lead to more permanent financial, corporate alliances.

This key success factor is not surprising: after all, the film business is one of the most global of any creative economy sector. Just about any film from a mature filmmaking country will have realistic ambitions to make an impact in the international market. The costly nature of creating the film asset, and the probability that the domestic market will not be sufficient, for most independent films, to fund the project by itself, had led to an increase in international co-productions[1]. The emergence of new countries as significant film markets also reflects the internationalisation of the business.

Therefore the key relationships for a film business might mostly be with trade partners operating internationally, providing access to or funding from, global markets, and often based in other countries.

[1]. For most countries – the UK being an exception because of the way it's Film Tax Credit is structured.

3.6
A supportive and consistent public policy environment

Other than in Hollywood and the Indian film industry ('Bollywood'), most countries with film industries operate a supportive public sector investment strategy. The reasons why this support is provided are multiple – cultural, social and economic – and are examined in detail in the following chapter.

It is certainly necessary, for a company to have a chance to become sustainable, to exist within a system that provides support that is consistent and reliable and operating at a level that is substantial enough to really make a difference. For an independent company to work in an environment without this type of support decreases the potential to develop a robust growth strategy. This is in part because the nature of the production business model – high risk/potential high reward – requires the ability to operate in a predictable system over the long term. This reflects the fact that the process of development and production itself can and does take many years for individual projects.

Some examples are included in the Appendices of support structures in a small selection of countries that largely meet the criteria of consistency and reliability, and size. These are Australia, Brazil, France, Germany, Singapore, Sweden and the UK and a commentary is included in each case on some of the variables that contribute to this sense of reliability and consistency. These include the overall approach to public support to be found in each country; the nature of that support at national and regional levels, and the role broadcasters play in the sector.

Of course there are dozens of other countries (and regions) that also fit the criteria discussed above. The purpose of this report is not to provide a comprehensive analysis of support mechanisms, but we do apologise for leaving out the very many other examples of supportive and consistent systems that exist around the world.

3.7
Having more than a fair share of luck!

The term 'independent producer' is in many ways a misnomer. A more accurate description might be 'dependent producer' because so many factors involved in a film's production and distribution are out of the producer's control. Bad weather can derail the shooting schedule; illness can delay production; an expensive piece of equipment could malfunction or be destroyed. Even when the film is ready to be distributed, a big Hollywood blockbuster might shift its release date directly opposite the producer's lower-budget independent film, draining the audience away.

We may call it luck but really it is about lack of control. There is little doubt that many film businesses operating in the independent sector are keenly aware that luck – those factors which are beyond the control of a company – has a significant impact on a business's ability to become sustainable.

While it is acknowledged that there is little that can be done by production companies to mitigate some of these factors, if a company displays some of the success factors described above, they may find themselves more often in a position to benefit from good luck and also in a more robust condition to survive periods of bad luck.

Figure 1

Company strategies - success factors

Factors contributing to company growth	Public policy support mechanisms
Ability to make successful films and share in revenues	Project support
Diversification	Company support dominates
Talent relationships	
Leadership	
International and corporate relationships	
Public funding environment	
Luck	

OBSTACLES

Market failure:
- *Generically high risk activity*
- *Relatively low rewards*
- *Typically conducted by small companies*
- *Dominance of US majors*

Policy support:
- *Very few public policies focussed specifically on company growth*
- *Focus on individual project support*
- *And other areas not directly contributing to corporate growth*

Difficult buiness model, i.e:
- *Access to finance*
- *Limited IP ownership and access to revenues*
- *Producer often has no finances to invest*
- *Complex multi party funding structures*
- *Mismatch of risk and return*
- *No convincing digital business model*

Why governments invest in the film sector

Governments around the world have come to understand the full range of benefits of a thriving film sector and the industry has come to accept this as the norm in most mature, and many maturing, film markets. Government support has reached this position because both industry and government have realised the significant benefits to be derived for the agendas of both parties.

The cultural and social benefits of a healthy film sector have been recognised for some time. Indeed, early strategies for supporting film emanated largely from ministries of culture or the arts. But perhaps even more important in relation to creating sustainable film companies are the economic benefits of filmmaking. In this report, therefore, it is appropriate to underscore what these benefits are. For the purposes of this analysis they are categorised as:

- Production spend; the 'Multiplier Effect'
- Employment generation
- Skills and talent development
- Direct investment return
- Export earnings
- Increased tourism
- National brand building
- Film as a driver of the creative economy.

4.1 Production spend: the 'Multiplier Effect'

An Economic Multiplier is used to assess the dynamic impact of an industry[2]. It measures the direct effect of expenditure into the economy by a particular industrial activity, the indirect effect on suppliers of inputs to the industry, and induced effects from incomes that are generated for individuals and further spending as a result.

In effect, the multiplier is designed to measure the eventual increase in income resulting from the initial boost to expenditure and is normally used by governments who wish to evaluate the economic impact of a number of competing sectors when deciding where to commit resources.

For example, in relation to film production, this would be money spent on all the elements of a film's production budget (e.g. location hire, transport, accommodation, catering) which in turn 'trickles down' into suppliers and services to those recipients, and which eventually spreads through to the wider Gross Domestic Product.

Multiplier effects in the worldwide film industry tend to range from between an estimated 2.0 and 3.0, although the latter levels have been generally viewed sceptically when used. The average film industry multiplier effect SPI has found through publicly available research for this study is 2.34.

2. Cambridge Econometrics' definition.

However, these multipliers are notoriously difficult to estimate as they include so many hard-to-ascertain costs and other factors. The fragmented nature of the film economy makes its contribution to GDP difficult to quantify. In order to establish a multiplier for the film industry in any given country requires a sophisticated economic analysis. Even in some mature film economies, such as France, multipliers are not taken so seriously because, according to national film commission Film France, the required economic data to prove them does not exist.

Some examples of publicly stated film production multipliers are as follows:

- Australia 2.67
- New Zealand 2.55
- South Africa 2.50
- UK 2.0.

4.2 Employment generation

An expansion of film production activity in any country or region creates substantial new employment. This will include full time employees although the majority are likely to be freelance workers, which is typical for the film industry worldwide. These jobs are normally captured in statistics by calculating the Full Time Job Equivalents. The standard definition for this is: total hours worked divided by average annual hours worked in full-time jobs.

Most jobs created by production require a highly-skilled and well educated workforce and this also stimulates a mobile and flexible labour pool with skills and abilities that are transferable into other screen based industries, at home and abroad. Several mature film markets have created important initiatives aimed at creating this highly skilled work force. This may start with the traditional film school education but is even more potent economically when focussed on vocational training for professionals employed in the sector.

A 2007 report on the UK film industry[3] claimed that for every person the sector directly employs, another job was supported by indirect and induced multiplier impacts.

4.3 Skills and talent development

A key attribute of any nation or region is its human capital and in terms of the film sector this correlates with the talent of the individual practitioners and professionals working in the sector. Film is a modern, adaptable and vivid mode for the expression of individual views, stories and opinions. The talent that works in film has flexible and growing career opportunities, at home and abroad. The talent pool is well-educated, has high level, adaptable and modern skills and this can be seen in many corners of the world. In addition to the traditional above the line 'auteur' talent of writing and directing, plus producing, there is an increasing focus on technical talent development (VFX, animation and 3-D) as well as many other vocational skills.

3. By Oxford Economics

4.4
Direct investment return

Most independent film transactions involve private investors, banks and other financiers. There is consequently no reliable statistical evidence in the public domain of how much revenue the average independent film actually generates. And because the independent film business is a business of prototypes – i.e. each film is a one-off – it would be reckless to draw conclusions even if average returns were made publicly available.

A rule of thumb for public film funds is that they rarely deliver over 50 per cent recoupment of investment. Of course, this is understandable because the aims of this 'soft' investment are many – cultural, economic and social – whereas pure private investment only has financial return as its motivation.

Because the public investment is therefore pushed down the recoupment schedule it is difficult to draw conclusions as to return when there are so many financiers above them in the 'recouping waterfall'. However, the fact that there *is* a direct financial return, in addition to all the other benefits described in this section, could be considered an added bonus compared to many other public investment initiatives in the creative economy.

4.5
Export earnings

As discussed elsewhere, a film is an asset with a significant global market and the value of the international territories (as defined by the US studios) has been increasing year on year for a decade. The importance of international revenues for UK independent films is underlined by various estimates that non-UK income is thought to provide anywhere from 50% to 70% of an individual film's net revenues.

The value of the international market continues to grow as new countries develop audiences and consumer demand increases for a range of film genres. In addition to the growth of the BRIC[4] territories there are a number of other territories developing their appetite, such as Turkey, Indonesia, Mexico and in the Middle East.

Film content is relatively unique in that it is a capital asset with a seemingly increasing shelf life, which continues to grow as new markets emerge around the world for filmed entertainment content. This expansion is also fuelled by the creation of new formats and modes of delivery.

With many countries having identified growth in exports as a key objective for economic policy, film is increasingly seen as punching above its weight against these aims. This is not just the case for countries making films in English, but can also be seen in more niche markets such as (recently) Iran and Denmark.

4. Brazil, Russia, India and China

4.6
Increased tourism

Film[5] has significant positive effect on tourism as has been shown by many studies in a variety of countries around the world. Tourist visit decisions are based on several factors but experiencing a destination through a shared, film entertainment experience can be a major element. The positive impressions caused in audiences are deep (latent) and long-lasting and often repeated as a film works its way through the typical distribution windows. The tourism impacts are also valuable for internal tourism as well as foreign-based .

Film and television, of all media, have a great ability to touch upon many cultural characteristics. Screen products can inform and excite audiences, in the same instance, about a nation's language, history, literature, society, landscapes and personalities. This all happens in the form of a narrative framework which gives the audience an emotional, as well as intellectual, connection to the country.

The effect is likely to be most persistent when the production achieves broad distribution or even cult status or is part of an existing, wider historical, literary or cinematic brand.

The longer and wider-reaching impact of a film or television programme can outlast and spread far beyond the initial release of the film itself, delivering messages which contribute to a broader consciousness of a nation's culture among international audiences.

An interesting example of the film-induced tourism effect was found regarding Bend It Like Beckham and China. According to official UK representatives in Beijing, Bend It Like Beckham significantly raised the UK's profile in China, the fastest growing tourist market in the world. Prior to seeing the film, Chinese people had an image of the UK largely derived from classic films and books such as Sherlock Holmes and Dickens, as a traditional and reserved country. They were therefore surprised and delighted by the depiction of multi-cultural harmony in the film and this was a major contributing factor toward an increased number of tourist visits[6].

5. 'Film' includes cinema features, documentaries and television programmes in this context.

6. See the SPI report 'Stately Attractions' How Films and Television Programmes Promote Tourism in the UK.

4.7
National brand building

As discussed above in relation to tourism, feature films contribute to a wider 'branding' of a country's inhabitants, society and culture. This can have a very strong influence on creating a desire to engage in business transactions as well as tourism visits. The same effects that are experienced by potential tourists about a destination are to be found also in the international business and trade community. This can assist in building export markets and inward investment.

There are also geo-political benefits to increasing the understanding of a nation worldwide as a result of a film's impact. Film can enhance the profile and brand of a country or region for creativity, skills and innovation. For example, the Bend It Like Beckham effect was also important in attracting Chinese students to study at UK universities.

4.8
Film as a driver of the creative economy

Many nations have come to realise the substantial economic and other benefits to be derived from the expansion of the fast growing creative industries. They have become key contributors to GDP[7] growth and are the focus of a variety of initiatives of different types to stimulate the development of the creative economy.

In SPI's view, the film sector (particularly production) is the most powerful driver of activity in other creative industries. This is because a large scale production normally uses the output of more creative industries than any other single creative industry. Consequently, film is more potent as an engine of growth than any other single creative industry.

For example, the UK has 13 official creative industries and film directly drives economic activity in 10 of these 13 by using or purchasing their services or output. This includes publishing (writing); performing arts (acting and directing); music; photography; design; fashion; software; architecture (set building); television (medium of delivery) and advertising (distribution). The only activities not directly involved are fine arts/antiques, crafts and radio.

7. In the UK in 2010 the GDP contribution of the Creative Economy outstripped that of the Financial Services Sector, at around 6.5% of national GDP.

Section 5.0

Public support for film

Because government interventions play such an important role in helping film businesses become sustainable, we wanted to look at a couple of key areas where such support is undergoing developments, experiencing changes or stresses of various kinds.

5.1
Current trends in incentive 'rivalry'

Although there are no macro trends in public support for film – apart from certain screen agencies facing continual pressure on their budgets because of global economic difficulties – there are micro trends focussed on certain areas of intervention, and production attraction incentives is one area where there is a remakable amount of current activity.

Many territories are engaged in a kind of production incentive 'arms race' as to which country can most successfully attract portable production. Because film spends so much money employing so many people in a short space of time, governments have recognised the trickle-down economic benefits of hosting film production, let alone the tourism and country brand benefits noted above.

Countries including Croatia, Abu Dhabi and Malaysia have all recently launched their own new incentives for film and many of these schemes also apply to domestic productions. The following table shows some examples:

Figure 2

A comparison of selected rebate incentives targeting international mobile productions

Country	Maximum Rebate (%)
Czech Republic	20
France	20
Germany	20
Hungary	20
Ireland	28
Italy	25
Malta	22
United Kingdom (large budget)	20
Non-Europe	
Australia (international)	16 ½
Singapore	40
South Africa	20
South Korea	25

5.2
Tendency to focus on projects over companies

Although from a relatively low level of current support, screen agencies are increasingly recognising the importance of company development as opposed to simply project financing.

A prime example of innovative support is Screen Australia's Enterprise Development Program which since 2009 has provided corporate finance soft loans. The mission statement of the program is 'assisting in the development and creation of viable screen businesses', in particular through:

- Supporting existing businesses to grow to the next stage
- Encouraging new business partnerships and alliances
- Developing a strong presence in the international marketplace
- Encouraging the development of new revenue streams
- Facilitating increased development of quality projects and talent
- Encouraging development, production and marketing strategies which address new opportunities in digital media and online.

Companies that do not yet have the capacity to access private capital were prioritised in the program's first year of operation in 2009. Soft loans of up to AS$350,000 (€274,285) per year for three years were available. The 2011 funding round awarded A$3 million (€2.35 million) to four companies. The Enterprise Program has awarded A$15 million (€11.8 million) to 21 companies in total to date.

A proportion of the Enterprise funds are treated as a recoupable loan, with the exact amount and repayment mechanism negotiated on a case-by-case basis.

The scheme operates an application process that opens once a year and applicant companies must present a strong business plan which addresses many of the elements described in the Investment Ready definition of sustainability that is referred to in section 2.

Crucially, the Enterprise Program insists on many of the points raised in this report as a precondition of making a loan, such as having at least one company director with a minimum of five years' experience on the board ('Strong, entrepreneurial leadership').

Reviewing the first two years of the Enterprise Program, external assessors (of which SPI is one) noted some common factors of applications that did not succeed: continued overreliance on production fees for income rather than downstream revenue potential; a dearth of joint ventures or corporate linkages; a lack of input from business/financial mentors and experienced non-executive directors; lack of research/analysis into what the market wants (excess of 'supply-push' strategy as opposed to 'demand-pull') and a lack of up to date market intelligence.

Reviewing other support measures discloses that the Swedish Film Institute can award up to €110,000 for corporate development while Film i Väst meets four times a year to review strategies and structures supported by the regional screen agency through its Business Audit scheme.

What these bodies believe is that helping production companies diversify their revenue streams by expanding into new areas as well as overseas is a key plank in creating a sustainable film industry.

Notwithstanding these examples, there are relatively few national support initiatives which are targeted specifically at achieving or supporting corporate growth for film production companies. Instead there is a strong bias towards funding for individual projects, the development of project skills, or for infrastructure projects such as studio developments.

The training on offer for creating sustainable film business is also relatively hard to locate. Some academic institutions such as the National Film and Television School (NFTS) in the UK and the Australian Film Television and Radio School (AFTRS) offer courses in the business aspects of producing, as does the Peter Stark Producing Program at USC in Los Angeles. This September the London Film School is launching an MA in Independent Film Business with Exeter University in England.

The problem is however that often producer business training is about how to convert projects into production and distribution. What is generally lacking is support for owner/managers who wish to strategically grow and build companies, for which they need training in strategic company development and achieving Investment Readiness.

5.3
European competition policy (State Aid)

As of the date of this report (May 2012) the European film industry is uncertain about how current European Commission proposals concerning State Aid might be enacted and how they might affect the way in which screen agencies support the film sector.

The draft proposals for change have been issued by the EC in pursuit of one of its core responsibilities under the Treaty on the Functioning of the European Union (TFEU), namely the policing of EU competition law. In the draft Communication the EC refers to Article 107 of the TFEU (the general rule against competition-distorting state aid) and Article 107(3)(d), the so-called 'cultural exception'.

The draft proposals set out to make a number of changes to the rules governing state aid to film. The most important changes are:

- A proposed cap on state aid to high budget 'non-European' films
- A reduction in the proportion of the budget a Member State can require to be spent within its territory (territorialisation)
- A new definition of expenditure anywhere within the European Economic Area (EU members plus Iceland, Liechtenstein and Norway) as 'national' expenditure where the aid is pro rata to national expenditure
- A proposed rule against allowing state aid to support particular budget lines.

One of the Commission's roles is to be the guardian of competition within the single market. It accepts that film, as a cultural good, is an exception but seeks to prevent the 'cultural exception' being used inappropriately as a form of industrial protection. As expressed in the draft Communication, it has three particular concerns:

- That the definition of 'qualifying spend' causes particular activities in the film budget to receive a national preference
- That Member States may have local spend requirements of up to 80% of the film budget, which the Commission regards as excessive
- That Member States are using public funding to compete with each other to attract mobile international productions to shoot in their territories.

The Commission believes that these aspects of Member States' film support systems distort competition to an extent that is not justified in the pursuit of legitimate cultural purposes.

SPI believes there is considerable opposition within many European governments to most of these changes but until the issues are clarified there is a cloud in Europe over the flexibility enjoyed by nations and regions in their support strategies for the sector.

Section 6.0

Success factors for Public Support Systems

Having identified what film companies can do to help themselves achieve sustainability and longevity there remains a question about what public agencies wishing to support film as both a cultural and economic activity can do that is aimed specifically at strategic company development.

It is not inappropriate to put public funds into helping film businesses become sustainable. Business support for SMEs in all sectors is a well-established and highly effective strategy used by governments around the world to help enterprises to grow. Independent film companies will inevitably fall under the definition of a small to medium sized enterprise (if not a micro enterprise) and are therefore eligible for this support.

However, the complexities inherent in the film industry (in particular the challenges to growth described elsewhere) mean that business support is not always applicable, and could be more specifically targeted and designed to help film companies overcome those particular obstacles.

SPI has built on its knowledge of and research into public support schemes for film around the world, and the efficacy of those schemes, to identify a number of success factors for public agencies wishing to support film businesses. These factors have done the most to support growing film businesses in the independent sector, even though they support growth in an indirect way, with the focus still largely on individual projects.

In summary, these success factors are identified as:

- A holistic range of initiatives with consistent levels of support
- Project based support that motivates by rewarding success
- Where broadcasters are mandated to invest
- Levies and quotas
- Systems that combine well with those in other countries.

6.1
A holistic range of initiatives with consistent levels of support

In many of the most established, mature film economies around the world there is a public support body, usually at national level but often also at regional level, providing an integrated set of support initiatives aimed at different points along the value chain.

A holistic range of support mechanisms across the value chain might include some or all of the following commercially based interventions:

- Development funding for new projects
- Production funding
- Support for distributors and, where relevant, sales companies, for example with marketing costs
- Support for independent exhibitors and national broadcasters
- Initial training for new entrants as well as advanced training and networking opportunities for established film professionals.

A holistic approach usually exists in countries where government has a full understanding of the range of benefits of a healthy screen sector, both economic (as described in Section 4) and cultural. Most important is an understanding that screen production is a major driver of activity in the creative economy, which is a core element of the knowledge economy that many developed countries are increasingly turning to for growth.

Crucially these policy programmes have permanence, or at least real longevity – one example would be in Sweden where the Film Agreement guarantees support for periods of at least four years, providing domestic and international stakeholders along the value chain a measure of security in their business decisions.

6.2
Project-based support that motivates activity by rewarding success

In many regions and countries support for film is focused on project-based support only. Such schemes can nevertheless encourage sustainability of film businesses when designed around certain characteristics. These are as follows:

Project funding

Project funding, in particular production funding, should be designed to incentivise both domestic independent film production and international inward investment projects. It is crucial that the right balance is struck between these two if all of the aims of a holistic strategy are to be achieved.

Automatic support

Furthermore there is a trend in that public policy approaches have tended toward offering automatic project support rather than discretionary systems, in markets that have reached maturity. Discretionary systems are sometimes biased towards assessing film projects on cultural grounds rather than for their commercial potential. By also offering automatic support this can be balanced to enable a range of kinds of films to be made – whether aimed at a niche art-house audience or the mass market.

Diverse voices, new talent

However for the sake of a healthy film ecology it is important that there is a balance between commercial and cultural film-making. Funding for cultural or diversity-related content or funding aimed at the development of new talent is in general discretionary. The motivation for funding these kinds of films differs substantially from that of more commercial films, so support for these kinds of projects is often sourced from a different strand of funding than the automatic support system.

Rewarding success

In the most effective support systems project funding for film motivates producers to make films with the potential to connect to substantial audiences by rewarding box office or other measures of success with 'bonus' financial incentives. This form of support can be found in European countries including France, Germany and Sweden. In some cases this is administered through a separate block of funding which can be accessed by producers who have established a track record of making films that have reached a minimum level of box office. This financial reward for previous success is then invested in future projects, so contributing to building a sustainable business.

Recoupment policy

Where discretionary or selective funds do exist, it is helpful if the public sector recoupment policy is flexible so that where possible the producer can recoup their investment at least alongside, if not ahead of, public sector funders. Another advantage would be if the public investment is considered as producer's equity (as is the case in Australia, Ireland and to some degree in the UK). This enabling of producers to derive revenues alongside public investors is crucial since in most cases the producer's recoupment position will be behind all other financiers, creating a major obstacle to sustainability.

Producer's equity

A good example of this flexible approach exists in Ireland, where the Irish Film Board will consider 50% of its investment as producer's equity, i.e. it is recouped to the producer instead of the Irish Film Board. It terms this the 'internal corridor' by which a producer can share in the revenues generated by a film.

In the UK producers funded through the British Film Institute (BFI) currently receive a blended producer equity corridor of 37.5%. In January 2012 the UK Film Policy Review Group recommended that the equity corridor be treated in addition to, not in place of, the existing 20% tax credit as producer equity recoupment. Also, it should recoup pro-rata and pari-passu[8] with BFI Lottery investment. Under the recommended system, recouped funds would be held in trust by the BFI and handed out for the successful producer's future projects.

The review group talked about creating a culture of rewarding success. Further, the review also suggested that the BFI itself should have relaxed policies for its own recoupment targets so that more money goes towards building sustainable production companies.

8. That is, equally ranked.

Slate funding

Another mechanism for project funding through which public support systems can encourage sustainability in film businesses is through slate funding where public funding is provided not just for one film project but for a number of projects being made by the same company.

While this approach might reduce the risk for the company, slate funding is seen by some as increasing the risk for the funding body itself. A much larger financial commitment is required, and is placed at the hands of fewer companies, rather than spreading the risk/investment across a number of producers. However, slate funding is a useful supporting mechanism in cases where a company has demonstrated its ability to produce strong commercial films.

Spend-related rebate

Many countries operate an automatic system which offers a rebate on spend in the country, discussed earlier in this report. This acts both as an incentive to inward investment productions, as well as a way of supporting local producers. A direct rebate will reduce both the cost of a production as well as the risks to investors, including the producer where the producer is an investor.

All of these success factors for project funding in general apply only to the more mature film economies. In countries and regions which are at an earlier stage of development other priorities than company sustainability would dictate the design of support mechanisms. For example, they might prioritise the need to establish a critical mass of activity and/or to establish a new pool of talent.

Figure 3

Support systems success factors
- project based support

	Country								
Overall success factors	**Aus**	**Bzl**	**Can**	**Frn**	**Ger**	**SthKor**	**Spn**	**Swe**	**UK**
Holistic range of consistent, significant, strategic initiatives	●			●	●		●		●
System that rewards project success		●	●	●	●		●	●	
Levy on broadcasters or distributors		●		●	●				
Levy on box office or exhibitors				●	●	●		●	
Levy on DVD or digital revenue				●	●				
Broadcasters mandated to invest in film				●	●		●	●	
Quotas on cinema and/or television		●		●		●	●		
System combines well with other country support (e.g. co-production)	●		●	●	●		●	●	
Performance indicators									
Production volume 2010 (€m)	292.5	137.8	374.3	1498.0	223.0	223.0	598.7	93.7*	1401.0
Number of films 2010	37	76	74	261	119	152	201	41*	119
Average budget 2010 (€m)	7.9	1.8	5.1	5.7	1.9	1.5	2.9	2.3*	11.8

Source: Olsberg SPI, International Support Systems for Film, June 2010

**Note: Swedish Figures are for 2009*

6.3
Where broadcasters are mandated to invest in independent content

In several countries television broadcasters (particularly public service broadcasters) are required to invest in independent film production, through the mechanisms of both license fees and equity participation. This approach has reaped considerable success in markets like France and Denmark, for example, and in the former it has resulted in a number of major television companies setting up successful film production activities. Studio Canal is a prime example of this.

There are even better examples of this strategy working well for independents, namely in television production. Where public service broadcasters have been required to show a minimum amount of domestic content, a market opportunity is immediately created and local television producers working with broadcasters have benefitted. This has resulted in real security for those independent television companies that have been able to establish themselves as reliable broadcaster suppliers. The additional benefit of this approach, particularly for film, is that it forces producers and broadcasters to work together at the development stage, increasing the producers' understanding of the commercial audience he or she is producing for.

However, as film consumption increasingly takes place online there are questions as to whether traditional broadcasters will have as much on-going relevance for the film market, or whether they will be displaced by over-the-table (OTT) video-on-demand or subscription-video-on-demand (SVOD) movie services.

6.4
Uses of levies and quotas

There are a number of other factors seen in film support systems around the world which involve heavy regulation but which could contribute, over time, towards company sustainability.

Levies

Levies at the consumption stage, for example on ticket sales, are useful for rolling funding back into feature film production. In particular, by using the funds from levies to support the independent sector, it is possible for independents to benefit from the success of Hollywood films, rather than being kept out of the market by the US studios. Domestic, independent and very 'cultural' films, which usually struggle to access markets, are helped into production and this approach, crucially, benefits public agencies supporting film since the programme is self-funding rather than requiring new public investment.

However, one drawback to levies is that, at present, it is unclear how they could be applied to new technologies such as video on demand, SVOD and other digitally distributed content. In addition, while levies have been used at different times and in different countries for many years, selling the idea of a new levy to politicians can be difficult as the companies suffering the levy might also own other media which puts them in a position of significant influence in the political domain.

Quotas

Quotas are another method of securing sustainability for film businesses at the production end of the value chain, ensuring that a minimum level of domestic production is commissioned or shown in cinemas. These quotas could be enforced either among exhibitors – cinemas are mandated to show a minimum number or proportion of locally-produced films – or among broadcasters, which similarly are required to show a minimum amount of domestic content.

China currently only allows 20 foreign films to be imported each year, although the country recently agreed to allow a further 14 Imax or 3D titles into the country annually. South Korean exhibitors are required to reserve 20% of screen time for locally produced films and in fact the quota was until a few years ago even higher than that.

A quota for cinemas is a less popular and useful mechanism, since it is designed specifically to distort the market in favour of a particular kind of product.

6.5
Systems that combine well with those in other countries

A crucial consideration of all for public sector support for film businesses is that whatever support is offered must be designed to be easily combined with support offered in other countries because most independent film are funded through a variety of international co-producers and other networks. This means that co-production treaties, and memoranda of understanding, are crucial to enabling local companies to build international business partnerships and access funding required to make films for international markets. Where this simple mechanism is not in place local film businesses could be severely restricted in the level of growth that can be achieved.

Section 7.0

State of the markets

We did not want to write a report about sustainable film businesses without taking a look of some of the key trends that might affect companies' ability to become sustainable. Most of these are to do with trends observed in the various markets for film product.

7.1
Understanding today's audiences for film

If the old mantra was 'content is king', then today's world sees the consumer as queen. The explosion in social media has had a huge levelling effect on the way people see, use and absorb film. By 2015, 380 million people globally will view online video via connected devices such as TVs, games consoles or set-top boxes[9] . This new flattened media world is affecting the traditional film industry too.

Simply put, it is the consumer who will determine how the industry will grow rather than the industry pushing change on the consumer.

This shift can be especially seen in the exhibition business, where cinemas can no longer rely on repeat business. With so many screens competing for people's attention, cinema chains have innovated to retain customers.

With an ageing population, chains such as Curzon in Britain, Village in Australia and Folkets Hus och Parker in Sweden have innovated to attract older patrons. Curzon, which operates a chain of upmarket cinemas across London, has talked about positioning itself as a niche premium brand. Australian chain Village runs sophisticated Gold Class Cinemas within its multiplexes. Rivals Hoyts and Event Cinemas have their own versions of the upmarket cinema screen concept with better seating and waiter service. In Sweden, Folkets Hus och Parker broadcasts live opera and ballet from venues including the Metropolitan Opera in New York. Incumbent Swedish multiplex operator SF Bio has targeted the opposite demographic, creating baby and toddler-friendly screens with softer sound and frequent breaks in the film for taking care of children's needs.

According to the World Health Organisation, 10 per cent of this ageing population will be aged over 65 by 2025. This ageing population is affecting the kinds of films that are being made. In Britain in particular, the success of The King's Speech has encouraged one sub-genre: films aged at filmgoers aged over 50. Distributors are chasing after the 'silver pound'. Tim Bevan, co-chairman of Working Title (Tinker Tailor Soldier Spy) believes this older audience is far more reliable than a younger one more interested in computer games[10].

The changes going on in the global film industry are not only about encouraging consumers to get out of the home and into the cinema. This would be a subject for a whole separate report – consumer choice – in terms of formats and delivery systems, let alone the challenge to the industry of piracy and illegal download. Some related issues are addressed in following sections. But suffice it to say, film producers have the opportunity as well as the need to move closer to the ultimate consumer, and understanding (and predicting) consumer behaviour has become increasingly important for all forms of digital media content.

9. Cottle, Giles 'OTT TV viewers to outnumber IPTV viewers in 2013' Informa Telecoms & Media, March 22 2011.

10. Tim Bevan interview, October 31 2011.

7.2
Global markets meta-analysis

Despite deep recession in many countries, film has continued to demonstrate its strength as a consumer product. PricewaterhouseCoopers predicts that global entertainment and media spending will reach $1.9 trillion in 2015. Admissions in all major markets have recovered from a small slump in 2007-8, and gross box office has continued to grow year on year.

As to which countries will experience the greatest growth over the next few years, the BRIC countries will, unsurprisingly, lead the pack. China is expected to experience the fastest growth. The Chinese filmed entertainment sector will grow by 217.6% between 2010 and 2015, reaching $6.25 billion; India will be the second fastest growing sector, with revenue increasing by 66.8% to $3.1 billion; and Russia will be in third place with 66.1% growth to reach $2.55 billion[11]. Brazil meanwhile will see growth increase by 51.3% to $2.1 billion.

7.3
Distribution trends

Distributors have benefited financially from the growth of Subscription Video on Demand (SVOD) services competing for new subscribers, pushing up prices paid for film rights. The prospect of SVOD services offering film buffs any film from catalogues running into thousands of titles is enticing greater viewership.

In 2011 SVOD became more popular than free-to-view/catch-up TV in the USA. Screen Digest estimates there will be 3.3 billion SVOD movie views in the USA this year, outstripping the number of physical rentals and DVD purchases combined[12]. No wonder US streaming service Netflix was so keen to launch its UK online video service in January. However, Netflix faces stiff competition from incumbents Sky and LoveFilm, which has well over 1 million customers alone. Informa predicts that by 2015, 27 million people in the UK will be watching Over-the-Top (OTT) TV services, which also include the BBC's iPlayer and YouTube[13].

Independent producers will be hoping that these new SVOD platforms will give a lease of life to older library titles, generating additional income for them. Many, however, are likely to be disappointed. A recent Harvard Business Review study of Quickflix (Australia's version of Netflix) found that the top 10 movies accounted for 48 per cent of rentals. If anything the tyranny of the blockbuster could be getting worse.

7.4
Production trends

The sums involved in making Hollywood blockbusters are so astronomical (according to the Motion Picture Association of America, the average studio movie cost $106.6 million to produce and market in 2007, the most recent year for which figures are available) the six Hollywood studios have become ever more risk averse. That is why so many of today's blockbusters are based on existing properties recognised by audiences. The audience does not have to be sold an original concept.

Eighteen of the top 20 highest-grossing movies of 2011 were based on pre-existing intellectual property – either books, previous movies or, in the case of Pirates of the Caribbean 4, previous movies based on a fairground attraction. Only two movies, Bridesmaids and Rio, were written directly for the screen.

The independent sector too has realised the value of films based on pre-existing properties. For example, Sweden's Yellow Bird has mined the work of Scandinavian crime writers including Jo Nesbo (Headhunters), Steig Larsson (The Girl With the Dragon Tattoo) and Henning Mankel's Wallander to adapt into films and TV series. These shows have been so successful that Yellow Bird has also co-produced US English-language remakes of some of the same properties. Independent producers mining existing properties (television, books) for film adaptation will be an increasing trend.

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11. PricewaterhouseCoopers Global Entertainment and Media Outlook 2011-2015.

12. Hooper, Richard 'Latest Industry Trends' Screen Digest/BSAC Film Conference 2012.

13. Cottle, Giles 'OTT Viewers to Outnumber IPTV Viewers by 2013' Informa Telecoms & Media, March 22 2011.

Figure 4

US box office gross 2011

Rank	Title	Studio	Total gross (US$)
01	Harry Potter and the Deathly Hallows	WB	381,011,219
02	Transformers: Dark Side of the Moon	P/DW	352,390,543
03	The Twilight Saga: Breaking Dawn Part 1	Sum	281,287,133
04	The Hangover Part II	WB	254,464,305
05	Pirates of the Caribbean: On Stranger Tides	BV	241,071,802
06	Fast Five	Uni	209,837,675
07	Mission Impossible: Ghost Protocol	Par	209,081,660
08	Cars 2	BV	191,452,396
09	Sherlock Holmes: A Game of Shadows	WB	186,770,428
10	Thor	Par	181,030,624
11	Rise of the Planet of the Apes	Fox	176,760,185
12	Captain America: The First Avenger	Par	176,654,505
13	The Help	BV	169,708,112
14	Bridesmaids	Uni	169,106,725
15	Kung Fu Panda 2	P/DW	165,249,063
16	Puss In Boots	P/DW	149,260,504
17	X-Men: First Class	Fox	146,408,305
18	Rio	Fox	143,619,809
19	The Smurfs	Sony	142,614,158
20	Alvin and the Chipmunks: Chipwrecked	Fox	132,046,038

Source: Box Office Mojo

7.5
Public source funding

European state film funding has undergone massive re-assessment and reform as a result of the global economic crisis. In most of Europe, funding will continue to be restricted for the foreseeable future, as core government services place increasing demands on limited public funds. For example, The Netherlands Film Fund has had its government support cut by 25% while Hungary's Motion Picture Public Foundation of Hungary (MMKA) had its 2011 budget cut by 80%.

Other countries outside Europe have, though, injected fresh money into their film funding systems. In March 2012 The National Film Development Corporation of Malaysia (FINAS) launched a 30% film production rebate as part of its Transformation of the Film Industry programme. Singapore has completely overhauled its myriad film funding schemes, trying to streamline its previous offer which had 14 different schemes for film alone. Brazil's state-managed film investment schemes, the Funcines, increased their investment by 30% year on year to €80 million in 2010.

So while Europe state film funders in many cases have their hands tied by the wider economic crisis, countries further afield continue to realise the value of a healthy film industry.

Figure 5

Filmed entertainment revenues by country/region 2010-2015

Country/region	2010 revenue (US$)	2015 revenue (US$)	% increase
China	1,969	6,254	217.6
India	1,855	3,095	66.8
Russia	1,533	2,547	66.1
Brazil	1,368	2,070	51.3
Other Latin America	559	799	42.9
Spain	1,158	1,638	41.5
Other Central and Eastern Europe	898	1,239	38.0
Mexico	1,146	1,566	36.6
Australia	3,622	4,810	32.8
USA	35,200	45,686	29.8
Middle East/Africa	570	733	28.6
Other Asia Pacific	3,129	3,984	27.3
UK	5,809	7,364	26.8
South Korea	1,541	1,941	26.0
Italy	2,057	2,552	24.1
France	3,805	4,683	23.1
Canada	3,770	4,641	23.1
Germany	3,528	4,241	20.2
Other Western Europe	5,031	5,984	18.9
Japan	7,674	8,932	16.4
Total	**86,222**	**114,759**	**32.9**

Source: PricewaterhouseCoopers, Global Entertainment and Media Outlook 2011-2015, June 2011

How digital innovations are changing the film business world

8.1 Understanding today's audiences for film

The internet has created the possibility for independent producers to reach out to end-users directly, for funding and marketing their films.

Crowd funding

This is a method of raising money through numerous micro-investments made via the internet and it has already seeped in to traditional film finance. For example, Iron Sky, the Nazi science-fiction parody raised €6.3 million of its €7.6 million budget through traditional film funding channels including the Finnish Film Foundation, Eurimages, Screen Queensland, and pre-sales. However, an additional €756,743 came through individual online fan donations.

Meanwhile Kickstarter, the US crowd funding website, estimates it will distribute over €114 million dollars to its users' projects in 2012. One third of all money raised through Kickstarter goes towards film projects including features, shorts and documentaries. Thirty one films playing at this year's South by Southwest Festival in Austin, Texas were funded by Kickstarter donations, over 10% of those playing. Seventeen Kickstarter-funded films also played at this year's Sundance Film Festival. Kickstarter's most ambitious project to date has been Blue Like Jazz, based on Donald Miller's New York Times bestseller, which has raised $346,000 through crowd funding.

In both cases the sums involved are too small for most independent production companies but as the internet becomes even more pervasive, crowd funding could become another useful tool for film producers.

Online communities

Of course where the internet has had its biggest impact is how films are released. The debate over whether people would watch films on small screens via mobile phones and tablet computers now seems quaint. Internet retailers such as iTunes, Netflix and LoveFilm have all enjoyed huge success streaming movies to portable devices. Amazon-owned UK film service LoveFilm announced in March 2012 that the number of films and TV programmes streamed over the web via laptops, connected televisions and games consoles was 20% higher than the number of Blu-ray discs and games rented. Other niche film online streaming services such as documentary VOD services are also picking up steam. Dogwoof.tv aims to have 10,000 subscribers by end-2012[14].

Consumers expect to be able to watch films anytime and anywhere they want to on internet-enabled devices.

As other platforms have shown in the past, exclusivity becomes the driver for attracting new subscribers to these online VOD services. In time, as with traditional pay-tv in the past, services may have to fund production up front to secure content further down the line.

Where the internet is having the biggest impact today though for independent producers is reaching out to their audiences directly. The Blair Witch Project (1999) was the first feature to harness the internet to create a fanbase. Today many producers identify the particular demographic their film is aimed at and target likely cinemagoers through Twitter and Facebook.

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14. Interview, Andy Whitaker, CEO Dogwoof, April 18 2012

Unlike broad studio release marketing, social media enables the independent producer to identify the demographic specifically. For example, the makers of the Academy Award-winning documentary Bill Cunningham New York identified 90 fashion bloggers or 'influencers' and reached out to them about the film. They watched the campaign spread virally after that. The UK theatrical campaign cost €24,000 compared with the average €122,000-€244,000 it costs to release a movie in Britain. The opportunity is for producers to target communities of people interested in what their film is about, and go after them precisely.

8.2
New opportunities to create relationships with brands and the advertising world

There are three levels of branding in the film world of use to independent producers trying to create sustainable film businesses:

Product placement

Although product placement has long appeared in mainstream Hollywood movies, the relationship between brands and independent production is more problematic. Vans, the teen shoe brand, fully financed indie skateboarding move Lords of Dogtown (2005), putting up its entire $650,000 budget in exchange for 80% ownership of the film – and ensuring every character wore its shoes[15]. The problem with film from a brand's point of view is that by the time a film is released, any product starts to look out of date. Film does not have the immediacy of television.

Embedded branding

A subtler use of branding is embedding the brand's values in a film. For example, the entire thrust of the film Castaway (2000) is that Tom Hanks, who plays a Fed-Ex employee, must deliver his package despite being marooned on a desert island. One example of this kind of embedded branding in independent cinema was Shane Meadows' Somers Town (2008), which was fully financed by Eurostar. Mother, the London-based advertising agency, approached Meadows to make a film celebrating the opening of the new St Pancras International train terminal. At no time is the Eurostar brand visible – although the film does culminate in a train ride to Paris. This softer use of branding, reflecting values often found in independent film – difference, defiance, unusual family groupings – would seem a more productive seam to mine than blatant product placement.

Brand association

Brands are also involved with cinema through sponsorship of allied events, promotions, premieres and festivals. Orange, the French telco, has become synonymous with cinema including through its sponsorship of the BAFTA awards, while champagne brand Moët & Chandon has struck a two-year sponsorship deal with the British Independent Film Awards (BIFAs). In both cases the brands are associating themselves with the glamour of the film industry. Providing a producer has the right kind of film to attract a corporate sponsor, it is not hard to imagine a brand sponsoring its premiere in the same way that Audi sponsored the US premiere of Iron Man (2008).

In fact, evidence of brand associated funding of Studio films can be found worldwide by observing how McDonald's have linked with a variety of Disney (and other) family films to promote Happy Meals. The commitment made by a production to permit this kind of association generates funding for both the production and distribution of a film.

15. Scmitt, Bernd H, Rogers David L, Vrotsos, Karen 'There's No Business That's Not Show Business', Financial Times Prentice Hall, 2004.

8.3
Evolving patterns in windows, formats and other forms of 'distribution'

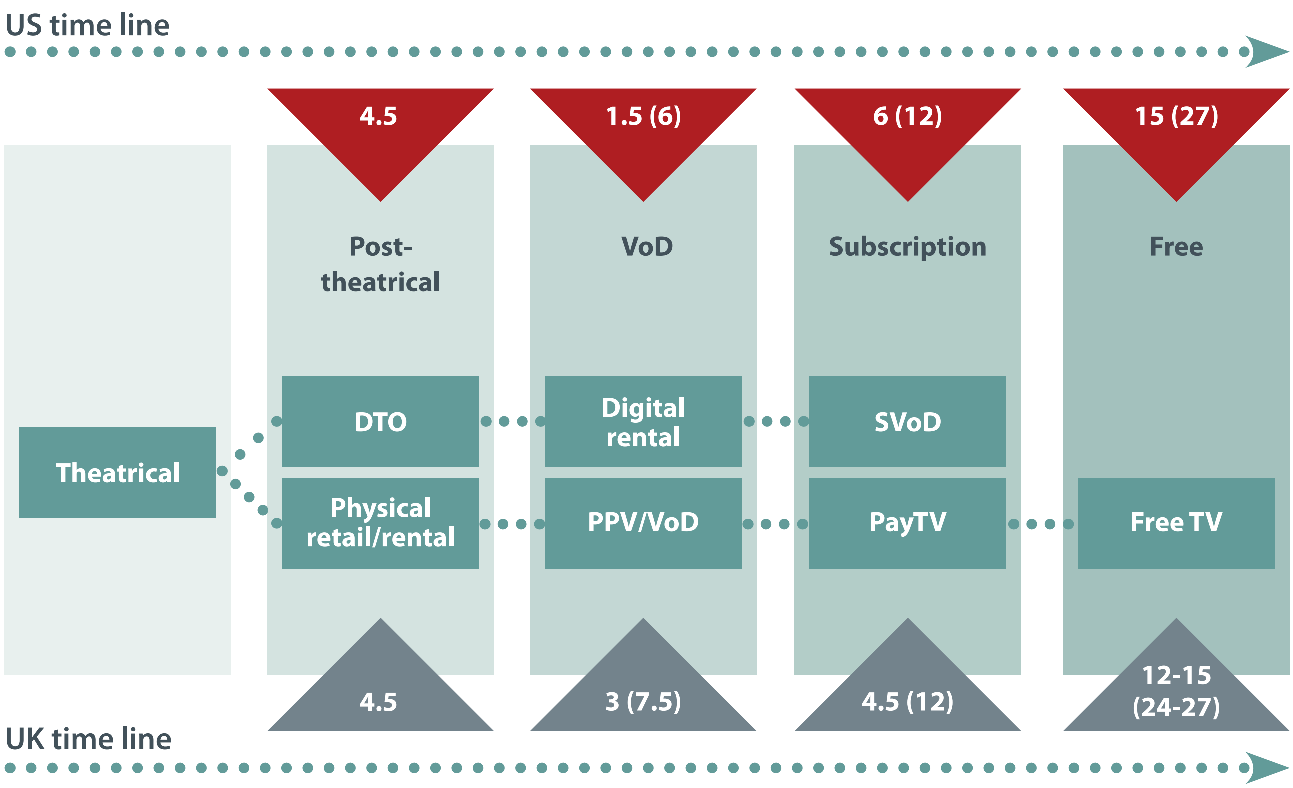
Cinemas are being squeezed by distributors giving them increasingly less time to show films exclusively. Six years ago the theatrical 'window' was shortened from six months to four months. Since then Hollywood studios have pressured exhibitors into accepting ever-shorter theatrical windows as they rush to recoup their investment in as short a time as possible from DVD sales, pay-per-view and other formats and outlets. Things came to a head in February 2010 when three UK exhibition chains refused to screen Alice In Wonderland after Disney announced it was releasing the film on DVD 12 weeks after the theatrical opening, rather than the industry standard of 17 weeks.

While the typical four-month window is appropriate for Hollywood-style blockbusters, it is less so for smaller, independent films with a more limited P&A budget. There have been steps made towards innovation in this area – including for example the North American VOD release of Gareth Edwards' Monsters (2010) one month before its US theatrical release.

Windows experimentation is more relevant for low budget films because their box office visibility is generally lower and their theatrical runs are generally shorter. For example, Dogwoof, the UK documentary distributor, released the Academy Award-winning documentary Bill Cunningham New York on DVD just one month after its theatrical release to capitalise on publicity. For independent producers, the shorter the window between theatrical and other platforms the better: consumers can be alerted to the film's availability on other platforms, capitalising on the theatrical release campaign and improving cash flow, while removing the need for a separate DVD marketing campaign.

Figure 6

Distribution windows (months after theatrical)



Source: Screen Digest

8.4
Breakthroughs in digital production

Low-budget filmmaking

In many ways the history of independent cinema is one of low-budget filmmaking, from Jean-Luc Godard's Breathless (1960) which triggered the French Nouvelle Vague through to the low-budget films of the Danish Dogme movement in the '90s. As digital camera equipment has become cheaper, digital outlets for film have also mushroomed.

Filmmakers can upload their work direct to YouTube creating viral marketing campaigns for their work. Even Hollywood has caught on to the craze for low-budget documentary-style features: for example Paramount has created a low-budget horror franchise with its Paranormal Activity series. The first Paranormal Activity film cost $11,000 to make and went on to gross $193 million worldwide. As with any project, the success of any low-budget film depends on execution – imagination, after all, costs nothing.

Many national and regional film agencies have been good at recognising the potential for low-budget filmmaking. Screen Australia has a scheme for funding features budgeted at under A$1.5 million (€1.2 million) while the Swedish Film Institute financed five features through its one-off Rookie Film programme aimed at first and second-time filmmakers. Rookie Film provided 80% of the financing for five films with maximum budgets of SEK 10m (€1.08 million) each.

Identifying talent through these kind of low-budget film schemes establishes partnerships between directors and producers, which can then be leveraged into more solid partnerships in more sustainable film companies. For example, Vertigo Films in the UK released Danish director Nicolas Winding Refn's Pusher II and Refn went on to direct Bronson (2009) for Vertigo. The company itself has continued to become more mainstream, enjoying hits such as teen dance movie StreetDance 3D (2010) and its sequel.

3-D

3D however remains more problematic for independent producers, being primarily the province of the Hollywood spectacle. James Cameron's Avatar (2009) was the breakthrough movie in terms of what technology can do. Despite costing $280 million to make, the science-fiction film has grossed $2.7 billion worldwide to date.

Independent producers have also jumped on the 3D bandwagon with features such as Streetdance 2 3D (UK), Asterix and Obelix: On Her Majesty's Secret Service (France) and the Australian 3D underwater action film Sanctum, which has grossed $109 million worldwide. Because cinema remains for the most part the only place to see 3D films (take-up of 3D television sets has disappointed manufacturers' expectations), exhibitors have been keen to show 3D features.

Audiences however have become more discerning about the kind of 3D film to watch. Where 3D could be of more interest to the independent sector is in documentary film-making. Werner Herzog used 3D to film Cave of Forgotten Dreams (2010) about cave paintings in France. Wim Wenders, whose German dance film Pina, was nominated for an Academy Award, has said he will only make documentaries in 3D from now on.

Section 9.0

Where do we go from here?

There is plenty of food for thought in this report and in several places we allude to potential or partial solutions to the challenge of building sustainable film businesses. This would be from the perspectives of both the companies themselves and the agencies or governments that are so crucial in their supportive role.

We certainly do not claim, in any way, to have all or even many of the necessary answers. The main reason for writing the report, and for researching the topic in the way we have done, is to get the subject of sustainability into its rightful place on the film policy agenda.

In sections 3 and 6 we have identified key success factors that we believe are useful for companies and governments to bear in mind. Having noted these, there are a couple of additional thoughts we have for further discussion and perhaps the subject of further work by us or others.

9.1
Achieving 'investment readiness'

We are very taken with the concept of 'investment readiness' and how it seems easier for companies to reach this state in other sectors rather than film. As previously mentioned we have identified some corporate success factors that do exist and have been shown to contribute to sustainability, even for film businesses. But we believe the public sector has an important role to play in supporting those businesses with 'investment ready' potential.

This is not about providing funds, but providing advice, encouragement and assistance and access to potential private finance sources.

So we suggest that a new activity be considered by some screen agencies with film expertise: the creation of an advisory function that on a very selective basis would work with film businesses with real potential in leading them to strategies for sustainability and then to sources of private funding that they will have identified.

This is a very specialist function and possibly the executives to carry it out might be hard to find. But in cases where they can be found, we believe the activity of 'investment readiness' support could act as an effective catalyst to bringing film businesses to that sustainability goal.

9.2
Think company not project

This has been an SPI 'mantra' for some time and maybe what we really mean is 'think company *as well as* project'.

The point to be made here is to encourage owner/managers of film production companies to think of themselves as individuals whose careers are not about making great films but running businesses that make great films.

This encouragement could perhaps be extended to governments and screen agencies.
In addition to what is suggested in 9.1 above, maybe one way to do this is to propose that whenever an agency is considering any new initiative (or evaluating an existing one) it should assess how the scheme could best be adapted to deliver against the sustainable company agenda. This would be done by asking the simple question: 'does this initiative build company sustainability and, if not, can it be adjusted to do so?'

About the sponsors

FILM I VÄST

Film i Väst is a regional film fund located on the Swedish west coast. Film i Väst invests in feature films, short films, documentary films and TV-drama productions that are of high artistic quality or can reach a large audience domestically and/or internationally. The yearly budget is €11million and Film i Väst has so far invested in more than 350 feature films. Some recent examples are In a Better World, Melancholia, The Girl with the Dragon Tattoo, Play, Easy Money and A Royal Affair. Film i Väst has actively been working to create a strong infra-structure for film making in Western Sweden paying special interest in production companies with an ability to create growth and good content on a long term basis.

info@filmivast.se

pact.

PACT is the UK trade association that represents and promotes the commercial interests of independent feature film, television, digital, children's and animation media companies. PACT is the largest representative group of screen-based content producers in the UK and the largest trade association in the film, television, digital and interactive media sectors. PACT offers a range of business services to its members, actively lobbies government organizations at local, regional, national and European level and negotiates minimum trading terms with the major UK broadcasters.

john@pact.co.uk

Svenska Filminstitutet

The Swedish Film Institute has been tasked by the government to implement film policy in Sweden. Its remit is to strengthen film at every stage – to support the production of new films, the distribution and screening of films of value, to preserve Sweden's film heritage and make it accessible, and to represent Swedish film at an international level. The Swedish Film Institute's operations are financed partly by state funding and partly through the Film Agreement, which is a voluntary agreement between the state and the film and TV industry. Under the film agreement, the cinemas' VAT is reduced and in return they pay the Swedish Film Institute 10% of each cinema ticket sold.

registrator@sfi.se

Section 11.0

About Olsberg•SPI.

SPI is a UK-based, 'boutique' strategy consultancy that provides high level advice to public and private sector clients in the world of screen-based media. Formed in 1992, it has become one of the leading international specialist consultancies in this sector.

For its public sector clients, SPI understands how the fast-growing screen industries compete in international terms; how important it is to balance a healthy, growing indigenous industry with measures to attract incoming productions and how the screen-based creative industries are a major driver of economic activity.

SPI's commercial clients operate at all points along the value chain and SPI is expert in developing corporate strategies, advising on specific business issues and understanding how changes in digital technology are affecting the landscape in these areas.

Its recent client list encompasses, among others:

- State bodies: for example government bodies in Malaysia, Hong Kong, Chile, Finland, Italy, Sweden, Abu Dhabi, New Zealand, Australia and the UK
- National screen agencies in all these countries, and more
- Regional agencies (dozens of film commissions from New South Wales, Australia to the Highland and Islands, Scotland)
- Supra national bodies such as the Council of Europe and the MEDIA Programme of the EU, Europe's CineRegio and the European Film Agency Directorate
- Independent companies involved in all aspects of the screen business (studios, producers, distributors, sales agents, post production, animation)
- National and international broadcasters (such as BBC and Channel 4)
- Trade associations and rights management societies, and
- Training organisations and conference organisers (Australian Film, Television and Radio School, EMAP Conferences, Madrid's Media Business School, the UK's Creative Skillset, Screen Training Ireland).

SPI provides advisory and management consulting services in a wide range of areas, for example:

- Analysis and strategic advice on building healthy and sustainable national and regional screen sectors, and recommendations for public policies to support this
- Advice on the creation and evaluation of fiscal incentives for production
- Strategic advice on inward investment and exports for national and regional public bodies
- Comparative costs analyses for small and large film productions around the globe
- The strategic implications of digital media innovation
- The links between growth in tourism and a nation's film and television output
- Strategic advice for screen commissions, including business and marketing plans
- Marketing and business strategies for small and large scale film studios
- Film and television library valuations
- Mapping and economic impact studies covering creative industries in the screen sector
- Business development strategies for screen content companies
- Acquisition and divestment advice for owner/managers of SMEs
- Writing prospectus-style funding proposals, and
- The design and implementation of advanced training courses for audio-visual professionals.

Section 12.0

Appendices

The following Section provides an overview of public film support in seven territories that are referred to in the text of the report: Australia, Brazil, France, Germany, Singapore, Sweden and the UK. Each section comments on each country's approach to public intervention; describes some of the national and regional support that is currently on offer; the role broadcasters play in supporting film producers; what key issues are currently being debated, and to what extent public film policy addresses the creation of sustainable film businesses.

12.1 Australia

Summary

Country indicators:	
OUTPUT	
Production volume 2010/11 (€m)	89
Number of films 2010/11	17
Average budget 2010/11 (€m)	5.3
Domestic film share 2011 (%)	3.9

Country Approach

Since the formation of Screen Australia and the launch of the Producer Offset in 2008, Australia has created a simple system of film support based on automatic rebates for expenditure, with a reduced budget for selective funding. Australia also operates an Enterprise Program, attempting to focus production companies on long-term corporate development, rather than simply short-term project finance.

National Level Support

The Australian national agency Screen Australia was established in 2008, combining the functions of the Film Finance Corporation of Australia, Film Australia, and the Australian Film Commission. Its remit is to support the development, production and distribution of Australian film and TV content, and the business development of production companies. In addition, it also provides support for the development of video games and interactive media by film and TV companies.

Automatic support for film productions is provided via the Producer Offset, which provides a 40% tax rebate on qualifying Australian expenditure for features with significant Australian content, subject to a minimum expenditure of A$500,000 (€394,061). To date, 633 film, TV, and documentary projects have applied for the Producer Offset, representing A$4.2 billion (€3.3 billion) worth of production. The Australian government has awarded A$471.3 million (€371.4 million) worth of funding through the scheme so far. In April 2012 the Australian government announced it was to provide a one-off cash incentive of A$12.8 million (€10 million) to ensure Fox's The Wolverine continued to shoot in Australia; this has led to suggestions that the Producer Offset might in future be increased for all big-budget non-Australian films.

Alternative (and mutually exclusive) forms of automatic support are provided by the Locations Offset and the PDV Offset, aimed at foreign productions shooting in Australia. The Locations Offset gives a 16.5% rebate, subject to a minimum spend of A$15 million (€11 million). The PDV Offset gives a 15% rebate on post-production costs, subject to a minimum spend of A$500,000 (€365,000). Initially the PDV offset required an A$5 million (€3.65 million spend, but this was reduced in May 2010 to stimulate demand.

Selective support is provided by Screen Australia via its Feature Film Production Programme, with awards based on a mixture of creative and commercial criteria, and provides for a maximum investment of A$2.5 million (€1.83 million) per project. To be eligible applicants must demonstrate market interest, in the form of an Australian distribution or foreign sales deal, or formal interest in both. Screen Australia approved 20 films for selective funding in 2009/10, with total awards of A$31.2 million (€22.8 million); in the same period, 21 films started shooting with $39 million (€28.5 million) of FFPP funding.

Screen Australia provides corporate development funding for film and TV production companies via its Enterprise Program, which gives grants of up to €350,000 (€274,285) per year for a three-year period, partially as working capital and partially as investment. The program supports companies which have identified opportunities to expand their turnover, range, and number of projects, or their range of business activities. It is intended for companies that do not yet have the ability to access private capital to fund their growth or diversification, and can be awarded either to existing companies or new partnerships. The 2011 funding round awarded A$3 million (€2.35 million) to four companies, and the Program has awarded A$15 million (€11.8 million) to 21 companies in total.

Other public agencies providing modest levels of production finance include the Australian Children's Television Foundation, and the Adelaide and Melbourne Film Festival Funds.

Regional Support

Australia's seven State and Territory screen agencies play an important role in funding film production though a wide variety of local mechanisms, including payroll tax rebates, incentives, selective equity investment, and distribution guarantees. Between them, Screen NSW, Film Victoria, South Australian Film Corporation, Screen Queensland, Screen West, Screen Tasmania, and the Northern Territory Film Office spent A$12 million (€8.8 million) on 22 features in 2009/10. The biggest funder was Film Victoria, which provided 40% of that total.

Role of Broadcasters

Australian broadcasters are not legally obliged to contribute to film financing, and therefore play a limited role in the film industry. Feature films fall within the Australian drama quotas for commercial TV networks, and the Australian drama expenditure quotas for pay-TV networks. Total investment by Australian broadcasters in film production is estimated to be around €3 million a year.

Other Current Issues

The Australian Government conducted a review of the screen production sector in 2010, publishing its conclusions in February 2011. While this painted a rosy picture of the effect of the Producer Offset in boosting production levels, this was largely due to the impact of just three big Hollywood-financed films shooting in Australia, and there has been some suggestion that inward investment has since dried up because of factors such as adverse exchange rates. Reflecting concerns that the Producer Offset is failing to encourage the production of larger Australian films, the Screen Producers Association of Australia has proposed the creation of a new Commercial Film Fund. This would be a three-year, A$60 million (€47 million) undertaking which would offer matching loans of up to A$10 million (€8 million) to distributors investing in Australian projects budgeted between A$7-30 million (€6-24 million). This proposal has won political support from the opposition Liberal-National coalition, but not from Screen Australia, which has instead requested an extra A$30 million (€24 million) in funding so that it can raise its A$2.5 million (€2 million) investment cap in order to back more medium-budget films.

Key Conclusions

Despite the relative generosity of the 40% Producer Offset, Australia is still reaching towards a model which would foster the more consistent production of larger indigenous films and the growth of more sustainable companies. The Enterprise Program has been a positive move in that direction, and there are signs of a beneficial long-term impact.

12.2 Brazil

Summary

Country indicators:	
OUTPUT	
Production volume 2010 (€m)	138
Number of films	98
Average budget (€m)	1.4
Domestic film share, 2011 (%)	12.4

Country Approach

Brazil has an elaborate and highly regulated system of tax incentives, levies and screen quotas designed to support the national film industry. This is balanced between indirect support, in the form of different tax breaks for investment in film production, and direct subsidy funded by an industry tax.

The net effect is that producers can raise almost their entire production budgets from tax funds and subsidies, with only a small investment of their own capital, which acts to sustain a constant volume of film-making, but does not necessarily guarantee either quality or commercial appeal.

In the past this resulted in many films being made without thought for their market value, resulting in films failing to reach a wide audience, or even being commercially released. In recent years the state agency, Ancine, has attempted to address this issue by shifting its emphasis towards more market-driven initiatives, such as Funcine equity funds and the Audiovisual Sector Fund, as well as providing incentives for commercial broadcasters and foreign distributors to finance film production.

National Level Support

Ancine operates both as the regulatory authority for film investment, and as the body responsible for supporting and promoting the industry. In this latter role it oversees Brazil's complex system of tax incentives for investment in production: any project wishing to raise money from investors using the various tax schemes, or to apply for public funding, must first get prior approval from Ancine.

Ancine approves around 350 projects every year to raise money from investors, although many of these never reach principal photography. Total investment in 2011 from tax incentives and subsidy funds supervised by Ancine was R$263 million (€105 million), comprised of R$169 million (€68 million) worth of tax incentives, R$84 million (€34 million) through the Fundo Setorial do Audiovisual, R$9.3 million (€3.7 million) through the Prêmio Adicional de Renda (PAR), and R$ 0.7 million (€280,197) through Programa Ancine de Incentivo à Qualidade (PAQ).

In 2011 Ancine itself provided only €4 million in direct automatic subsidy, through the PAR and PAQ programmes. The PAR, in place since 2005, rewards theatrical performance for Brazilian films released by independent distributors, while the PAQ, since 2006, rewards selection for film festivals. The €3.7 million disbursed through the PAR in 2011 was split between producers, distributors and exhibitors; as an example of this in practice, in 2009 the producers of 26 films received PAR funds, in sums ranging from €110,000 to €6,000. The PAQ pays a flat R$100,000 (€44,000) to any film selected for a qualifying festival, with total payments typically in the region of €280,000 a year. Ancine also awards about €1 million via various co-production funds, for Latin America, Argentina, Portugal and Galicia.

Brazil currently has bilateral co-production agreements with Argentina, Germany, Canada, Chile, Spain, France, Italy, Portugal and Venezuela, and is also a signatory of multilateral treaties, such as the Ibero-American Film Integration, and the Agreement for the Establishment of the Common Market of Latin American Film. It is also a member of RECAM, the national support audiovisual entity in MERCOSUR; of the Conference of Iberoamerican Authorities of Motion Picture (CACI); and of IBERMEDIA Fund, which finances co-productions from 18 countries and aims to strengthen and encourage the distribution of audiovisual products in the Iberoamerican countries.

Selective support is available from the Audiovisual Sector Fund (FSA), worth €34 million in 2010; this is funded by the Condecine, an 11 per cent tax applied on remittances abroad of profits from the commercial exploitation of audiovisual works. Project selection is carried out by a committee comprising representatives from Ancine and the film industry. The aim of the FSA is to support films with good commercial potential, though it also supports TV production, distribution and exhibition, and may in future be extended to include script development, training and co-production. In 2010, the FSA invested €13.6 million in feature films, €8 million in television and €10 million in film distribution rights.

By far the largest amount of funding for Brazilian film production comes from private investment supported by a series of tax incentives, laid down in Brazil's Audiovisual Law. This allows any company or individual based in Brazil to invest part of its tax liability in local film production, while other articles allow foreign distributors, or Brazilian broadcasters who import foreign programmes, to invest 70 per cent of the withholding tax due on payments sent abroad. In 2012 the FSA alone will invest €82 million in audiovisual projects, largely because of greater investment by broadcasters through revisions to this law.

Brazil also operates a system of private equity funds, called Funcines (National Film Industry Funds), which are managed by Brazilian financial institutions accredited by the Federal Central Bank. The CVM (Brazilian Securities Commission) must approve the establishment of all Funcines, whose financial strategy and selected projects must be previously approved by Ancine. Funcines can be established in the areas of production, distribution, exhibition, and infrastructure, as well as shareholding participation in audiovisual companies, and the scheme allows companies taxed under the Real Profit regime to allocate up to three per cent of Income Tax due as investment. This benefit also applies to individual investors, who can allocate up to six per cent of Income Tax due as investment. The fund's shareholders benefit from marketing and merchandising created for the promotion of sponsored projects and may recover the value invested, obtaining a return over the amount invested. Other advantages are: risk diversification, due to the fund's investment in a diversified portfolio of projects; investment transparency; accounting facility; and the fund manager's experience in negotiating with film producers. There are currently five Funcines with a combined €26 million under management.

Regional Support

Brazil has 19 regional film commissions, of which the most important is the Rio Film Commission. The Rio Audiovisual Program, launched in late 2009, which includes the film commission, operates its own Funcine of €8 million.

Role of Broadcasters

Until fairly recently, Brazilian broadcasters have not directly invested in film production. Globo Filmes, the film arm of broadcast giant Globo, mostly provides free TV publicity for the projects it backs, rather than financial investment, although its influence is credited in some quarters with the production of more commercial fare, and the crossover of high-profile TV stars to the big screen. It also supports the main festivals and events of national cinema.

However, the introduction of Article 3A in the 2008 Audiovisual Law has resulted in a significant increase in broadcaster investment into films. This allows broadcasters to divert 70 percent of the tax levied on payments for foreign programming into local film or TV production. 2010 was the first year in which the law into full effect, raising about €17.6 million for production. 2010 being a Football World Cup year, Globo's payments for foreign TV rights were higher than normal – ordinarily, the firm expects annual investment of around €5-6 million.

Key Conclusions

The Brazilian system sustains a constant volume of production by providing tax incentives to attract finance from private investors and from industry partners, such as local broadcasters and foreign distributors. This combines with state regulation of the market, which is intended to protect investors rather than to drive an overt cultural agenda. The Audiovisual Sector Fund and the Funcines are designed to support production companies with sound business plans making films with widespread public appeal. The complexity of this system though is criticised, and the entire industry is highly dependent on state support, potentially leaving it vulnerable in the event of political change.

12.3
France

Summary

Country indicators:	
OUTPUT	
Production volume 2011 (€m)	1,390
Number of films 2011	272
Average budget 2010 (€m)	5.1
Domestic film share (%)	41.6

Country Approach

Because of it's overall commitment to film culture, France has developed a mature, stable and highly evolved system for the support of its film industry, with backing across the political spectrum. The most distinctive element of the French film support system is the mandatory requirement for broadcasters to make substantial investments in French films. There are no specific public support schemes for building company sustainability, but this is largely because the net effect of its interlocking systems of automatic and selective production funding, plus broadcaster finance, has been to create a robust community of production companies with significant capital to invest in their own projects.

National Level Support

The Centre National du Cinema et de l'Image Animee (CNC), founded in 1946, is the state agency responsible for public funding, regulation and strategic support of the film and TV production industry in France. It provides two forms of automatic funding for French film producers, one based on the market results of their last film, and the other on their production expenditure in France. The Compte de Soutien gives producers and distributors a subsidy for their next film, based on the French box office, DVD and TV sales of their last film, and paid out €66 million in 2010. The Credit d'Impot is a 20 per cent tax credit on eligible French production costs (up to a maximum of 80 per cent of budget), which is capped at €1 million per project; this was worth €40.4 million to French productions in 2010. The CNC has also introduced a new incentive for foreign productions shooting in France, known as the TRIP, which also pays a 20 per cent rebate but has a higher cap of €4 million per project.

The CNC also provides selective funding, in the form of the 'avance sur recettes,' or advance against receipts; this is an interest-free loan recoupable from income, which can be awarded either before or after production. The maximum loan is €75,000, or €150,000 for a first-time director. The CNC's budget for the 'avance sur recettes' was €28 million in 2010, and is €30 million in 2011.

The CNC also runs various selective schemes to support development, co-production (German, Canadian), Third World cinema, or specific genres, including music and animation; these total around €4.5 million a year.

France also operates a system of private equity funds, called Soficas, which are limited companies for investing in film production. Investors in a Sofica get a tax break of 40-48 per cent, helping these schemes invest €48 million into French films in 2010, up from €35 million in 2009.

The IFCIC, a specialist lending institution for the cultural industry, supports two-thirds of French independent films by providing loan guarantees of up to 50 per cent for banks providing production finance. It is a partnership between the French state, and public and private banks, and has two active guarantee funds, totalling €75 million – the Cinema and Audiovisual Guarantee Fund is used for project finance, while the Cultural Industries Fund can be used for loans to companies.

Regional Support

France has a wide range of regional funding for film production - 22 regions, five departments and one city have set up their own film funds, investing a total of €21 million into production in 2010.

Role of Broadcasters

French broadcasters are legally obliged to invest a percentage of their turnover in French film production, according to a formula tailored specifically for each network. This accounts for a third of all investment in French films, and constitutes the single most important source of finance for French cinema. Total French TV investment in 2010 was €361 million (up from €301 million in 2009), of which pay-tv network Canal+ accounted for €195 million. This money was mostly invested in the form of pre-buying rights, but also included €44 million in co-production finance from the free-to-air networks.

Other Current Issues

The introduction of the TRIP – Tax Rebate for International Production – has caused some ripples in France's otherwise stable ecosystem of public film support as it is more generous that the CDI. Foreign producers can access up to €4 million in rebates, significantly higher than the €1 million domestic cap; this has reduced the incentive for foreign projects shooting in France to structure themselves as minority French co-productions, thereby also avoiding the need to meet stringent French cultural qualifications. French producers are, as a result, lobbying for the CDI cap to be raised, also noting that the definition of eligible expenditure for the CDI is more restrictive than that of other countries, further restricting its value. Increasing numbers of French projects are shooting abroad, in Belgium or Canada, where tax breaks are supposedly more generous. Since inception in 2009, TRIP payments to large-budget films have totalled €30 million to 31 projects totalling €132 million worth of production spend, with tax credit payments to large-budget films averaging €967,742 million per claim.

Key Conclusions

Despite agitation over the TRIP, the French system remains the most stable and well-nourished of all national subsidy regimes - it balances incentives for private investment and co-financing obligations for broadcasters with a system of automatic and selective public subsidies. This has a proven record of nurturing strong, well-capitalized production companies capable of investing equity into their own projects.

12.4
Germany

Summary

Country indicators:	
OUTPUT	
Production volume 2011 (€m)	463
Number of films 2010	71
Average budget 2010 (€m)	2.73
Domestic film share 2011 (%)	21.8%

Note: these figures are for German films backed by the DFFF. Total number of German films released in 2011 was 123.

Country Approach

Following the addition of the Federal Film Fund to Germany's existing regime of interlocking national and regional aid, Germany now has one of Europe's most generous subsidy systems for film production, and arguably the most accessible to foreign co-producers. Unlike in France, the system is led by an economic rather than a cultural agenda, with German producers supported to partner in commercial English-language projects for the global market.

National Level Support

The Filmfoederungsanstalt (FFA) is Germany's federal agency responsible for the economic support of the national film industry, and is funded by a levy on film exhibition, video distribution, and TV broadcast, creating an annual budget of €76 million. It provided funding for 42 per cent of German films released in 2011, with films backed by the FFA accounting for 94 per cent of all admissions to German films.

The FFA provides automatic funding via the Reference Film Aid - this is a grant for a German producer towards the financing of a new feature project, calculated according to the commercial or prestige success of a previous film. Films are awarded 'reference points' according to their German ticket sales, awards, and selection for specified national and international film festivals, and must reach 150,000 points to trigger the automatic aid for the producer's next project.

To qualify for box office points, feature films must have been seen by at least 100,000 visitors within a year of its local release, while children's films and documentaries have to be seen by 50,000 filmgoers within two years. The FFA handed out €19.1 million in Reference Film Aid in 2011.

The FFA provides selective support in the form of Project Film Aid. German producers can apply for an interest-free loan of up to €1 million per project, repayable from net profits. Funding is awarded to projects deemed likely to improve the quality and profitability of German cinema, with the FFA giving out €16.7 million in Project Film Aid in 2011.

The FFA also manages the German Federal Film Fund (DFFF), a €60 million annual fund provided by the Ministry of Culture (BKM) which was launched in 2007, and which provides a 20 per cent rebate on German production costs. Projects qualify for the grant according to detailed economic and cultural criteria. Minimum qualifying spend in Germany is 25 per cent of budget (or 20 per cent for films above €20 million), and payments are capped at €4 million per project, or €10 million for films spending over 35 per cent and with a higher level of German content.

In 2010, the DFFF awarded €59 million to 80 projects including *The Three Musketeers, A Dangerous Method* and *Unknown*, which related to €340 million worth of production spending in Germany in 2010. Since 2007, the DFFF has backed 527 productions with a total of €297 million in incentives. The FFA estimates that every euro awarded through the DFFF generates an average of €6.08 of acknowledged German production costs.

The FFA also administers a further €6 million a year in production funding from the BKM for 'small and difficult' films, based purely on artistic criteria.

Regional Support

The States (Länder) play an important role in film funding under Germany's federal system; in this system regional film boards, typically part-financed by local public TV stations, offer production investment which is designed to fit easily alongside federal subsidies from the FFA. Seven regional funds spent €79.2 million on production in 2011, more than 40 per cent of total public funding. North-Rhine Westphalia, Bavaria and Berlin-Brandenburg are the three most significant and long-established players, contributing some €56 million between them, but MDM (covering Saxony, Saxony-Anhalt, and Thuringia) has recently boosted its budget to a similar level. Two commissions, Berlin-Brandenburg and MDM, also offer slate funding for production companies.

Role of Broadcasters

German public TV stations have played an important role in the history of German cinema, the 1974 Film and TV Accord between the government and public broadcasters having helped to stimulate the German New Wave.

Since the amendment of the German film law in 2010, broadcasters have been legally required to pay a fixed levy towards to the financing of the FFA, calculated according to the number of films they transmit. Though there is no statutory obligation for broadcasters to invest directly into film production, in 2011 German broadcasters nonetheless contributed 15.3 per cent of the budget for films backed by the DFFF, up from a historic low of 7.5 per cent in 2009.

Regional public stations also make a significant contribution to regional film funds.

Key Conclusions

The launch of the DFFF has benefited German producers both with direct finance for their own projects, and by making them attractive partners for international co-productions. Germany has become one of Europe's most popular destinations for international producers, particularly given that the rules are designed to be flexible and accessible to predominantly foreign projects.

12.5 Singapore

Summary

Country indicators:	
OUTPUT	
Production volume 2010 (€m)	n/a
Number of films 2010	14
Average budget 2010 (€m)	n/a
Domestic film share (%)	2

Country Approach

Singapore's ambition is to establish itself as a 'global capital for New Asia media', to that end Singapore replaced its old film financing model in September 2011, reducing the 46 previous schemes (including 14 separate ones for film) with five simplified funds crossing all aspects of media and entertainment. Replacing media-specific funding with general schemes reflects a blurring of the boundaries between modern media. The new system is intended to eliminate the need for separate applications for every component of a multi-media project, and is described by the Media Development Authority (MDA) as 'being 360 ready'.

Crucially, Singapore has abandoned the concept of co-investment in favour of one of grant in aid; this is intended to allow better emphasis on script and content development and to allow Singapore companies to use government cash to become equity owners in the film and media products they create. During the consultancy period prior to the legislation being enacted, the industry argued that the old system led to a short-term, project-by-project mentality, whereas grants allow more time for content development and can improve long-term corporate sustainability. To this end, MDA has started providing grants of between S$250,000 and S$1 million ($192,000-$770,000) as seed capital for selected companies, requiring a minimum indigenous shareholding of 30 per cent.

When it comes to project finance, MDA says that its funding should be matched to and complement private finance. Production grant funding is discretionary and cannot be automatically triggered by rebates or offsets.

MDA finance is finite and projects have to compete for limited resources. The organisation has not announced the value of funds available under each of the five schemes, instead stating that the size of the cash pools would be 'dynamic'.

National Level Support

Unlike nearly every other film aid scheme, the MDA Grant Schemes do not just cover production but also development (usually the riskiest area of any creative enterprise) and marketing the finished product. Unusually, they do not just cover film and TV but also games, interactive digital content, music and publishing. MDA pays anything between S$5,000 and $S200,000 to help develop a project; the agency will provide grant finance for up to 40% of Singapore expenditure and provide a further bonus of 10 per cent if the beneficiary company starts production within the following 12 months.

Regional Support

Singapore is a unitary City State, and does not have regions which are comparable with the other countries studied.

Role of Broadcasters

Singapore's broadcasters do not appear to play a significant role in film production.

Key Conclusions

The new MDA scheme is less than one year old, and has yet to announce any investments through the new five-prong structure; given past criticism about lack of oversight with its previous funding initiatives, however, officials are likely to be cautious about what they invest in. In spite of the circumstances which led to its creation, the initiative to provide seed funding for company development as opposed to solely providing project finance appears to be a laudable one, and fits many of the recommended criteria for a scheme to develop sustainable production companies.

12.6 Sweden

Summary

Country indicators:	
OUTPUT	
Production volume 2011 (€m)	23.7
Number of films 2011	21
Average budget 2011 (€m)	2.6
Domestic film share, 2011 (%)	19.8

Note: these production figures refer only to films with selective SFI funding. It is estimated that this accounts for between half and three-quarters of all Swedish films released.

Country Approach

The Swedish system is based on a long-standing voluntary agreement by exhibitors, more recently joined by broadcasters, to fund the Swedish Film Institute (SFI), which provides a mixture of selective funding and automatic box office rewards to support the production of Swedish films. There is no national scheme to develop production companies, but regional agency Film i Väst plays an important role both in production finance and company support.

National Level Support

The SFI has been responsible for the support and development of the national film industry and culture since 1963. Its primary funding comes from the Film Agreement, a voluntary contract between the State, film exhibitors, broadcasters and other industry stakeholders (i.e., producers and distributors), which is renegotiated every few years. The bedrock of the Film Agreement is a 10 per cent levy on cinema tickets, plus a fixed annual contribution by broadcasters; in addition, the government provides around 50 per cent of the total. The Film Agreement typically provides the SFI with a budget of around €40 million a year, of which about €27.5 million is invested in production via either selective or automatic schemes. The SFI also receives a separate government grant to fund cultural activities, such as festivals and archives, worth around €13 million a year.

The SFI operates an automatic reward system based on box office, called the PRS. Swedish films that pass the box office threshold of SEK2.5 million (€275,000) are eligible to receive a PRS payment of between 50-100 per cent of their gross, up to a maximum of SEK9 million (€990,000) or 65 per cent of their Swedish equity, whichever is lower. At current ticket prices, this maximum payment is reached at about 160,000 admissions. Children's films receive 100 per cent of the box office, films with no advance funding from SFI receive 75 per cent, and films with advance SFI funding receive 50 per cent. The total annual budget of PRS is capped at SEK75 million (€8.25 million).

In 2008/9, the SFI used an unspent surplus from its PRS budget to launch an experimental 'market' fund, which offered a semi-automatic advance for films in pre-production, filming or not yet released, using a points system based on the producer's previous track record of box office success. The fund backed 11 films, but is no longer open because the PRS surplus has been used up.

From January 2013 the Swedish Film Institute will have its budget raised by SEK30 million (€3.4 million) – half from the state – to reach a total of SEK380 million (€43 million). Part of the extra money is earmarked for television drama, children's film and shorts and documentaries, while for the first time Swedish films aimed at DVD or digital distribution were allowed public funding.

The SFI provides selective funding for production in the form of soft loans, recouped from net profits. These are awarded by the SFI board on the recommendation of five film commissioners – two for features, one for children's films, one for shorts and one for documentaries. Decisions are based on a balance between artistic and commercial factors, while the total level of selective funding varies according to the SFI's income from the cinema levy, but is typically around €19 million a year, including €13 million for features and €3.3 million for children's films.

Selective funding was awarded to 15 films in 2010, down from 21 films in 2009, when the SFI funded a larger number of low-budget budgets - the Institute is now trying to concentrate its funding on a smaller volume of higher quality projects. At the same time, the number of Swedish films being made without any SFI funding is growing; although precise long-term figures are not available, out of 77 Swedish films released from 2008-10, 17 had no advance funding from the SFI.

The SFI operates no schemes specifically targeted at building companies, although its development fund can award up to €110,000 for corporate development. Bengt Toll, acting CEO of the SFI has said that there are too many production companies in Sweden making too few films and that is not sustainable.

Regional Support

Regional funding is a vital part of the Sweden production system. Sweden has four regional funds, - Film i Väst, Filmpool Nord, Film i Skane, and Filmpool Stockholm-Malardalen; together, these provide around €12 million a year in equity funding for production. The biggest regional player is Film i Väst, with a budget of over €7 million, followed by Filmpool Nord (around €3 million). Film i Väst is involved in 30-40 feature co-productions a year, including many majority foreign projects, while Filmpool Nord backs four to six films a year. Film i Väst also provides a business audit for companies it supports, which meets four times a year to review strategies.

The regional funds regard their investment as equity, but the SFI does not recognize it as such in its calculation of the amount of Swedish equity in a movie for the purposes of the PRS.

Role of Broadcasters

Under the Film Agreement, Sweden's public and private broadcasters commit to provide funding for the SFI, but also to invest directly into Swedish films. State broadcaster SVT guarantees to spend SEK36 million (€4 million) a year on co-producing, co-financing or acquiring Swedish films, including SEK15 million (€1.65 million) on films with advance SFI funding. TV4 guarantees SEK20 million (€2.2 million), including SEK8 million (€0.9 million) on SFI films. MTG guarantees SEK1 million (€110,000), including SEK0.5 million (€55,000) for SFI films. More guarantees SEK0.5 million (€55,000).

Other Current Issues

The current Film Agreement, which started in 2006, was due to expire at the end of 2010, but has been extended until December 2012 while the government and industry negotiates a new version. One issue is whether internet service providers and online distributors should be expected to contribute to SFI funding.

During this negotiation round, the view has been aired that the current system should be scrapped and replaced with a new model for public funding. The government commissioned an independent report on future film policy by journalist Mats Svegfors, which was published in 2009, and recommended that the film agreement should be replaced by a State-run film policy, funded by raising VAT on cinema tickets from six per cent to 25 per cent, and ending the box office levy. This mirrored proposals by the Swedish Film Producers Association and Film i Väst.

Whatever the new sources of funding, it is expected that the SFI will continue to operate a mixture of automatic PRS funding and selective funding.

Key Conclusions

The Swedish system is based on a stable and established consensus that all those involved in the commercial exploitation of Swedish films should contribute to supporting production by funding the Swedish Film Institute. However commentators have warned that the Film Agreement system does not always deliver against this aim. They also feel that more state resources are needed if the position of Swedish cinema is to be improved both locally and internationally.

12.7
United Kingdom

Summary

Country indicators:	
OUTPUT	
Production volume 2011 (€m)	1540
Number of films 2011	237
Average budget 2011 (€m)	6.52
UK independent film share, 2011 (%)	12.8

Note: figures are for all films receiving UK certification in 2011. This includes inward investment features, which spent €1.2 million shooting in the UK, €72 million worth of co-production. Domestic UK features spent €238 million shooting in the UK last year.

Country Approach

The UK system combines an automatic tax credit to reward expenditure, and selective lottery funding for projects deemed to have significant artistic or commercial potential. At the moment the largest proportion of public subsidy goes to Hollywood studio films using the UK as a production base. While this is vital in sustaining infrastructure and employment in the UK film industry, with associated benefits for local producers, it does little directly to create sustainable UK independent production companies.

National Level Support

Following the abolition in 2011 of the UK Film Council (UKFC), the British Film Institute (BFI) has taken over as the lead strategic agency for supporting the UK industry, including the certification of UK films to qualify for the tax credit, and the selective investment of National Lottery money into film production. Although the BFI's cultural responsibilities include TV, its industrial remit is confined to film.

British films receive automatic support in the form of a rebate on UK qualifying production expenditure, which has remained unchanged as responsibility for its administration has passed from the UKFC to the BFI. Films budgeted under £20 million (€22.7 million) receive a 25 per cent rebate on qualifying expenditure, while films above that level receive a 20 per cent rebate. Qualifying expenditure is capped at 80 per cent of the budget, which means the net maximum benefit for a film shooting entirely in the UK is 20 per cent for films under £20 million, and 16 per cent for bigger films. There is no cap on the rebate itself, and qualifying expenditure includes the salaries of non-EU nationals working in the UK, making it particularly beneficial for big-budget Hollywood studio films with American talent. To qualify, films must pass a British cultural test, based on points awarded for material, story content, talent and use of UK crews, locations and facilities.

The BFI has also taken over the running of the UKFC's Film Fund, which offers selective support for development and production in the form of recoupable equity investment, with awards made according to a mixture of creative and commercial factors. The fund previously had a budget of £15 million (€17 million) a year, but this has been increased to £18 million (€20.3 million) for 2010/11 and to £28 million (€33 million) moving forward.

There are currently no specific schemes targeted at building production companies. The UKFC previously ran various different multi-year deals to finance slate development, most recently in December 2008, when 15 companies received two-year Vision Awards to fund creative development, totalling over £2 million (€2.3 million). In January 2012, the UK Film Policy Review noted the success of the Vision Awards, and recommended that the BFI should follow with a similar scheme and this has now been confirmed by the BFI.

Although not specific to the film business, the UK's Enterprise Investment Scheme is sometimes used by film companies to raise production finance. Investors in an EIS company receive a tax break of 30 per cent, recently raised from 20 per cent, though the maximum amount which can be raised is £5 million (€6 million). A separate Special Enterprise Investment Scheme (SEIS) has also been launched, enabling producers to raise up to £150,000 (€183,186) in seed development funding. British filmmakers attempted to raise €92 million through the EIS in the 2011/12 tax year.

Regional Support

Creative England was launched on October 3 2011 to provide support for independent creative businesses and individuals across English regions - this nationwide body absorbed the old Regional Screen Agencies, but has broadened their remit, aiming to offer specialist support to the games, digital and creative services, as well as to film and television. The agency controls its own Film Culture Lottery Fund making £500,000 (€611,000) of BFI Lottery funds available to regional organisations and festivals. The first batch of lottery funding was handed out in January, with 39 recipients sharing £465,972.

More importantly, Creative England will address the issue of creating sustainable businesses through its new business development programme, aimed at supporting creative and digital SMEs across the English regions. It will include £5 million (€6.1 million) of European funding, which will form the basis of a private sector-led scheme providing development funding and market expertise to small creative and digital businesses working in cross-platform content and services. Creative England has also secured investment from the Government's Regional Growth Fund for Digital Champions, a new scheme to support digital and creative companies. The audit process for this is presently coming to a close, and the scheme details are still to be confirmed.

The national agencies in Scotland, Wales and Northern Ireland have considerable experience in supporting their film businesses. They each receive their share of national lottery revenues to invest in film production. Northern Ireland also has an annual fund of around €4 million to provide a 25 per cent production rebate for film and TV projects shooting in the province, capped at €1 million per project. Films shooting in Wales can apply for gap finance up to €800,000 from the €13 million Welsh Creative IP Fund.

Role of Broadcasters

Public broadcasters in the shape of the BBC and Channel 4 play an important role in the UK film financing ecology, despite relatively modest budgets for film production. BBC Films has an annual budget of £12 million (€13.6 million), while Film4 has had its budget raised by 50 per cent to £15 million (€17 million). Investing in independent British film was always a formal part of Channel 4's remit. Both are key investors in development, as well as co-financing production, and exercise a strong editorial influence over the projects they back. Both have also regularly invested alongside the UKFC, and will continue to do so with the BFI.

Commercial broadcasters play no significant role in UK film financing, although ITV and BSkyB have both been involved in film production in the past. In January the UK Film Policy Review recommended that the Government initiates immediate discussions with each of the major broadcasters, including BSkyB and ITV, with the aim of creating a memorandum of understanding with each broadcaster to set out commitments in support of British film. If this approach proves unproductive, the report suggested the UK government legislate for more broadcaster involvement.

Other Current Issues

The UK Film Policy Review published in January 2012 has made a number of recommendations towards creating sustainable film businesses. These include:

- The introduction of a funding mechanism to enable recycling successfully-returned BFI development funding back to companies that achieved that success, to be reinvested in further development funding
- Encouraging producers and distributors to work together from the initial stages of financing a film by creating Joint Venture Lottery funding, to be accessed by partnerships between producers and distributors
- Enabling producer equity recouped through Film Tax Relief to be recouped pro-rate and pari-passu with BFI Lottery investment
- That the current level of BFI producer equity recoupment corridor (PEC) should be maintained, but that it should be treated as a supplement to the tax relief as producer equity position
- All recouped funding (tax relief as producer equity, the additional BFI producer corridor (PEC) and Joint Venture funding from BFI supported projects should be held in trust by the BFI to be made available for reinvestment in future filmmaking activity by the producer
- That the BFI should relax its recoupment targets to encourage the rewarding of success and helping to create a less dependent production sector.

The BFI's response to the FPR indicates that some of these recommendations will be considered for future action.

The BFI estimates it will have around £57 million (€70 million) a year in Lottery funding to invest in the UK industry a year over the next five years, above and beyond its government grant in aid. Last year close on £350 million (€428 million) worth of public money was invested in UK film through a mixture of the Film Tax Relief, government grant in aid to the BFI, Lottery money and broadcaster investment.

Key Conclusions

UK producers still struggle to build their businesses, with initiatives targeted at supporting bigger companies such as the Lottery franchises and the UKFC's super-slate deals having had, at best, mixed results. To date, UK film policy seems to have done relatively little to stimulate producers to be media entrepreneurs although the FPR (and subsequent BFI response) have some promising recommendations.

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