3

THE PROCESS OF MAKING AND SELLING MOVIES

As a process subject to time and planning, movie production can be broken down into three different phases: *development, production, and commercialisation*. The first two constitute the core of the production process and a producer must be competent in both. The third belongs to the market exploitation process and requires the collaboration of other players in each window (distributors, exhibitors, television networks).

3.1. ROLE OF THE PRODUCER

Of all the professions in the film industry, the producer is probably the least recognised and most difficult to define. For many, the very word *producer* is ambiguous, if not downright confusing.

Decision-maker

If a single word could define the producer's craft, it would be "decision-maker." It implies highly specialised skills, from choosing the right idea to raising and investing money, hiring the crew, casting the talent, assessing and insuring production costs and risks, and planning and executing marketing and advertising campaigns.

The producer is ultimately responsible for the audiovisual project and therefore has utmost authority in the control and supervision of the production process. The economic responsibilities involved in an audiovisual project form the focus of the producer's job, although their creative capacity should not be overlooked. This explains why producers have often been defined as *creative entrepreneurs.*

Project Manager

Producing could be referred to as the process of searching, choosing and managing the financial, human and material resources needed to transform an idea - original or acquired - into an audiovisual product. In essence, it is quite similar to any project management process, where the person in charge (the project manager or the producer in this case) must maintain a balance between time, cost and quality.

The film producer is subject to constant pressure inherent in coming up with an audiovisual project that combines artistic quality with commercial profitability. Herein lies a great deal of the profession's appeal.

3.1.1. The Production Hierarchy

The producer's job is so vast and varied that it has become the only profession to give rise to various hierarchically organised categories or levels of production.

When it comes to naming the different types of producers there has so far been no unanimous verdict. Instead these vary from country to country, ultimately depending on what is stipulated in the contract of each.

Because of the magnitude of the US influence in standardising film production processes, the American four-level production hierarchy is gradually being adopted worldwide (these categories vary in television).

1. ***Executive Producer:*** generally this title refers to the person who provides one or several basic elements for starting a film production, whether these be the rights to a story, a good part of the financing or the commitment of certain artistic talent. The executive producer is often the studio executive who has been put in charge of selecting and developing a specific story. In this case, the person is given supreme responsibility for executing the project and is consequently the highest authority on everything concerning financial matters.

   Executive producers mainly intervene in the initial stage, with the aim of starting up the project and directing production from their office, without regularly intervening in the shooting. They may also reserve the right to approve the final cut. These producers also usually receive a percentage of the film's profits, with their name appearing before those of the rest of the production staff and even featuring among the most prestigious credits (those preceding the title). In Europe this terminology varies: in France the expression *producteur delegué or administrateur générale* is used for executive production, while in Italy they use *organizzatore generale.*

2. ***Line Producer / Producer:*** This title refers to the person directly responsible for carrying out the actual production of the film, and who therefore has supreme authority during shooting. They are subordinate to the director. The line producer organises, plans and supervises the proper execution of the on-site filming. Strictly speaking, this person is usually brought on board a project at the start of shooting preparation (pre-production) and their work ends once filming is over.

   Unlike the executive producer who can intervene in the promotion and sale of the film, the line producer is an employee paid a salary to work only during a specific stage. They may be hired by the executive producer or by the production company. On some occasions, due to the huge complexity of the production, the post may be shared, in which case the term co-producer is used.

3. ***Associate Producer:*** This title was originally used to refer to a production assistant who assisted either the director or the producer in organisational and logistical matters. However, it has now become a much more ambiguous term. It may refer to the line producer to highlight their work in the film, or be reserved as an honorary title to recognise the contribution of a scriptwriter, film editor or someone not directly involved in the actual making of the film. At times, it is also used to refer to the representative or delegate of the production company or financing body when their role does not exactly correspond to that of executive producer.

4. ***(Unit) Production Manager:*** The production manager works for the line producer, taking on delegated responsibilities. They usually deal with the most technical and bureaucratic production tasks. This person's intervention is almost exclusively restricted to shooting.

Secondary or assistant staff, with special mentions for the production co-ordinator or production supervisor, production assistants, production accountant, cashier and runners are also involved in the making of a picture.

A great number of producers in Europe fall halfway between executive production and line producing, assuming those responsibilities that ensure the most control over the film creation process. To a certain extent, we have witnessed a complete devaluation of the term *producer*, which has since been adorned with various adjectives.

The absence of unanimous criteria makes it difficult to define the profile of producer with any precision and, unlike scriptwriters, directors or qualified technicians (directors of photography, film editors, artistic directors, etc.), producers lack a common professional identity.

> The **Producers Guild of America (PGA)** is a case in point. Being an organisation created to safeguard the professional rights of producers, it is not recognised as a body defending the collective rights of its members nor does it have legal authority over the recognition of credits in films – as do the scriptwriters' **Writers Guild of America (WGA)** or the **Director's Guild of America (DGA).** When in 1983 the PGA attempted to raise its status, it was denied by the National Committee of Labor Relations, who ruled that producers couldn't form a trade union since their job is essentially direction and management.

Creative Producers

Is creativity compatible with production? Does such a thing as the *creative producer* exist?

Audiovisual production includes creative tasks, not as an artificial or condescending add-on, but due to its very nature *(to produce is to create*). The producer's job description therefore includes not only organisation, management and financial control but also creative aspects that affect the final result - such as the idea, script, director, cast, editing and music - over which the producer has some say.

Secondly, the producer's creativity is exercised indirectly, in making decisions on such creative aspects. The producer's creative responsibility will depend on the extent of their contributions, and there are times when a film is a collaborative art, and the producer deserves to be recognised as the author of the resulting work, just as much as the director or scriptwriter.

However, not all producers are creative, at least not to the same degree. Creativity needs prior talent, combined with a strong personality. This type of producer is not in abundance; not only due to the heavy demands of the job but also the difficulty directors have in accepting them. The convergence of creativity and a strong personality create a huge ego. It is therefore not surprising that sparks fly when two powerful egos have to make creative decisions together.

3.2. DEVELOPMENT

Development encompasses the search and acquisition of ideas to be translated onto the big screen or television set and the painstaking planning of the rollout of the entire project.
The obvious starting point in making a movie is having an idea to develop. This first stage begins with the search for suitable creative materials (idea, story) and ends when the script is complete (at least in a draft version) and the project is perfectly designed in its basic

points. In other words, development is the initial and critical moment when the producer must decide on two crucial questions: *what* movie to make and *how* to make it.

3.2.1. Conceiving or Searching for an Idea

Concept means the initial creative seed, the germinal raw material from which the entire picture emerges: the idea, story or plot.

From a good idea a producer can still end up with a bad picture. But from a bad idea it is almost impossible to obtain a good movie. Of course, it is frequently said the same applies to script quality, which is nothing more than the first materialisation of an idea. Good ideas mean a high level of creativity, originality and (market) opportunity.

A movie screenplay may begin with a story concept based on an original idea, a literary work, or a true event. It then normally proceeds in stages, from outline to treatment, on to several drafts and finally to the definitive polished form (final version).

3.2.2. Project Development

Rights acquisition marks the moment in which the producer moves forward from the conception stage to project development. From now on their effort will be concentrated on setting up the entire project in all its parameters - creative, legal, financial and commercial.

Project development is an essential phase in which the viability of an audiovisual project is determined. It includes different tasks such as screenwriting, the search for partners (financial, creative-artistic and industrial) and financial and commercial planning. We can list these tasks as follows:

1. *Creative issues:* Script writing and development; search for talent (director, writer, main cast).
2. *Financial issues:* Cost estimation, financial strategy (capital sources), income forecast, cash-flow projections, business planning, production strategies.
3. *Legal issues:* Rights clearance and acquisition, script legal clearance, negotiation of agreements (talent contracts, investment agreements, distribution agreements, co-production deals).
4. *Commercial issues:* Commercial planning, marketing and distribution strategies.

The development phase is as essential as it is long and demanding. It easily lasts, on average, a period of 18 months (one and a half years) and requires the investment of large amounts of money. To add to the challenge, this money is considered a high-risk investment, since only a small percentage of all the projects in development are finally produced and released: only the best projects go ahead.

The professional mentality necessary to accomplish this represents one of the main differences between the American movie industry and the one in Europe. While in the States development costs are fixed and account for 8% to 10% of the movie budget, the average European investment in development is somewhere between 1% to 2%. Hollywood invests around 500 million dollars in development annually and each one of the majors has

approximately 300 hundred film projects in development. In the US the ratio between projects in development and completed films ranges from 15/1 to 20/1 whereas in Britain it's 5/1 and only 2/1 in Spain.

Hopefully, enough European producers are changing their mentality quickly, encouraged by the support of the MEDIA Programme through the European Media Development Agency (EMDA) which provides development funds for production companies and urges producers to invest more time and energy in film projects.

3.3. PRODUCTION

The entire filmmaking process revolves around production, which is also the most demanding phase. It is the period when a movie is "fabricated" from scratch, when the original concept is materialised into a full-screen motion picture or a broadcasted television episode.

The production process revolves around the central time period - shooting - with a prior period of preparation (pre-production) followed by a subsequent period of finishing up (post-production).

3.3.1. Pre-production

Once development is finished, the project is ready for shooting. The producer will decide when the optimum moment to actually shoot the movie is, but once the shooting is set on the calendar, so is the final deadline. Pre-production is, above all else, a count down to get ready for shooting. Its duration is proportional to shooting duration and complexity. For an average movie (8 to 12 week shooting), pre-production can take anywhere from 3 to 6 months.

Every experienced producer knows the golden rule: "everything you do not consciously prepare for in pre-production, you will pay far more for during production". Therefore, the producer's main goal at this stage is to tie up even the most minimal details related to shooting logistics.

Pre-production includes the following tasks:

1. Hiring the crew (technical staff)
2. Script breakdown
3. Location scouting
4. Casting
5. Shooting script (technical indications) and storyboard
6. Production design breakdown: set design, building and decoration; prop design, fabrication or rental. Wardrobe breakdown: design, tailoring or rental. Make up breakdown
7. Shooting scheduling
8. Budgeting
9. Insurances and permissions
10. Logistics
11. Production management

The final draft of the script is the tool everyone uses to work from during shooting preparation (photography, wardrobe or special effects). It facilitates co-ordination and a sharing of the same creative vision.

3.3.2. Production

Actual production - also called 'principal photography' or simply 'shooting' - is the crucial stage when filming is done. Therefore the risk is high: what is shot and how it is shot is what we get, no matter how meticulously or ideally the film was prepared.

During shooting, the producer must take a step back and allow the director to take control. Their main task in this phase consists of supervising the correct execution of all elements in shooting, while maintaining a healthy balance between time (shooting schedule), cost (budget) and quality (of the end-result).

Shooting is also the phase when all the different teams work together, which means dealing with a huge human resources structure. Discipline, co-ordination and logistics are key words for producers during this stage. To achieve a smooth operation, the producer must rely on their production team.

Director and producer - together with their respective teams - are the two heads on whom depends the rest of the technical and artistic personnel, divided into different areas: photography (camera and lighting), production design or art direction (sets, props, wardrobe, make-up and hair styling), sound and special effects. In addition, there is the cast (main and supporting actors and actresses), who demand special care and attention during shooting.

It can be assumed that if pre-production has been adequately done, no significant problems will arise. However, during principal photography, many things can, and in fact do, go wrong. In this sense, producing a film can be likened to a large-scale exercise in crisis management. It is the capacity to solve problems without agony that makes a producer good or bad.

On a day-to-day basis, production work can be managed through the *daily shooting schedule, call sheets and daily production reports.* The first document records in order the intended scenes to be shot each day and the sequence of shooting days, including the necessary cast members, equipment, personnel, props and sets to be used, following the information outlined in the breakdown sheets. The call sheet consists of a detailed work plan for a given day, and it is issued to every single person involved in the production, from actors to technicians. It includes a schedule (start time, breaks and ending hours), transport plan to location, scenes intended to be shot and any noticeable comment for that day of shooting. The daily production report states what has been accomplished during a day's shoot and assists the executive producer in following up shooting progress. In addition, director and producer check the production quality through a test proof of the film process called *dailies*.

In summary, producer's tasks during principal photography can be listed as follows:

1. Making things easy for the director and supervising the entire process with diplomacy
2. Adjusting the shooting schedule
3. Controlling the budget
4. Supervising crew discipline and labour regulation
5. Ensuring film quality and looking after the negative

3.3.3. Post-production

Once shooting has finished, one may think that the most difficult phase, at least from the economic point of view, is over. Yet the last and definitive phase is still to come. Post-production consists of the building up of the movie as a whole, putting together all the different elements (edited images, sound effects and music) to create the narrative rhythm and emotional tone. It is only then that the *magic* of cinema takes place.

The average length of this stage runs from 4 to 6 months, though it depends on the type of film. Those movies that boast a lot of special effects require a long, complex and expensive post-production process.

The main tasks are image editing, sound editing, special effects, scoring and the laboratory process. The producer's main concern during post-production is to ensure top film quality as well as meet distribution deadlines.

Once post-production is complete, the producer must do the books, elaborate the final budget and determine the movie's total definitive cost. This figure is called 'negative cost' because it reveals the direct cost of the production itself. Further expenses belong to the commercialisation process and are considered distribution expenses.

It is time to study the positive or negative differences between the preliminary budget and the final one and, therefore, also analyse the validity - or lack thereof - of the decisions made so far. Even though the movie has not been released, the producer should be able to calculate commercial revenues and forecast profits or losses.

Finally, though the producer's main job is now done they should supervise the distribution and commercialisation process, working together with marketing experts and distributors.

3.4. COMMERCIALISATION

The commercialisation phase includes marketing, distribution and consumption of the finished product (exhibition, broadcasting or sales, depending of the different windows).

Movies – and, on a lesser scale, TV fiction programmes – are one of the most unique products in the marketplace since they change from a type of good or service to a tangible product and then back to a service as they travel through their product life cycle. When a movie first arrives at theatres as a number of prints consumers may only access or view it

at the cinema with a tangible product in their pockets. However, this is only the first stage in the long commercial life of the film. After its theatrical run, it is generally exploited in the videocassette market, where millions of copies in VHS and DVD format are available for sale or rental to the home consumer market and then distributed through the different forms of television – from pay-per-view and pay cable to broadcast.

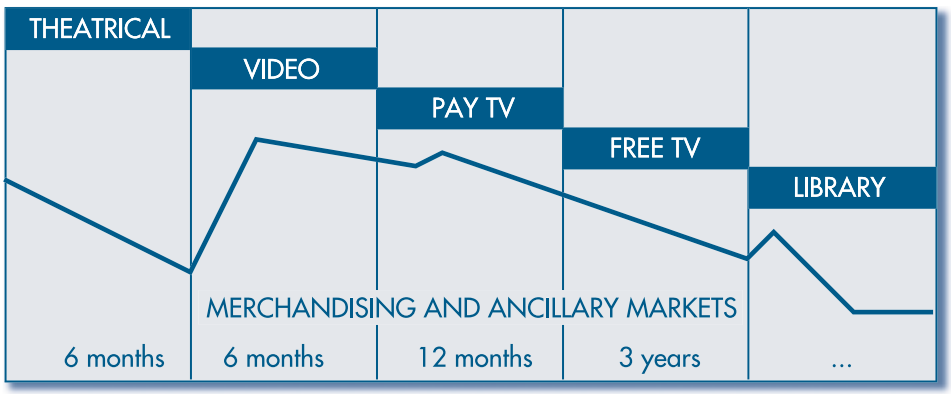
While the content of a film is fixed, the changing nature of transmission technologies changes the physical nature of the film experience over its product life cycle. In this way, the commercial venture of audiovisual products – mainly motion pictures – has been significantly extended, with obvious positive economic consequences.

The optimal sequencing of motion pictures through these exhibition outlets is known as ***windowing or sequencing.*** Sequential distribution patterns are determined by the principle of the second-best alternative, which stipulates that films are normally first distributed to the market that generates the highest marginal revenue over the least amount of time. They then continue their "cascade" in order of marginal-revenue contribution down to markets with the lowest revenues per unit time, from theatrical release to broadcast television. Due to the huge amounts of capital invested in movies and the necessity for faster recoupments, industry agents have driven forward to an earlier opening of all windows.

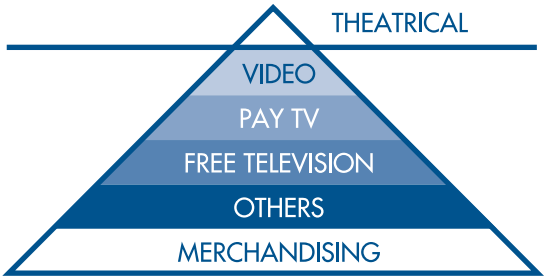
Sequencing is a marketing decision that attempts to maximise income, and it is generally advisable for profit-maximising distributors to price-discriminate in different markets or windows, by selling the same product at different prices to different buyers. Although so far the current windows are relatively fixed, it is not surprising to find shifts in sequencing strategies, as new distribution technologies are developed. Such windowing is also a way in which the public-good characteristics of movies used as television programmes can be fully exploited.

The current sequencing of windows breaks down as follows:

Film Revenue During Successive Windows



Theatres now act as "launching pads" to provide a kind of lift that carries a film through all its subsequent windows.



In short, the commercial windows are related to each other on two levels. On one hand in terms of competitiveness: each window struggles for the same potential gross (consumer spending in entertainment), and acts as excluding competitors (especially video rental and pay TV). On the other, *sinergy*: the success or failure of a film in a previous window can define the performance in the following ones. At the same time, the emerging markets have developed a new voracious appetite for fiction content.

3.4.1. Marketing

All film marketing is aimed at informing the audience about the picture and convincing them to pay to see it. In other words, to sell it. This concept of *selling* is present from the very beginning of the process (the producer must sell the idea to financiers and partners) and continues throughout (creating awareness about the movie during actual shooting) to culminate in the commercial launch of the film (selling it to the audience). In some way, the specific marketing at every stage creates a different strategy with the same final objective: getting the audience to the picture.

Marketing during development refers to targeting funding sources and attracting investment capital. A good marketing strategy in place at this point can get a film capitalised before shooting starts. To achieve that, the producer must elaborate a business plan, attend principal markets (AFM, Cannes, MIFED) and acquire publicity in trade papers.

Marketing during production is directed at creating expectations about the film, especially broad news coverage in different media. Press releases at the beginning and end of principal photography, production notes, interviews with cast and talent and general information about the movie are the usual tools.

Marketing during distribution constitutes the core of the marketing strategy, since it is the final effort to attract as big an audience as possible. Any marketing campaign can be divided into sequential steps: beginning with the design of creative elements (general look, copylines, graphic elements, etc.) and the elaboration of products (poster, flyer, press-kit, spots, trailers); followed by the planning of media strategy (presence in the press, radio, television); and finally the promotional campaign itself (release press conference, promotional tours and so forth).

The marketing phase lasts as long as it takes to make and release a movie, generally two to three years. Also, marketing campaigns need to be adapted and altered as necessary from one country to another.

In recent years, film-marketing expenses (and film budgets) have been rising considerably faster than the overall rate of inflation. And the trend doesn't look as if it's going to change, since the bigger the picture's budget, the greater the marketing campaign must be to assure a minimum recoupment.

In theory, studios have much greater cost control potential in a film's marketing phase than in its production and financing stages. Yet in practice, restraint in marketing expenditures is rarely seen. On the contrary, studios often add 50% to a picture's production budget just for advertising and publicity. The film market is one of fierce competition and demands such over spending in order to attract the audience's attention.

In any case, very few actions are as profitable for a film as marketing. It must be taken into account that marketing decisions made prior to theatrical release can critically affect the income-generating potential of a film in all subsequent markets (video and television), including those abroad.

3.4.2. Distribution

In the film industry, distributors are the necessary intermediaries between producers and exhibitors, in other words, the nexus between content creators and points of sale. The process of distribution and commercialisation can be:

linear: producer —> distributor —> exhibitors or
multifolded: producer —> sales agent —> distributors —> exhibitors

Three types of "agents" act in the distribution sector: major distributors, independent operators and sales agents.

Major distributors are the distribution arm of the Hollywood *majors*. They mainly distribute their own films and a few independent productions. Their strategy is that of dominance, not only because of the appeal of their product but also because of their powerful marketing machinery. Hollywood studios have set up their own distribution companies, either individually (Disney-Buenavista, Columbia, Fox and Warner), or collectively (Paramount, Universal and Dreamworks acting under the United International Pictures umbrella in Europe). They have also created joint ventures with local distributors to cover the required quotas of domestic films (Gaumont-Buenavista in France or Warner-Sogefilms in Spain). In many cases, they act as financiers, paying for the rights in advance and helping to capitalise the production.

Independent distributors are those who don't belong to the majors and keep themselves outside their direct influence. Their strategy consists on acquiring the rights for small, not necessarily mainstream movies, together with "art-house" pictures and "niche" films. The term "independent" should be sometimes put between brackets, since some of the most famous independent companies (like Miramax, New Line and Gramercy) have been bought by a major (Disney, Time-Warner and Universal, respectively). Other Hollywood studios have created their own label for "independent" productions, like Fox Searchlight (Fox) and Sony Classics (Sony-Columbia). The big independent distributors are called *mini-majors* (similar to the old studio system), in comparison to the "niche" and "art-house"

distribution companies. Of course, all local European distributors come under the independent category.

Sales agents act as intermediaries between producers and local distributors in the international market. They usually focus on a specific kind of film and build up a relationship of trust with their buyers through pre-sales. Sale agents can act as a simple linking device or be more committed as co-producers. They are primarily based in Los Angeles and London and conduct the core of their business in the regular markets (the most significant being AFM in Los Angeles, Cannes and MIFED in Milan, for feature films; NATPE in Las Vegas, MIP and MIPCOM in Cannes, for TV productions).

These three groups operate in a very similar way, committing initial funds for production in exchange for rights. The most common formulas are the *pre-sale* and the *minimum guarantee*. The first refers to the buying of rights in advance by a distributor (or TV network), whether this represents actual money or just a formal commitment. The minimum guarantee is the amount of money the distributor or sales agent puts up in advance as production finance or rights acquisition payment. The minimum guarantee can be recouped if there are enough revenues and represents a more risky investment for the distributor than the simple pre-sale.

"Rights" is the key word in the distribution business. Producers and distributors deal in rights to exploit a movie for a limited period of time, through different windows and territories. A kind of battle takes place between producers and distributors, since the latter wants to acquire the rights under the most favourable conditions (all the rights forever for all media and territories) while producers try not to lose control over the same.

Together with this, the other basic concept present in the distribution agreement is the formula to split revenues. There are basically two types of agreements:

a) *Gross Deal:* This agreement stipulates that the producer is entitled to a percentage of distribution gross receipts before the distributor deducts any fee, commission or expenses (prints and advertising).
b) *Net Deal:* The producer is entitled to a percentage of the net receipts, which means they must wait until the distributor has recouped expenses and fees.

Each type of agreement permits some variation so the possibilities are numerous. In general terms, the Gross Deal benefits the producer since they receive money early on during the process of exploitation (and usually by then they need it desperately for paying debts). On the contrary, the Net Deal benefits the distributor, since they recoup their basic expenses and receive a fee.

Both agreements are based on percentage sharing. In addition, a *flat fee deal* can be agreed upon, where the distributor pays the producer a fixed fee for the right to exploit the film during a specified period, no matter how much income this activity generates. This formula is reserved for marginal cases (non first-run distribution).

Distributors design their marketing campaigns with certain target audiences in mind, trying to build up the movie's expectations (creating "hype") to convince the audience that this is

a "must-see" film. If the audience is satisfied, the "word of mouth" effect will be extremely effective. Of course, no amount of marketing savvy can make a really bad picture go over well, but an intelligent strategy can definitely improve the box office (and eventual home video and cable) performance of a mediocre picture.

In addition, distributors will typically attempt to align their releases with the most demographically suitable theatres, subject to screen availability and previously established relationships with the exhibition chains. They accomplish this by analysing how similar films have previously performed in each potential location and by then developing a releasing strategy that provides the best possible marketing mix, or platform for the picture. Sometimes the plan may involve a slow build-up through limited local or regional release (*platform release*); at other times it may involve a broad national release on literally thousands of screens simultaneously (*wide release*). The first is used by "niche", "art-house" pictures while the second release strategy is typical of highly commercial movies (blockbusters).

Both the marketing campaign and the release strategy are primarily geared at the first week. Distributors know very well that the biggest box office figures come during the initial days of release and from then on, gross inevitably (and steadily) decreases. The higher the initial impact the greater the chance of generating substantial box office revenues.

3.4.3. Exhibition

Exhibition is the last link in the long chain that connects producers and audiences. There are main exhibition circuits (including multiplexes) and "art-house" cinemas, just as there are mainstream movies and "cult" films, and of course mass audience and "niche" productions.

Exhibitors and distributors negotiate as fiercely as distributors and producers do. Distributors typically attempt to get their films released in the most demographically suitable theatres, subject to the availability of screens and previously established relationships with the exhibition chains. The two most common agreements between exhibitors and distributors are the ***flat rental agreement*** and the ***sliding-scale agreement***. In the former, the exhibitor (usually in marginal, late-run cases) pays a fixed fee to the distributor for the right to show the film for a limited period of time. In the latter, the agreement is based on a percentage sharing of box office takes.

Most contracts between distributors and exhibitors follow the formula of a sliding percentage of the box-office gross after allowing for the exhibitor's ***nut*** (house expenses, including overheads, insurance, and mortgage payments). In addition, it is generally conceded that the nut will normally provide exhibitors with an additional cushion of profit.

For a major release, sliding-scale agreements may stipulate that 70% or more of the first week or two of box-office receipts after subtracting the nut are to be remitted to the distributor, with the exhibitor retaining 30% or less. Every one or two weeks thereafter, the split may then be adjusted by 10% to 60:40, then 50:50, and so forth in the exhibitor's favour. Thus, the distributor's gross (otherwise known as ***rentals***) is in effect received for a carefully defined conditional lease of a film over a specified period. Lease terms may include bid or negotiated clearances, which provide time and territorial exclusivity for a theatre.

Should a picture not perform up to expectations, the distributor also usually has the right to a certain minimum or ***"floor" payment***. These minimums are direct percentages (often more than half) of box office receipts prior to subtraction of house expenses. Nevertheless, if a film is a total flop, the distributor may reduce the exhibitor's burden through an agreed settlement. Consequently, often the largest profit source for many exhibitors is not the box office, but the popcorn and drinks sales where the operating margin may exceed 50%. Theatre owners have full control over such sales, either operating food and beverage stands themselves or leasing it to outside concession providers.

Ticket pricing is another point of negotiation. Given the high percentage normally taken by the distributor, it is in the distributor's interest to maintain firm ticket pricing, whereas it may be in the exhibitor's interest to set low ticket prices to attract high-margin benefits in food and beverage sales. Generally speaking, ticket prices are set by exhibitors, though there are situations (blockbuster releases) where distributors may want to assure minimum ticket prices and limit special offers (like children's bargains).

Exhibitors also play a crucial part in distributors' ***release strategies***. The need to recoup huge production budgets together with expensive marketing campaigns provides strong incentives for distributors to release pictures as widely and as soon as possible, reducing the exhibitor's risk in the interim.

Many alternatives are available to distributors. Some films are supported with a large marketing campaign arranged months in advance; while others rely on a limited but carefully designed one, with the hope that strong word-of-mouth advertising will build. Sometimes a picture will open in just one or two main cities for a period of time in order to qualify for Film Academy Award nominations, and then be widely released the following month. Or, there may be massive simultaneous release around the country at the beginning of a strong season (summer or Christmas).

In any case, different ***anti-blind-bidding laws*** (laws that prohibit completion of contracts before exhibitors have had an opportunity to view the movies on which they are bidding) are effective in some countries. This legal mosaic tends to make distributors' release strategies more complicated than they would be otherwise.

Anti-blind-bidding statutes were passed by state legislatures in response to exhibitor complaints that distributors were forcing them to bid on and pledge (guarantee) substantial sums for pictures they had not been given an opportunity to evaluate in a screening, in other words, buying the picture sight unseen. Distributors now generally screen their products well in advance of release, but large pledges are still required to obtain important pictures in the most desirable playing times, such as the week of Christmas through New Year's.

In theory, all studios can be expected to release movies in different theatres depending on the previously mentioned factors. However, in reality some theatres - mostly in major cities - more often than not end up consistently showing the products of one particular distributor. Some of the most used practices are ***product splitting or block booking***.

Product splitting occurs when several theatres in a territory tacitly agree not to bid aggressively against each other for certain films, to reduce average distributor terms. Each

theatre in the territory then has the opportunity, on a regular rotating basis, to obtain major new films for relatively low rental percentages.

In block booking, on the other hand, a distributor will accept a theatre's bid on desirable films contingent on the theatre's commitment that it will also run the distributor's less popular pictures.
Symbiosis between exhibitors and distributors has not led to mutual affection. The growth of pay-per-view cable and the possibility of simultaneous releases (known as ***day and date***) in home-video formats may further strain relations.

3.4.4. Home Video

Marketing a movie for the video window doesn't substantially vary. It tries to capitalise on the film's performance during its theatrical exploitation.

Most film distributors also manage video rights. In fact, they create synergies between the marketing and distribution strategies in both windows. Distributors generate more in domestic wholesale gross revenues from home video than from theatre exhibition. Home video has thus forever altered the fundamental structure of the business and changed the ways in which marketing strategies are pursued.

The bulk of those revenues (two-thirds or so) are consistently derived from consumer sales or rentals of feature films. Forty to fifty percent of total revenue generated by movies comes from domestic home video receipts. In consequence, filmmakers and distributors cannot afford to treat video marketing campaign strategies lightly.

Perhaps the most important decision for major studios' home-video divisions concerns pricing. The decision is to either price high for the video store ***rental*** market or to price low for what is known as the ***sell-through*** (consumers') market. But since the cost of manufacturing and marketing a cassette or digital video disk is roughly the same for all regular feature films, the decision always comes down to whether the distributor can earn more from rentals or sell-through. Currently, the video market trend shows a higher percentage of revenues from sell-through and a decreasing share from rental.

For family and children titles, such as Disney animations, the decision is almost always to go for sell-through because the profitability expectations are higher. With, say, a suggested retail price of $24.95 and a wholesale price of about $13.50, six million units would generate an impressive $81 million in revenue and perhaps $57 million in gross profit for the distributor.

More common, however, is to set the suggested retail price of the cassette much higher, so that it becomes primarily a rental item. Most "A-title" releases, as films with the potentially widest appeal are known, would list for $89.95 or above, and of this price the distributor would probably retail around $56.57 (i.e., 63%) from the initial sale. But the distributor would *not* normally participate further in the cash flow that is derived from retailers' rentals of the cassette.

All other things being equal, the studio-distributor - in essence, the home video's publisher - would select the greater of the following options: (a) Expected number of rental units times 63% of rental unit retail price or; (b) Expected number of sell-through units times wholesale unit price. But because marketing costs figure prominently in the success of sell-through titles, the distributor must generally be able to project sales of at least seven to eight times as many copies of a sell-through than a rental title in order to justify the decision. Such projections would be made, for example, on a typical fitted curve, off which the number of home-video units demanded might be estimated as a function of the domestic box-office performance of recent titles.

Independent filmmakers naturally face a different set of problems. Indies will typically be most interested in pre-selling (or fractionalising) rights to their pictures in order to finance production. For this purpose, they may approach one of the majors or submajors, or contact an independent home video distributor, but rights fractionalisation is not normally welcomed.

So-called ***direct-to-video*** features, which are designed to skip the theatrical release phase entirely and move directly to the home-video market, are also becoming more prominent, especially in the family film genre. Elimination of relatively high theatre release costs enhances the profit potential of such titles.

Video distributors follow a release strategy according to market expectations (number of units per title) similar to that of theatre. Depending on the title's previous success, they may follow an ***in-depth distribution*** pattern (many copies of few successful titles, like the blockbusters) or the ***in-breadth*** option (less copies of a wider variety of titles).

3.4.5. Television

In television two different types of marketing take place simultaneously: ***network marketing*** (marketing of the company) and ***programme marketing*** (marketing the product). The first is aimed at selling the audience the particular look or style of the network (characterised by its news gathering service, its cinema offer, its focus on sports, etc.). The marketing of a specific programme (news, sitcom or movie) tries to convince the audience to watch that TV offer instead of the competition's.

Moreover, of necessity, all film distributors must now take the projected rapid growth of pay-per-view (PPV) cable into consideration. At a minimum, the rise of PPV technology appears likely to dampen the growth of home-video unit demand, and to also alter the sequential release patterns for certain types of films.

3.4.6. Merchandising and Other Exploitation Markets

Product merchandising opportunities relating to film characters and concepts have increased noticeably in recent years, and marketing activities have become highly sophisticated. The best examples of this have been seen in Disney's animated features and the *Star Wars* trilogy, as well as Universal's (MCA) *Jurassic Park*, which have each been

able to generate merchandise license profits in excess of $50 million. Multimedia products that include samples of a film's sights and sounds are now also readily marketed in CD-ROM, DVD, and other interactive formats. And in the action and children's film genres, licensing opportunities in music, books, comics, and toys abound. An important product license to a major toy manufacturing company might, for instance, return at least 6% to 7% of wholesale merchandise revenues to the studio.