
MOTION PICTURE MARKETING

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Originally movies were driven by publicity generated on the set by studio publicity mills, created to constantly churn out provocative stories in order to keep star names and picture titles before the public. Throughout the 1960s, movies enjoyed a longevity in the marketplace, remaining in theatres for months, in contrast to the make-or-break intense competition of today. Advertising dollars were limited to newspapers and radio.

In the early 1970s the process began to change. First a company named Sunn Classics made a strong impact by distributing family-oriented films regionally, supporting them with saturation network-television advertising, the first time such an approach was methodically applied to movies. Warners refined this strategy for the national-saturation release of *Billy Jack* in 1971, spending unprecedented television advertising dollars to achieve an unusually high level of gross rating points, or GRPs. (*Gross rating points* are a measure of the level of audience tune-in to television commercials, a way of converting advertising dollars into impressions.) *Billy Jack* was highly successful, and movie marketers realized that national-television advertising was the wave of the future.

As a result, release patterns changed to make ad expenditures more efficient. The national-saturation release quickly replaced road-show exclusive runs and limited national runs as the preferred release pattern. A picture that previously opened in 500 theatres could now open in 1,000 or

more and be cost-efficient, measured against the reach of network-TV buys. By the 1980s the saturation release was expanded to 2,000 or more prints, and exhibition continued building multiplexes to meet the demand. By the turn of the century, the most popular pictures were being released to over 3,000 theatres (or "engagements") with 4,000 or more prints, using multiple screens in the same complex at staggered starting times, thereby increasing seats and potential revenue.

Today competition has increased dramatically, with two or three new movies opening most weekends pushing against the second weekend of the previous openings, so that perhaps six movies are competing for the audience's awareness and choice selection. And the audience is unforgiving: There are first-choice movies, and the rest are also-rans, a list that changes every week. The work of movie marketing is a painstaking and very expensive effort to position the audience for that critical opening weekend. Our goal is to make our movie the first-choice movie for its market target; if it doesn't succeed, the picture is usually forced out by new product coming in behind it.

Advertising and publicity becomes involved once production greenlights a movie. Under the ad-pub umbrella are these disciplines: creative advertising, publicity and promotion, market research, media and internal. Briefly stated, creative advertising oversees the creative strategy and execution of advertising materials, which are done in-house or through outside vendors. The publicity and promotion staff works to convey the same message in public relations, starting with unit publicists and photographers on the set, through release publicity. Market research interfaces with the creative process through surveys of advertising materials; with production in fine-tuning the film in the preview process; and with sales through marketing-opportunity studies, tracking studies and competition studies. Media is the division that controls spending, physically places the advertising through ad agencies and subcontractors, and is responsible for the strategic design and execution of the media plan. International covers these areas outside the United States and Canada. There are also administrative support groups, which assist these divisions.

The marketing of a picture is like a race, in that each discipline may start at different times, but all finish together, at the target, opening weekend. Creative advertising starts as early as publicity, in preproduction; market research begins simultaneously; media starts just prior to release, and international, which has been active throughout, really kicks in after the domestic release (except for those pictures that open overseas prior to domestic).

Let me track the involvement of these specialties through the life of a movie.

CREATIVE ADVERTISING

Early strategic thinking is the same on any picture, regardless of size. Generally during preproduction, a marketing strategy has been devised, which undergoes constant revision. As this process proceeds, we will review the screenplay and production schedule to learn if there are opportunities to shoot advertising concepts during production, since it's difficult to call everyone back for a photo session after the fact.

As marketing people we have an idea of the potential of the project at this stage, from the casting of the movie (both in front and behind the camera) and the story. During production we learn even more from the look of the picture. At that point we start thinking about which projects might have breakout success (like *Mission: Impossible* or *Tomb Raider*), although it's impossible to predict this. Also, we can sense the gemstones, the smaller movies that might break out with support from critics, from awards and ultimately from the public (such as *The Truman Show*, *What Women Want* and *The Talented Mr. Ripley*). This type of movie relies more on its own quality, and must be carefully handled.

Once the picture has completed principal photography, a select number of advertising and publicity people are allowed to see a rough cut in order to start working on the trailers. Occasionally we may look at dailies to get a feel of the tone and visual style of the picture. After viewing the rough cut, marketing really kicks in. The first focus is on preparing the trailer, and we take care that it reflects the important moments that the movie delivers. This becomes the backbone of all broadcast materials. Perhaps we will first create a ninety-second (:90) teaser trailer, offering just a glimpse of the movie to audiences in theatres and on our Web site as far as six months in advance of release, followed by a trailer (2:00) with actual scenes. Because the theatrical trailer is the first impression the theatre and Internet audience has, this is some of the most important, persuasive work we do.

Depending upon the long-lead interest in a movie, we would launch a Web site allowing the public to follow the progress during production all the way to the theatrical and the home video release. For *Tomb Raider*, we kept fans informed with behind-the-scenes stories during shooting; the *Mission: Impossible 2* Web site was global, in multiple languages, and featured an interactive feature whereby logging in secret code numbers would

trigger privileged information. Using the Internet is a highly effective way of reaching the young moviegoer:

PROMOTION AND PUBLICITY

Once the picture is green-lighted, the publicity department meets with the filmmakers to select the unit publicist, the on-scene public relations expert during filming. The unit publicist writes the production notes, which is a history of the filming, the biographies of key personnel, and communicates to us everything that is going on during shooting, including media requests that will be fulfilled or not. Also, there is a stills photographer who chronicles production from the point of view of the motion picture camera, to supply stills of the on-camera (and off-camera) action as it proceeds. In most cases the stills photographer will shoot at the same time that the motion picture camera is capturing performance; however, some actors prefer an alternative, and stay in place after shooting a scene, posing for such stills, as if they were filming. Shooting stills during actual filming is of course preferable.

Other promotional tools, such as behind-the-scenes programs and electronic video press kits are being compiled during shooting. This is vital if certain actors will be unavailable afterward, especially for international use, since most actors can't spend the time to travel around the world for publicity. A half-hour behind-the-scenes TV program can cost from \$75,000 to \$350,000; a short featurette, three to seven minutes, can cost from \$25,000 to \$50,000. A combination can find a featurette packaged for TV stations with a series of :60 or :90 news wraps, self-contained stories that can be "wrapped around" by local newscasters, plus a selection of location footage and film excerpts that can be built into a bigger piece locally, all offered with written material about the movie. Such packages can cost from \$50,000 to \$100,000 to produce.

The advent of e-mail has allowed for massive electronic mailings of promotional items and/or TV commercials to those who have either logged on with a request or registered on certain Web sites, which triggers receipt of material unless the customer asks to be removed from the list. Companies such as Radical Mail can stream a :30 trailer to an e-mail client, who can see it upon logging on. In an example of pinpointed direct marketing, trailers can be targeted to potential customers via e-mail based on precise demographic categories.

Publicity is also very active in the time between the end of shooting and the release date, working at strategies to achieve placement in both print and broadcast journalism. Long-lead press such as *Vogue* and *Vanity*

Fair require exclusive photo shoots or interviews months before publication, and publicity must be prepared for this. As release approaches, a mass-audience picture may call for the creation of a press junket, where broadcast journalists from cities across the country and overseas are flown to Los Angeles to interview stars and others who made the movie. The talent sit for scores of interviews during a weekend marathon and the journalists come away with exclusive footage for their venue. Also, publicity makes sure that local print journalists receive print press kits containing still photos, production notes, biographies and suggested stories and that broadcast journalists receive electronic press kits, complete with talent interviews, sound bites from the movie and behind-the-scenes video excerpts intended for broadcast along with locally generated reviews or news about the movie. The press kits are an effort to make the journalists' job easier and, of course, to provide free advertising for the picture.

MARKET RESEARCH

In market research, advertising material is tested via intercept, where a pedestrian may be asked to respond to certain concepts, stars, images and advertising copy. Concept testing is the first measuring we do, for a sense of how the audience relates to a specific movie idea. Then we will turn to a title and star measurement (without the concept), then to the print campaign. Assume the research company has been asked by our head of market research to seek out a certain target audience, whether male or female, in a given age group, and of a certain moviegoing frequency. People who meet the criteria are recruited through intercept, usually at a shopping mall, where a booth is set up for them to watch and react to material, in exchange for a premium.

An interview is one-on-one. A subject will be shown the ads; then the interviewer will ask what the ad says; whether the ad is appealing; whether the person is interested in seeing that movie; and if so, how interested. Valuations depend on which research company is at work. A sample system might range from "definitely want to see," "probably want to see," "might," "might not," "not very interested" to "definitely not interested." These interviews are an additional series of voices that either confirm or call into question the overall approach. If a less-than-terrific response comes back, then refinement of the print campaign is necessary, by fine-tuning the image or copy. In the rare case where conceptually we are not communicating what we intend to, we may have to start from scratch.

Market research also helps us refine through testing our broadcast campaign, both trailer and television. Since the trailer is created earlier

than the TV commercials, it is tested earlier. How does this testing work? Small audiences are recruited demographically, shown the trailer or TV commercials, asked questions, and the data come back to us for assessment. There are also adjective profiles, where a subject will choose from a list of adjectives to measure what the material is communicating. Separately a subject would be asked to assess the material itself. Earlier testing levels are compared with later ones, as a gauge of how well we are improving (or decreasing) interest, in addition to researching our target audiences with the intended message.

There are new market research opportunities on the Internet, with its high incidence of moviegoing among its users. We are not far from a time when instant surveys about movies or trailers can be conducted among the ever-growing Internet audience. When someone registers at a studio Web site, information is gathered that allows computers to categorize and self-select to reach any precise, defined audience segment with an e-mail message or a movie trailer, which the targeted viewer is free to open or trash. As stated about the Internet in general, e-mail is a very effective way to reach an intended audience. Market research is also involved in previewing.

PREVIEWING

Previews can be divided into two types, production or marketing, although they often overlap. A preview audience can be a recruited audience whose demographic makeup is preselected. At a production preview the production executives work closely with the filmmakers to creatively fine-tune the movie. At a marketing preview we are studying audience reaction in connection with what we've been preparing in creative advertising as to the style and message of the campaign. And just as we are constantly reassessing release strategies, we are also reviewing advertising strategies, along with expenditures commensurate with those evolving strategies.

The preview process can alter release strategies. For example, a movie that had been identified for release as a slower, single-exclusive, review-driven picture may be changed to a wide, national release, for one of two reasons: It previews either much better or much worse than expected. If it previews better, we have the chance to reach a wider audience faster. If it previews worse, it can't be released slowly, because bad word of mouth will destroy it. But if it's conceptually advertisable and might achieve grosses for perhaps the first two weekends, it could be worth releasing the picture into the market nationally to "steal a couple of weeks" before word of mouth spreads. Now consider a picture that was always planned as a na-

tional release and turns out even better than expected. This could call for an opening two weeks earlier in very few cities, to allow for strong reviews to push the word of mouth and maximize the national opening.

Sitting through a preview, one learns a lot from audience reaction and from reviewing preview cards that viewers have filled out. Preview cards are always instructive. They express not only audience likes and dislikes but also details about the demographic makeup of those who most appreciate the film. For example, if our advertising is working for younger people but the film is also playing well to older ones, that presents an opportunity to broaden the audience base. We must then go back to create advertising materials that will appeal to the older audience as well. This kind of revision can apply to male and female audience segments too. As an example at Warner Bros., *Lethal Weapon* was clearly an action picture that strongly appealed to men; but in the preview process we learned that Mel Gibson's warmth, charm and good looks overcame the genre, creating broad interest among women. With that in mind, we reviewed our material, and it became a date movie.

Are there better cities for previews than others? This depends on the movie. San Diego and Sacramento are terrific preview cities overall; Seattle is a good market to preview a sophisticated movie. Today most previewing is done in Los Angeles, where it's possible to recruit any type of audience, from sophisticated to blue collar. Consider how much activity this represents. At Paramount alone we release on average fifteen to eighteen movies a year and preview each at least twice. Most are recruited screenings, since it's best for an audience to know in advance what they are seeing. Another approach to previews is focus-group screenings, which feature a question-and-answer session with a moderator after a preview, as the filmmakers in the audience listen to the feedback.

As useful as the Internet is as a publicity tool, its power can backfire with security breaches during the preview process. Anyone can sneak into an early preview, when a movie isn't finished, and report bad news to an online chat room or Web site. This is unfortunate, because the preview process was created to allow the filmmakers to improve the product with audience feedback and complete it, then let the critics express their opinions. While a movie in progress may not be protected from a negative critique on the Internet, countermeasures can be employed in the form of planting favorable critiques as well.

At the preview stage, ad-pub meets with sales to review release strategies and screening policies, to reassess the broadcast advertising budget and to decide whether the picture will be helped or hurt by publicity. (For a sense of timing, a summer picture opening in June is previewed in March

or April.) There also may be elements that one loves in the broadcast trailer or print campaign but that the test audience (recruited by market research) doesn't respond to, calling for revising the materials. What is unlikely to change from the preview is the print campaign. By that time, market research has honed in on the images that are effective and on the copy that is working to appeal to the target audience.

MEDIA

After the preview process, which helps us determine who the target audience is for the picture, we begin to devise the media strategy, around eight weeks before opening. As noted, if we learn we can broaden that audience base, we will reassess the media plan to accommodate this.

In determining the media buys, spending levels are set based on how much the picture is expected to gross: costs are driven by projected performance. The warning becomes, Don't outspend your revenues, but don't underspend your potential.

In the media buy, television is the greatest expense (broken down into network, spot and cable), followed by newspapers, magazines, radio, outdoor (billboards, subways, bus shelters, sides of buses) and Internet. There has been an explosion of movie advertising in the cable universe since cable's narrowcasting is more effective in reaching a target audience than networks' broadcasting. For some movies, cable advertising has replaced much of the network and spot advertising buying, though in overall cost network still leads the way. The levels of advertising in different media are known as *weight levels*: television weight, newspaper weight.

Let's consider television advertising. In what is known as the prebuying season (June and July for the following year), Paramount has already garnered a large number of up-front network commitments, paid for in advance. This gives us the security blanket of prebought time at fixed rates and is generally less than 50% of our total network buys, though this shifts year to year. Specific television spot advertising is committed to three to four weeks prior to opening weekend. Recognize, however, that the TV marketplace changes constantly. Buying a network spot on a Wednesday night at 9:00 for a certain program's demographics might instead deliver a substitute program or a repeat. The buyer must be aware of that and adjust accordingly. The buyer must also have enough flexibility so that if a release date shifts, entire media schedules can be changed or reassigned to other pictures.

To buy our spot and network-television advertising, we use a national agency, MediaVest, which receives a commission. They get their directions

from our vice president of media, who provides an execution strategy and must approve the dollar amount to be spent. For an example of the high-end cost of network spot advertising, a recent Super Bowl :30 cost over \$2 million. By comparison, a :30 for *ER* or *Friends* was in the \$400,000 to \$450,000 range; for *West Wing*, \$300,000 to \$350,000; for *Frasier*, \$275,000 to \$300,000. For a :30 during one of those TV series on the local level, the New York market cost \$25,000 to \$40,000.

In planning a media buy, formulas are used that vary from movie to movie. This is because a certain price delivers a certain size of audience, and a theoretical number of impressions upon each audience member is needed to achieve results. An equation is applied involving reach versus frequency. *Reach* is how many people see your spot; *frequency* is how many times they see it. How many impressions are required? No studios have been done relating to movies, since the product is so changeable, but in the packaged-goods world, involving soap or cars, the goal is three or more impressions.

In order to achieve the most impressions for the money, the buyer invokes reach vs. frequency in devising a spot-buying campaign. A television buy for a sample movie might find spots placed in certain important network prime-time programs, surrounded by lesser network programs, perhaps nonprime time, and placement in many more less-expensive spot market programming, perhaps in the local fringe time slots, both early (6 to 8 p.m.), late-night (after local news, or 11 p.m.) and in the narrowcast cable marketplace. Increase the efficiency of an overall buying strategy, especially the more-expensive television media, by adding a foundation of radio advertising. Another part of the buying equation is CPM or *cost-per-thousand*, a measurement of efficiency, stated on a station's rate card. With this computation the buyer learns whether too much money is being spent to reach a targeted number of people. If the same number can be reached at a lower cost per thousand, that would call for changing to a different, more cost-efficient programming mix. For example, the cost per thousand to reach females aged eighteen to thirty-four for program X may be cheaper than buying program Y to reach the same people, and therefore more economical.

A given media buy can be translated into gross-rating-points estimates for each program purchased, based on station rate cards. Gross rating points, GRPs, are a media-world measurement of the reach and frequency of a particular program. GRPs can break down into two measurements, household points and target points. *Household points*, the widely publicized TV rating figure, measures the number of American households tuning in. But each program has a specific demographic profile, and within

each household there are certain target groups. *Target points* measure these groups: young adults, old adults, male, female, children and so on. Since we know through experience what levels of GRPs are required to reach the goal number and makeup of impressions at the desired efficiency, one then works backward and makes the proper buys.

The studio head of media and the people at MediaVest know all these permutations. With their budget they plan the strategy as to whom to buy, when to buy and how to buy, so that the result reaches the target audience for each movie with the greatest economy. That ties in with the earliest work on each movie, as noted, about identifying the primary and secondary audiences.

As for buying media other than TV, strategy depends on the movie, and each is an individual case. Generally, though, I use outdoor selectively, in certain cities such as Los Angeles and New York. In radio I believe that talk, all-news and easy-listening is more effective than youth radio, since adults are less-frequent station-changers. Youth radio can be effective on certain movies, such as *Save the Last Dance*. MTV is also a good vehicle to target young people, on *Total Request Live*; cable networks such as Nickelodeon and sports channels are very targetable in that they reach quite specific audiences.

HOW MUCH?

The first question in preparing the media buy is how much to spend, which depends on what the prospective gross is. That judgment can be influenced by the season, the competition, and that figure is constantly evolving. The decision is locked in from six weeks to two months before opening weekend. If magazines are included, that prolongs the lead time to three months.

The next question is what the media mix should be, utilizing that money. The average MPAA figure for advertising expenditures is at \$30 million, and that includes prints.

When we prepare our advertising budgets, we include our creative costs, such as internal costs in creating the advertising campaign and the publicity campaign (much like overhead), the physical expenses of creating the various campaigns, spots and trailers, the cost of sending the filmmakers on tour, the cost of reproducing press kits and other costs. Per picture this can range from \$2.5 to \$8 million or more. For purposes of the following examples I'll exclude the creative costs.

Media buys differ considerably between a national release and a limited release. The following figures apply to media only, throughout their

theatrical life. A low-end campaign for a national release can range from \$8 to \$12 million in media costs; for a bigger picture the figure can be \$17 to \$25 million. The first *Mission: Impossible*, released in March 1996, cost around \$16 million for media; *M:I-2*, in 2000, cost around \$22 million for media.

For a limited or exclusive release of a picture (in New York, Los Angeles and Toronto) in anticipation of a later wide release, media buys can range from \$600,000 to \$1.2 million, but this is with very little television, and most money going to newspapers and outdoors. The limited release range of media buys can vary from \$500,000 or less if no further rollout is expected, to a more lavish opening, generating a national reputation, at \$3 million or higher. The early, exclusive run of *A Simple Plan*, which included television, cost around \$800,000 for media buys. This established a presence and generated reviews. The picture slowly widened to a national release and ultimately cost \$5.5 million for media.

CLOSER TO RELEASE

As the release date approaches, the earliest concern is placement for magazine deadlines, which can be as long as four months for some, or six weeks for *Rolling Stone*, as an example. Publicity has taken the written material from the production stage, polished it and put it into the form of a print press kit. The print press kit also includes stills that have now been selected from the unit photography (eight to fifteen in black-and-white, and an equal number in color) and that capture the spirit of the movie. These print press kits are serviced to some two thousand journalists around the country, generally six to eight weeks in advance of opening. They are used to familiarize the press with the movie, or as references when they review, and to help supply feature stories for smaller papers that may not have an arts editor. A second type of press kit is the video or electronic press kit (EPK), with talent interviews and film clips. From the creative standpoint the written press kits get much more use than video press kits.

At the same time, publicity is charting artists' availabilities with an eye to setting a series of interviews with key press. This depends on how keenly an actor may want to promote the film; you can't force anyone to do an interview. Scheduling is one side of the equation; pitching stories to the media is another. All Paramount publicists are busy pitching all of our product, as coordinated by the head of publicity. For example, a publicist based in New York will try to position *Rolling Stone* for a story on, say, Leonardo DiCaprio, because his movie's demographics are similar to those of the magazine. The publicist will call the contact person, usually the arts

editor or an assistant, present suggestions and determine interest. Based on that interest, conversations follow as to whether a cover is appropriate, and the kind of story content. This becomes a two-sided negotiation, between the studio publicist and the magazine, and between the publicist and the artist. Diplomacy is required, and the studio is in the middle. This process is repeated with magazines, newspapers and television stations across the country up to the first day of release, and sometimes through the second week.

Six to twelve weeks before release, on the promotion side, local market radio promotions are being discussed; local tie-ins with merchants and giveaways are going forward; and toy stores are stocking merchandising toys, such as action figures, if applicable. A newer publicity vehicle, in addition to Web sites (with keywords or Web addresses appearing in all paid advertising), is the live online chat session featuring the talent, around two weeks before release, arranged through the major portals such as AOL or Yahoo! The promotion pieces of the puzzle are all coming together much like the advertising pieces, all focused to one target, the release date.

OPENING WEEKEND

On opening weekend, sales and marketing executives stay as close as possible to theatre grosses. In addition, our market-research people are doing exit interviews, to learn how the audience is responding.

The three possibilities are that the picture opens bigger than expected, around where expected or smaller than expected. If it opens bigger, naturally support it, but that support must depend on how much bigger the numbers are than expected. This reevaluation must be based on the picture's performance, exit interviews and competition. If the picture is performing exceptionally, it may even be prudent to reduce spending and save that money for later in the run, when it will be more useful. That decision will also depend on the competitive environment and is made by the sales and marketing executives. Every picture that opens big and has the potential to run, one should chase.

If a picture opens at around expectations, the follow-through plan continues. If those expectations were low, it becomes a self-fulfilling prophecy, and nothing more than intended is spent. Such a picture may hang on for the second or third weekend, depending on what's following it into theatres, but then it may be gone. For a national release, movies have become a three-day business; if the opening grosses are not strong, the picture will not survive for an extended run.

If a picture is not performing as expected, it's virtually impossible to

rescue. Once \$12 to \$18 million has been spent to convey a specific message to the audience, that cannot be changed. On the Friday night of the first weekend we know, by tracking grosses from exit polling, just how our picture will perform.

The foregoing were examples of national releases. A picture opens in a limited release if it is of high quality, does not possess the marquee or concept value to open wide powerfully and will probably get good reviews. If such a picture opens weakly but still gets good reviews, it might be saved, upon adjusting the message of the ad campaign. In this case there is more flexibility (although rescue depends upon the quality of the movie) because a limited amount of ad money has been spent, and the picture hasn't been exposed to a large number of people.

Exit interviews during a picture's opening will tend to coincide with our marketing previews or research screenings. This confirms that we are on target. But it becomes interesting when this is not the case, and ingenuity must be applied. *The Truman Show* is an example of a sophisticated movie with exit interviews that ran counter to market testing. It tested at roughly average levels in research screenings, largely due to the fact that this was a unique role for the well-known star, Jim Carrey. Then many critics dubbed it one of the best pictures of the year. With that stamp of approval, exit-interview ratings were close to double those of the market-research screenings. The picture opened big, we supported it and it kept growing.

Now let's take a case of a good movie with strong exit interviews and good reviews that opens at a level less than expected, perhaps due to heavy competition or other market conditions. It might be rescued with an ad campaign highlighting review excerpts, along with more spending than expected in order to support it and enhance word of mouth. *Hartball* is an example. Research screenings and reviews were strong, exits were good, but it opened below expectations. We supported it with solid review commercials and a strong second-week campaign. The second week dropoff was only 16%, indicating solid holding power, and the third week held similarly.

To sum up, if it's not a good movie, gets poor reviews and opens poorly, it can't be saved. If it's a good movie, gets good reviews and opens poorly, it might be saved. If it's not a review-driven movie, such as an action or teenage movie, and opens poorly, it probably can't be saved.

In marketing a motion picture in its theatrical release, the percentage of failure is much greater than the percentage of success, which makes it a highly expensive business. It is analogous to speeding down a mountain on a train, heading toward the release date. Nothing can push the train back up the mountain; there's no second chance, all expenditures have

been made. A recent survey placed the figure of pictures not recouping prints and ad costs during domestic theatrical release at 80%.

CONSERVING COSTS

Marketing costs keep escalating. While there is no absolute solution to this, there are ways to try to conserve.

The primary expense in movie marketing is television, across network, national spot, syndication or cable. The audience base for each of these deliveries is being spread, so it takes a more varied buy to reach your target audience. This is both a blessing and a curse. For a given movie, you can be more efficient with your CPMs (costs per thousand) by laying in a base of network and then supporting it through various spot, syndication and cable strategies. Cable buys on A&E, Bravo or Lifetime, for example, can deliver older, sophisticated women more efficiently than network. But a trap to be avoided is to plan a seemingly efficient strategy with many permutations that ends up costing more than a simpler buy with fewer components.

One way to cut costs is to put more emphasis in individual markets, based on the specific movie, as a sort of brand-development index. For example, a less-sophisticated movie might call for a greater weight level in spot, reducing the network expenditure in that market, making it more efficient.

Another solution, if appropriate, is to buy networks like Fox, UPN and the WB, allowing spending to be more targeted to the youth-oriented market these networks deliver, since they are less expensive than ABC, CBS or NBC.

In general, a buying strategy to reach the target audience always comes down to an equation of reach versus frequency. When a given media buy is expensive enough to achieve a reach of 90% to 100% in the dollar mix of television, radio, Internet, newspaper and magazine, the key calculation to gauge buying efficiency becomes the frequency with which the consumer is exposed to the message. It all comes down to remaining confident and not allowing the size of the competition's dollars to influence decision-making.

In addition make sure the advertising materials are delivering on the message, since it's cheaper to improve the materials than trying to spend to achieve certain awareness and want-to-see levels with inadequate materials. This again returns to the beginning of the marketing process, when it's not enough to believe you have strong materials, either broadcast or print; that faith must be proven in market testing.

Yet another way to save money in TV is to experiment in buying strategies. For instance, use more :15 commercials, a very effective medium. If :15s can be made that deliver the same message as :30s, 50% is saved. Use them at the end of your flight, closer to the release date, once the strategic message has been delivered.

A general caution in television buying is to always reevaluate the impact of network versus spot, because costs are always changing. One season it may be more efficient to buy more network than spot, and the next season, based on shifting costs, this may be reversed.

Another area where spending is high is in newspapers. One way to save money is not buying full-page ads; three-quarters of a page commands the page. If the competition buys a full page, resist the vanity temptation to copy, even though artists may urge you to do so. The public does not evaluate whether an ad is three-quarters or a full page; they are simply responding (or not responding) to the message.

It is also useful to study historical data about cities where particular genres perform. The industry has a vast database tracking grosses on every picture's performance. This is valuable research in arriving at marketing and sales decisions. If a sophisticated picture is opening in a small town where such pictures have historically not performed, be careful. Support it, don't make it a self-fulfilling prophecy; but don't chase it.

Other ways to save money can be found in the creation of the materials. For example, create more in-house; do less; if you go outside, use a single vendor rather than two or three. Vendors are creative sources, outside companies or individuals who can be trailer and TV-spot makers, print and one-sheet makers. Their services are extensions of our in-house creative people. The studio head of creative advertising sets the strategy and works with an outside vendor to execute that strategy. How are vendors chosen? They are cast, much the way one casts a writer or a director of photography. Each vendor has specific strengths in his or her creative execution that lend themselves to one project over another.

INTERNATIONAL

Philosophically, the world is the same as it relates to the strategic marketing of a movie. It's not totally homogeneous, but there are reliable generalities. Some movie genres work better in certain countries than in others. Most people worldwide will like an action picture, whereas some comedies, more endemic to the United States, may not travel well. This changes where there may be peculiar nationalistic tendencies, or where the media mix is different, or where viewing habits are different.

Once that is said, there are ways, in certain territories, to sell a movie differently; but these are the exceptions, not the rule. Generally, advertising mixes differ on a country-by-country basis. In western Europe, for example, when most television was government-controlled, TV advertising was difficult to purchase; but with privatization, this has changed. In other countries it's just too expensive to buy TV in the way it is done in America, which calls for change in fulfilling marketing strategies on a local basis, as overseen by the international division.

Pictures are opening overseas earlier than previously, to take advantage of the wide reach of American publicity. Since media coverage is immediate and worldwide, the impact of an American release can generate huge revenues overseas, as with *M:I-2* and *Saving Private Ryan*. The question of when best to open abroad involves a combination of circumstances, including how long it takes for excitement to travel, local traditions and moviegoing habits.

Both domestic and international distribution are constantly reviewing their release dates and plans. In ad-pub we are preparing materials for the earliest opening, wherever that is. Of course, where a picture must be subtitled or dubbed, that creates an inherent delay in release dates for non-English-speaking countries. In Paris they insist on subtitles, but outside the city they prefer dubbing. In certain regions, such as the Far East or Latin America, it's too expensive to dub, so a picture is subtitled.

To review the divisions in relation to international, both creative and publicity work the same until a picture is completed and release schedules are being mapped out. Then international personnel take over. In each major country there are studio advertising, publicity, promotion and media-buying people, with levels of hierarchy that report back to the studio.

Here's a sampling of some major overseas markets as they relate to ad-pub issues. Japan, the second-largest-grossing country, is very expensive in terms of opening costs and television advertising; newspaper costs are small. As it relates to movies, it is a young-female-driven society, since women decide what movies to see on dates. The United Kingdom is a strong market, strategically analogous to America, as is Australia. France is unique in the world in that it is cinema-driven; movies are deeply ingrained in the culture. Although one can't buy television commercials due to government regulations, that is changing. Italy has become a stronger market since movie theatres have been upgraded. Germany continues to be a healthy market, with a growing appetite for movies. Eastern Europe represents a whole new potential revenue source. (For more details on the global market, see the article by Rob Aft, p. 458.)

Entertainment remains a key export of the United States, and advertising-publicity positions and helps generate that popularity. But what we do is movie-driven. Every movie is unique and requires different levels of expenditure, in terms of creating materials (whether they are easy to make or not), in media spending (whether it's a concept that's easy to communicate or not) or for different levels of success (whether it's working or not working). Systems can always be improved. When new media become available, they must be evaluated: If television becomes a factor in countries where it wasn't earlier, how does that change the media mix? The way to improve the business is to continue to learn, to constantly push the envelope. Don't make an average campaign, make an above-average campaign. Because the business is changing so quickly, one can't sit back. There's no time for sorrow or elation, because next week's another movie.

THE REVENUE STREAMS: AN OVERVIEW

by **STEVEN E. BLUME**, chief financial officer of Brillstein-Grey Entertainment in Beverly Hills, a diversified entertainment company with talent management, television and film production operations. Mr. Blume has served as chief financial officer at Solomon International Enterprises, an international television distribution and broadcasting company; as senior vice president, finance, for Largo Entertainment, a feature film company; and as chief financial officer of Hemdale Film Corporation. A graduate of California State University, Northridge, he began his career at Ernst & Young. In addition to his current duties at Brillstein-Grey, Mr. Blume is an adjunct professor at the University of Southern California School of Cinema-Television, where he teaches a graduate course, Entertainment Industry Finance and Economics.

What does it take for a film to break even, and what is meant by breakeven? It is important to understand that there are various breakeven points to a film depending on perspective.

Have you ever gone to a movie and wondered how much money was made or lost on the film? The answer is complex, depending on a labyrinth of distribution and production arrangements. To determine profit or loss in the feature film business, it is important to understand the exploitable life of a movie.

The feature film business has created clever business models that evolve over time and recognize that customers have different lifestyles and different abilities to pay. For someone who enjoys the social experience of going out to the movies, theaters offer an impressive, big-screen experience. Someone who prefers watching movies at home and controlling the experience is sure to find a home video store nearby with a variety of titles for rental or purchase. Television viewing has expanded options: Pay-television channels supply a package of programming combining recently released movies and original programming for a regular monthly price, while for those who prefer to pay only when actually viewing a film, there is the convenience of pay-per-view or video-on-demand. Vast libraries of older films can be found on basic-cable channels, sold as part of a low-cost basic-cable tier of service, often with commercials; and there is always free television, with its commercial breaks.

The major studios have grown into giant, vertically integrated conglomerates that control the revenue streams generated by their feature films throughout the world. At the same time, the biggest movies have

evolved into “events” and “brands” to be further exploited through the merchandising of consumer products, novelizations, soundtracks, music publishing, comic books, theme park rides, and the gold ring of the film business, the production of evergreen sequels, remakes, spin-offs, and live-action and animated television series.

Movies are a distinct part of American culture, and one way or another, movies will find you.

WINDOWS OF EXHIBITION

The distribution life cycle of a completed film has grown over years with the advent of each new technology. This can best be expressed as staggered and timed “windows” of exhibition, triggered by the initial theatrical release of the film in each territory around the world. In all cases, deals are negotiated between the movie’s owner (the financier-distributor, or studio) and a company (related or unrelated) specializing in each medium of exhibition, including timed *holdbacks*, which, for fixed time periods, contractually prevent release in subsequent media. The movie business has created these windows and holdbacks to maximize revenues with a minimum of cannibalization from one market to the next.

The following chart traces the actual life cycle of a typical film, owned worldwide by a financier-distributor studio. Assume our sample film had an exclusive six-month run in U.S. theaters, followed by a home-video release four to six months later. The pay-per-view broadcast is contractually allowed two months after the home video release, and the pay-television broadcast is prohibited until twelve months after the initial theatrical release (or six months after the initial video release). These pay-per-view and pay-television holdbacks are designed to maximize the home video potential of the film, which can represent the largest single source of worldwide revenue. Eventually, this film may be broadcast on network television, a second pay-television window, basic cable and/or syndication by independent stations across the country. Each of these broadcasters has an exclusive window to themselves, even though the film is still available in video stores. In addition, the film is released in over fifty international territories, with each one creating its own unique specific windows of exhibition. In this manner, the studio will still be generating significant revenues from this film years after its initial theatrical release. One way to remember the sequence of these windows is that they appear in the order of the most revenue generated to the movie’s owner, after the time-honored theatrical run.

<i>Medium</i>	<i>Window</i>	<i>Beginning</i>
Theatrical	6 months	Initial theatrical release
Home video	10 years	4 to 6 months after initial theatrical release
Pay-per-view	2 months	8 months after initial theatrical release
Pay television	18 months	12 months after initial theatrical release
Network	30 months	30 months after initial theatrical release
Pay television second window	12 months	60 months after initial theatrical release
Basic cable	60 months	72 months after initial theatrical release
Syndication	60 months	132 months after initial theatrical release

While the reader will focus on specific business models for the different delivery formats in other articles later in this book, they are all covered here as an overview.

THEATRICAL DISTRIBUTION

The key to the profitability of a feature film is its theatrical run. A successful theatrical box office performance will help define and increase the value of later revenue streams such as home video and pay and free television, as well as consumer-products opportunities generated from merchandising and licensing of the characters and their likenesses.

Each territory throughout the world has its own theatrical release and its own ancillary markets. (The industry has historically used the term “ancillary,” which means “subordinate,” to refer to any market after theatrical. This is an antiquated notion, since most of these formats, including home video and television, have become primary sources of revenue, not secondary. For the sake of continuity, this article will continue to use the term, but I encourage industry members to redefine it to exclude home video, broadcast and pay television, which have become standard distribution outlets for most major feature films.)

Theatrical distribution of a film involves licensing and booking in movie theatres, marketing through advertising and publicity, manufacturing release prints and delivering these prints to those theaters licensed to play the movie. (Digital projection will eliminate the use and cost of prints.)

In the United States, major studios completely control the theatrical distribution arena, consistently earning more than 95% of market share. In international territories, films released by the major studios control anywhere from 45% to 90% of the box office on a country-by-country basis, with an overall average of about 65%. The studios have their own branch offices in most of the major territories, allowing them to directly distribute to theaters in those countries. In the smaller territories, the majors will distribute their films through local subdistributors. The dependent independents (those production companies that usually release through a major studio in the United States only) use local subdistributors as well, or the branch offices of major studios, to distribute their films on a territory-by-territory basis.

Significant planning goes into every aspect of theatrical release, with the distributor coordinating:

- creation of the advertising campaign, including the posters and TV spots
- the publicity effort, covering TV and magazine interviews with the stars and filmmakers
- a press junket to create important publicity
- the booking of the theaters
- the placement of the advertising in newspapers, radio and television
- the test screening of the film with audiences to determine its strengths and weaknesses
- the physical delivery of the film prints to each theater
- the expensive process of striking prints from the negative of the film
- the weekly decision to continue to support the film with additional advertising
- the coordination of commercial tie-ins with consumer products companies to copromote their products while also marketing the films.

Theatrical exhibitors (theatre owners) are involved in three separate but interrelated businesses: real estate, concession sales, and the exhibition of films. Theatre chains either own or lease the land and buildings for their theatre sites, giving rise to potentially large profits or losses tied to the value of real estate. By far, their highest-margin business segment is concession sales, typically representing 25% to 30% of a theatre's gross revenue, *none of which is shared with the studios.*

Prior to the 1950s, most of the major studios owned U.S. theatre chains. When independent theatre-owners petitioned the Justice Department to look into this as anticompetitive, a lengthy legal battle resulted. In 1948 this was resolved in the U.S. Supreme Court. In *U.S. v. Paramount, et al.*, the Court found that the theatre-owning studios had successfully conspired to restrain and monopolize interstate trade in the distribution and exploitation of films. Shortly thereafter, those studios sold off their theatre interests. Some studios have acquired partial ownership in theatres since, but this has been kept to a minimum.

The agreements between exhibitors and distributors provide that theatres must charge certain minimum prices so as not to commingle box office revenues, which are shared with the distributor, with concession revenues, which are not. The exhibitor collects the box office revenues and pays the distributor its share, called *film rental*. In general, the exhibitor retains a fixed amount per week to cover theater overhead, plus a box office percentage that generally escalates over time.

Distributors negotiate their film rental terms with exhibitors prior to the release of each film. At present, for Universal, Sony, Warner Bros., New Line, Fox and DreamWorks, these negotiated terms are firm, without the possibility of renegotiation after the run, a risky policy for theatres if the picture performs poorly. Other distributors, including Paramount, Disney and MGM, allow for a review of the terms, and a renegotiation with exhibitors at the end of the theatrical run of each film.

Typical terms of an agreement between an exhibitor and a distributor might read as follows: "A 90/10 split after deduction of the house allowance of \$3,000, with a floor of 70%." This means that the film rental payable by the exhibitor to the distributor would be the greater of (a) 90% of the gross box office receipts less the negotiated house allowance of (in this case) \$3,000, or (b) 70% of the gross box office receipts without regard to the house allowance. As the theatrical run progresses, the percentage of box office receipts paid to the distributor decreases. This provides incentive for the exhibitor to keep the film in the theatre for a longer period of time, thereby maximizing revenues for both the exhibitor and the distributor. On average over the life of a theatrical run, film rentals in the United

States will usually approximate 50% of the box office, give or take 5%, so a rule of thumb has developed that 100% of film rental is 50% of box office gross. On average, overseas film rental will usually approximate 40% of the overseas box office gross.

Assuming worldwide ownership of a movie, the distributor's share of proceeds from domestic theatrical goes into a *picture pot*, where it combines with later dollars in a grouping of all income and expenses, both domestic and overseas. While in reality there are often different picture pots for a given movie based on a variety of contractual requirements, we will simplify things for the moment and refer to only one picture pot, which represents the studio's pot. Later in this article, we will discuss the pots for profit participants.

No audience is too small for the movie industry, as demonstrated by the *nontheatrical market*. Licensing of nontheatrical distribution rights includes airlines, ships at sea, schools, public libraries, community groups, armed services, correctional facilities, and others. Nontheatrical revenues from a typical film might equal about 5% of the domestic theatrical film rental, and the nontheatrical window typically kicks in shortly after theatrical release.

HOME VIDEO

The invention of the VCR allowed consumers for the first time to view feature films on an individual basis directly in their homes. The growth of VCR penetration in the 1980s created an enormously lucrative new revenue stream for motion picture owners. Distributing feature films to the home video marketplace consists of the promotion and sale of videocassettes and DVDs to local, regional and national video retailers that rent or sell them to consumers for home viewing. (For more details on the home video market, see the articles by Benjamin S. Feingold, p. 408, and Paul Sweeting, p. 418.)

When video retailers began renting videos (without the obligation to share revenues with copyright holders), distributors decided to sell their titles to retailers for a high wholesale price (around \$65) to compensate for their inability to share in rental revenues. As such, two pricing tiers evolved, a higher price that encouraged rental and discouraged purchase, and a lower price that encouraged purchase, known as the sell-through price (around \$20). In the early days of home video, most feature films were initially priced for rental, with a re-release at sell-through pricing approximately six months to one year after the initial release. This release pattern was the norm throughout the 1980s and most of the 1990s.

The home video market continued to evolve, and in the late 1990s, retailers and distributors signed revenue-sharing deals. For the retailer, these revenue-sharing deals reduced their up-front cost, allowing them to order more copies of new releases, in effect guaranteeing that every customer could get any movie at any time. Under this plan the distributor was for the first time to share in rental revenues, thereby making far more profit on extremely successful titles.

The success of DVDs changed the home-viewing marketplace once again. DVDs were initially priced in the \$15 to \$30 range, much lower than the \$65 wholesale price for videocassettes. Since the video retailers' up-front cost was much lower for DVDs than for videocassettes, retailers had no incentive to share the rental revenues with distributors, and a battle ensued. As the marketplace shifts from videocassettes to DVDs, the industry grapples with the viability of the revenue-sharing model, with retailers threatening not to renew revenue-sharing contracts with distributors.

The following is a summary of the typical economics under each of the home-video pricing models (rental, sell-through and revenue-sharing):

A VHS title designated for the *rental* market might have a suggested retail price of around \$100. Assume the video store pays a wholesale price of \$65 for each unit purchased from the studio. If the video store rents the title to consumers for \$3, the store would be in profits after each tape was rented twenty-two times (or twenty-two "churns" in industry parlance). The distributor receives the \$65 per unit, and depending on the volume of units ordered, has probably paid about \$2.50 to manufacture each unit and maybe \$7.50 per unit for sales and marketing costs. As such, the distributor can earn a profit of about \$55 per unit without taking into account the cost of tapes returned by the retail stores. A successful VHS title might sell 500,000 units priced for rental, making about \$27 million of profit to be put into the studio picture pot and applied against the cost of the film.

A VHS title priced for the *sell-through* market might have a suggested retail price of \$20. Assume the video store pays \$13 wholesale for each unit purchased. If the store sells the title (instead of renting it) for \$15, it makes a \$2 profit on each unit sold. The distributor receives the \$13 per unit and, depending on the volume of units ordered, has probably paid about \$2.50 to manufacture each unit and perhaps \$2.50 per unit for sales and marketing costs. As such, the distributor earns a profit of about \$8 per unit (without taking into account the cost of returns). A successful VHS title would have to sell 3,375,000 units priced for sell-through to make roughly the same \$27 million profit as in the rental-market example. This amount

would be placed in the studio picture pot and applied against the cost of the film.

Under the VHS *revenue-sharing* model, the retailer might pay between \$6 and \$10 up front for each unit to the distributor against 45% of the rental revenue collected. If a title were rented twenty times at a price of \$3.50 for each rental, the gross revenue to the retailer would be \$70. The distributor's 45% share of this rental revenue would be worth approximately \$32 per unit. After deducting the same manufacturing and marketing costs as in rental, the distributor's net profit per unit would be \$22. In this scenario, retailers would have to order 1,227,273 units for the distributor to earn the same \$27 million earned under the traditional pricing model. If each unit of the same title were rented 40 times, the net receipts to the distributor would reach \$65 million, a huge windfall to the studio. (40 rentals x \$3.50 each = \$140, x 45% is \$63; minus \$10 for manufacturing and marketing costs is \$53; x 1,227,273 = \$65,045,469.) In the real world, titles generate revenue under each pricing model, so ultimate revenues reflect such combination.

A DVD title priced for sale might have a suggested retail price of \$20. Assume the video store pays \$17 wholesale for each unit purchased, making a \$3 profit on each unit sold. The distributor receives the \$17 per unit and, depending on the volume of units ordered, has probably paid about \$2.50 to manufacture each unit and perhaps \$2.50 per unit for sales and marketing costs. Under this scenario, the distributor earns a profit of about \$12 per unit (without taking into account the cost of returns). If, for example, a DVD title sells 5 million units, roughly \$60 million of profit would be placed in the studio picture pot and applied against the cost of the film. DVD revenue-sharing and rental models are being created as of this writing.

Before we leave home video, here's an issue that will become more meaningful when we cover typical talent profit participation statements later in this article: In the early days of home video, distributors wanted to avoid having to account to profit participants for manufacturing and marketing costs, so they developed a royalty structure similar to accounting in the book industry. Under this royalty structure, the distributor considers only a contractual percentage of gross home video sales as gross receipts when reporting to profit participants.

The initial royalty rate set by the distributors for titles priced for the rental market was 20% of the gross sales, leaving the distributor with 80% of gross sales to cover their costs and earn a profit. As the distributors became more efficient and lowered their costs, their profits were increased dramatically, none of which were shared with the profit participants. In

the early days, profit participants were happy to receive this 20% royalty, since it represented an entirely new and incremental revenue stream. In the sell-through market, distributors adopted a lower royalty rate, typically 10%, because the costs of releasing home video titles to the sell-through market as a percentage of the gross sales price were even higher than for titles priced to the rental market. As the major studios started or acquired their own home video distribution operations, they remained steadfast in retaining the 20%/10% royalty rates as their standard contractual rate for all profit participants. (In some selected instances, top talent can increase the royalty rate to 25%/12.5% or as high as 30%/30%.) As such, worldwide home video represents the largest difference between the studio's profit and the amount reported to the talent participants in the film.

PAY-PER-VIEW / VIDEO-ON-DEMAND

Pay-per-view (PPV) and video-on-demand (VOD) refer to home viewing through a delivery system that can be transported via satellite, cable, Internet or scrambled over-the-air. PPV or VOD is a brief window, starting eight months after theatrical and extending for two months, and has seen a lot of experimenting. Typically, pay-per-view rights would be licensed to a third party such as Viewer's Choice, which bills and collects from the customer. For example, a customer requesting a specific movie via PPV or VOD at a specific time might be charged \$4, divided 10% to Viewer's Choice, 45% to the cable operator (perhaps Adelphia in Los Angeles) and 45% to the studio distributor of that movie.

PAY TELEVISION

Feature films are typically available for broadcast on premium pay-subscription television channels within one year after their initial theatrical release and six months after their initial release to the home video market. All of the studio distributors have output deals with premium pay-television broadcasters in the U.S. and other countries throughout the world. These pay-television channels may be delivered into the home via cable, satellite, or over-the-air, depending upon what's available in the consumer's neighborhood. In each case, the signals are scrambled, and a set-top box is required to unscramble the signal.

In the United States the principal premium pay-television broadcasters are Time Warner's HBO, Viacom's Showtime, and Liberty Media's Starz Encore. Under long-term output deals with studios, these companies license the pay-television broadcast rights to all of the studios' newly re-

leased theatrical films in exchange for a license fee based upon negotiated percentages of theatrical film rental, with a minimum and maximum license fee payable for each film. This can range from \$2 to \$3 million on the low side to \$15 to \$20 million on the high side. Notice that the pay-television revenue for a film is directly related to its box office performance. These pay-television licenses are usually for a period of eighteen months, beginning twelve months after the initial theatrical release, and may include a second license period of twelve months beginning after the first free-television run, which may be about five years after the initial theatrical release.

Assume a consumer pays \$50 a month for combined tiers of basic cable and premium channels. That subscription revenue goes to the local cable operator, which shares it with the broadcasters (HBO, Starz, etc.) on a per-subscriber basis.

FREE TELEVISION AND BASIC CABLE

After the pay-television run, the film will be broadcast on either network television, basic-cable television, or syndicated television, in a strategic order depending upon how the copyright holder/studio negotiates with the different providers. Shortly after its theatrical release, the studio plans the film's television windows ten to fifteen years into the future. This strategy will also be influenced by the success of the film's theatrical gross.

Most theatrical films are not broadcast on the major U.S. networks. As more people are viewing feature films on videocassette, DVD, pay-television channels, and pay-per-view broadcasts in advance of their free-television availability, the average prime-time network audience for feature films has been declining. In response, U.S. networks focus on original programming, and have severely reduced time slots dedicated to feature films. In one recent thirty-five-week television broadcast season, a major network only broadcast two theatrical films. For those lucky few films that are purchased, the network pays a fixed license fee to broadcast the film for a specified number of runs over a certain number of years, perhaps in a typical range between \$7 and \$10 million (blockbusters would be higher), with no other pay- or free-television broadcasts during this period.

To fill this void, the basic-cable channels have stepped in, purchasing the network window debut for many theatrical feature films. In fact, TBS and TNT have recently acquired the U.S. initial network window for more than 200 films. In addition, FX, TNN, Comedy Central, A&E, and Bravo have been regularly purchasing the network window to selected features.

Shared-window deals have developed in which a broadcast network

may partner with a cable channel to share the costs of the license. Permutations abound. For example, a recent successful Fox theatrical will be shown in a shared-network window on Fox's broadcast network and its FX cable network after its pay-TV run on HBO. The two Fox channels will pay around 15% of the U.S. theatrical gross to their parent company for the privilege. In another scenario, after it played on Showtime, Fox bought a modestly successful theatrical film exclusively for two runs over one year. TBS and TNT then shared multiple runs of the film over another one-year exclusive window. Then the film returned to Fox for six months, and back to TBS and TNT for their second one-year window. The film then went to Comedy Central for an eighteen-month period, completing a five-year shared basic-cable/free-television window, after which it returned to Showtime for its second premium pay-subscription television window. The license fees paid in the aggregate (excluding the Showtime windows) amounted to 15% of the domestic box office receipts. This practice of shared windows is sure to become more commonplace as other networks are owned by conglomerates that also control cable channels. Examples include Viacom's CBS, UPN, Nickelodeon and MTV; Disney's ABC, Lifetime, A&E and Disney Channel; and Time Warner's WB Network, Comedy Central, TNT and TBS.

TELEVISION SYNDICATION

The television syndication market consists of independent television stations around the country that license programming for their regional market only. A syndicator arranges for many individual regional station licenses, creating something close to a national broadcast. Each station will license a film on a cash basis, a barter basis or some combination of both.

On a cash basis, the station pays the program supplier or syndicator a flat license fee in exchange for a specified number of runs over a term of years, with no other pay- or free-television broadcasts allowed during this period. A local station operator would bid for a package of films based on the station's rate card of advertising-time value, often bidding against a rival station across town. The license fee would be paid by the station to the syndicator over the term of the license, based upon the negotiated payment terms.

On a barter basis, instead of paying a cash license fee, the station gives the syndicator a certain number of advertising spots during each broadcast. The syndicator must then arrange to sell these spots to advertisers, either through a subsidiary company or through an agent. In this manner,

the station reduces its cash costs and also its inventory of advertising spots. Recently, the basic-cable channels have become aggressive buyers of motion pictures, in some cases replacing or pushing back the syndication market.

As in many other segments of the entertainment industry, there has been much consolidation in the syndication business, with many studios eliminating the middle man and becoming their own syndicators. For example, Worldvision, Spelling, Viacom and Paramount are combined under Viacom; CBS Enterprises, Group W and MaxAm are combined under a CBS brand, Eyemark; Genesis, Steven J. Cannell, and New World are now part of Fox.

INTERNATIONAL MARKETS

International markets are an increasingly important source of revenues for Hollywood feature films. In general, the overseas exhibition sector is getting stronger as theatres modernize and more multiplexes are built. More theatres translate into wider releases in many territories, timed as close to the U.S. theatrical release as possible to counteract piracy. Currently, international theatrical revenues to the major studios in the U.S. run between 85% to 105% of revenues from the domestic theatrical market. In any given year, a studio's international theatrical revenues may exceed its domestic theatrical revenues, and this trend is expected to continue since the U.S. market is considered mature.

The major overseas territories for the studios, in both theatrical and video markets, include Japan, South Korea and Australia in the Asia Pacific region, and Germany, Italy, United Kingdom, France and Spain in Europe. These territories represent between 65% and 70% of the total foreign theatrical revenues to the major studios, and between 80% and 85% of the total overseas video revenues to the major studios. Imported English-language films generally account for 60% to 90% of the box office in most territories in Europe and Latin America, with the exception of France, where their percentage can be as low as 50%. In Asia (excluding Australia), films imported from the United States account for less than 50% of the local box office receipts.

Each international territory is unique and distinct, and the entertainment business has evolved differently in each territory. For example, in Europe the sell-through video business typically generates more revenue than the video-rental business, while in Asia the video-rental business garners more revenue than sell-through. (For more on the global markets, see the article by Rob Aft, p. 458.)

CONSUMER PRODUCTS

As noted earlier, motion picture studios treat their large-scale, high-profile event movies as "brands." They seek to leverage these brands to sell other products by licensing the use of the name and likeness of the film and various characters within the film to consumer-products companies. A recent event film had more than seventy-five such licenses for a wide variety of products. The selection of a film to be branded stems from its inherent popular qualities (*Harry Potter*, for example), and planning sessions with licensees can begin more than a year before release. (For more details on consumer products, see the article by Al Ovradia, p. 446.)

Separate merchandise licenses are drawn up with companies specializing in apparel; video games and software; gifts and novelties; sporting goods; and toys and games. Because 60% to 70% of all merchandising revenues are from children or people buying for children, some of the major toy companies have formed long-term alliances with studios in order to secure licensing deals on the studio's event films. Examples have included Disney and Mattel, Fox and Galoob, and Disney with Hasbro. But the majority of merchandising deals for feature films are done on a picture-by-picture basis. Under these licensing deals, up-front advances are paid to the studio, with royalties that might range from 2% to 3% for foodstuffs, to 8% to 10% for apparel.

Retail stores typically sell about 80% of their merchandise within eight weeks of the release of the film. One way to extend this shelf life while also expanding the demographic of a property is to produce an animated television show based upon popular characters from the feature film. By keeping the characters in the public media, merchandise sales can continue for a longer period of time. Another phenomenon in the merchandising arena is the notion of "cross-licensing," whereby an entertainment property is paired with another element, such as a sport, which can bring together two fan bases, thereby attracting more clients to each. An example of this would find Warner Bros.' Looney Tunes characters partnering with an in-line skating event.

Another potent source of dollars for studios has come from promotional tie-ins with fast-food chains and companies making beverages, automobiles, telephone service, cosmetics, and credit cards. For a specific event movie, these companies can spend millions of dollars to advertise and cross-promote their products, timed with the release of the film. From the studio-distributor perspective, this type of campaign can generate \$30 to \$40 million of media awareness for the title, as well as in-store point-of-purchase promotion and premiums or giveaways, all of which are paid for by the consumer-products company. These expenditures represent free ad-

vertising and promotion to the distributor, and help increase the theatrical, home video and other ancillary revenue from the film. The consumer-products company typically takes a “too big to fail” mentality, expecting the association of their products with a hit film to increase sales by perhaps 10% to 20% during the course of the campaign.

For any kind of merchandising or promotional tie-in, pressure is on all parties to meet the precise release date. Toys must be on store shelves, posters on fast-food store walls, and this requires sufficient lead time, coordinated among the studio, consumer products companies and retailers.

SUBSEQUENT REVENUE

Commercially successful films can generate substantial dollars from a variety of other ancillary sources. For example, revenues from the sale of movie soundtracks can be significant, as demonstrated by *Charlie's Angels* and many other examples. In a recent year, three soundtrack albums were in the top ten for all albums sold, including the number one album of the year, which sold over nine million units. In addition, the licensing of music contained in the motion picture for sound recording, public performance and sheet music publication may generate additional royalties.

In their ever-increasing desire to leverage their brands, studios are creating theme-park rides based upon their motion pictures. While this does not directly translate into specific quantifiable revenues, it further enhances the overall assets of park-owning studios, delivering promised synergy for their wide-ranging business units.

The creation of derivative works such as remakes, sequels, animated versions, and television series based upon feature films can demonstrate huge hidden values of a film library. Examples include Universal's *The Mummy* and *Jurassic Park* franchises; Paramount's *Star Trek* franchise; New Line's *Friday the 13th* franchise; and the classic, MGM's James Bond franchise, still generating new films more than 40 years after the original. In most cases, the value of the derivative works substantially exceeds the entire revenue stream from the original.

What does the future hold? As new methods for viewing films are developed, additional revenue opportunities arise. There are exciting prospects of delivery via Internet transmission, video-on-demand services, digital distribution, wireless applications, and a host of other creative viewing choices, which will generate new business opportunities for the owners of feature film libraries. (See the article by Dan Ochiva, p. 498.) And since a substantial portion of the worldwide population has not been exposed to most U.S. motion pictures, new opportunities will be created in these

emerging markets as the political, social and economic climates improve in these countries.

STUDIO FINANCIAL ANALYSIS

Now we are ready to explore how all these revenue streams come together into the various picture pots to recoup the huge investment a studio makes in a movie, and how these dollars are reported by a studio to itself and to profit participants.

What are a studio's costs and how are they recouped? What does it take for a film to break even, and what is meant by breakeven? It is important to understand that there are various breakeven points to a film depending on perspective. We are going to make some assumptions and calculations demonstrating the studio-distributor's actual revenues vs. actual costs on a typical picture comparing two different models, a breakeven model and a profit model. Then we will show how studio accounting affects three types of talent participants—the highly sought after, dollar-one gross participant; the steady prebreak gross participant and the lowly net-profit participant—each using the same performance assumptions.

Assume a hypothetical action-adventure studio movie with average worldwide costs and revenues as of this writing. A studio is the financier-distributor, owning the film in all formats in all markets around the world in perpetuity. Bear in mind that these figures are for purposes of illustration and to identify concepts. In reality, a daunting aspect of the movie business is that there is no “average”; every *picturemaking experience* is a *unique prototype* with expenses and revenues ebbing and flowing in each market around the world, vulnerable to an extremely wide range of performance achievement, from hit to miss.

DISTRIBUTOR'S GROSS RECEIPTS

	<i>Breakeven model</i>	<i>Profit model</i>
Worldwide theatrical (film rental)	\$45,000,000	\$80,000,000
Worldwide home video	\$43,000,000	\$57,000,000
Worldwide television	\$27,000,000	\$35,000,000
Other ancillary rights	\$2,000,000	\$4,000,000
Total gross receipts	\$117,000,000	\$176,000,000

This is a breakdown of distributor's gross receipts. Our breakeven model assumes a worldwide box office gross of \$90 million, while the profit model assumes a worldwide box office gross of \$160 million. Since roughly half of