



BRAVE NEW WORLD

AN ANALYSIS OF PRODUCER / DISTRIBUTOR JOINT VENTURES

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A report commissioned by
Ffilm Cymru Wales and Creative Skillset

www.ffilmcymruwales.com

EXECUTIVE SUMMARY

1. The overall findings of this report underline the importance for independent producers of developing stronger ties and relationships with film distributors, but also to the marketing-to-audience and digital ancillary sectors of the industry.
2. The report emphasizes that whilst the above strategy appears logical, there are both strengths and certain traps when examining how to best promote synergies between the two sectors. Both parties need to consider carefully what their value is to one another respectively.
3. Specifically, both the wider research and the recent Film Junction Market Mentors program, involving 12 producers and 6 distributors (including LionsGate, Fox Searchlight, Soda Pictures, The Works, etc.) established some key findings:
 - i) Market information and data lies in the hands of distributors and is rarely accessed or shared with the production community. Public agencies, starting with the BFI, alongside trade bodies could both acquire and disseminate such data to the production community.
 - ii) The critical build up of market knowledge and understanding of audience behavior also remains firmly in the distributors' domain, hence the potential value of communication at a development and packaging stage between the parties
 - (iii) The value of feedback from distributors to producers, however, varies considerably depending on the specific taste and brand of each buyer and company. This raises the issue of how best to promote communication and constructive/relevant feedback. For example, promoting set/fixed relationships between a producer and a distributor (e.g. the 'output' deal model) is likely to be too inflexible to capture best value.
4. Support for producers via public funding structures linked to P&A appear interesting at first sight, but they are considerably more relevant in the specialized, niche sector than the mainstream. Larger distributors are prepared to spend their own money and do not need subsidizing. However, improved commercial deal terms on the behalf of producer mitigates that issue to some extent.
5. Encouraging emerging producers to link more directly to the distribution sector in the widest sense (rather than just one-company focused) is vitally important given the restructuring of the film value chain at present. So too are opportunities to take a strong single project and build up a slate/company partnership with distributors rather than always start from ground zero on every project.
6. Intelligent and strategically aware film marketing consultants and distribution agents are expanding in the distribution space, and offer producers much more robust self-distribution and non-theatrical options than previously available. They also work on diametrically different fee levels and revenue sharing splits when compared to the historical distribution fee structure. These potentially dynamic, new relationships for producers in their quest to reach an audience also need to be considered and valued in the mix.
7. The involvement in new training programs of digital platform operators, and the above consultancies and agents operating in the emerging distribution 'space' will be essential. This is particularly important given the pressure traditional distributors are operating under, specifically their distressed business models as a result of disruption.
8. The reports case studies, including See Saw (*The King's Speech*) and Element Films (*The Guard*) in Ireland, demonstrate in concrete ways just how fundamental access to and understanding of distribution can be to making success a reality for film producers. As such, consideration of wider, multiple-territory partners such as The Weinstein Company offered *The King's Speech*, or Fox Searchlight offered the producers of *The Best Exotic Marigold Hotel*, alongside pan-European options, should also be included beyond just a UK-only focus.
9. Potential future research could examine a range of territories where links between producers and distributors has been historically encouraged. One such example is Norway - where the Norwegian Film Institute has heavily subsidized distributor MGs. One result has been stronger joint ventures and a larger level of production company

ownership by distributors. Norway is currently re-examining its cultural strategy and the findings of this work could be a significant interest to other territories and regions re producer-distributor strategies.

10. This report has the potential to be expanded with a wider EU remit as its findings are of significant relevance to the European independent marketplace rather than being reduced to just a UK remit. At the same time, it is the author's intention to concurrently research and analyse progress made on the official BFI producer-distributor joint venture program, which was announced in February 2014 with a six-project pilot phase launched for UK-base companies.



INTRODUCTION

The UK Government recently commissioned a review of 'The Future of British Film: It Starts with the Audience', published in January 2012, which received more than 300 submissions from across the value chain and informed the BFI's strategic plan going forwards, 'Film Forever'.

One of the innovative concepts the BFI evolved was the piloting of "joint ventures to encourage UK producers and UK distributors to align their interests more closely..We will consider projects from those making and distributing low-budget and commercially challenging works, as well as those working on higher profile films that carry some commercial risks."

The BFI's stated strategy of bringing producers and distributors into partnerships – and thereby connecting different elements of the film value chain - is an interesting concept, with the potential for market and audience knowledge to be transferred to production earlier in the process; for producers to shift from a 'fee paid basis' to an on-going recipient in revenues from their films; and to align the creative and business interests in exploring new distribution strategies, for example.

The BFI's tacit acknowledgement that the balance of power has been long tipped in favour of distributors and requires re-defining (or at least experimenting with) is commendable. Established producers are quite capable of bringing valuable elements to a distributor beyond just a title, including strong talent relations, product flow (across a slate of aligned projects for example), and third party finance including potential prints and advertising funding for example. Emerging producers made be perceived as higher risk, but the strongest that I have worked with through the Film London Production Finance Market for example, bring sponsors, technology partners, wider IP opportunities and strategic partners that help inform the overall positioning and exploitation of their film productions.

An initial BFI producer-distributor pilot phase was launched February 2014, with UK distributors and BFI-backed producers splitting minimum guarantees and revenues with their distributor partners. Under the terms of the agreement, each producer would invest part of a Lottery production award from the Film Fund as its contribution of up to 50% of the UK distribution guarantee for the film in question. A base fee of 15% will be allowable to the distributor, while any revenues accruing to the producer will be held in a 'Locked Box' by the BFI for re-investment by the producer in future productions.¹

This notion of producer-distributor partnerships also mirrored the underlying strategic focus behind Ffilm Cymru Wales' high-level training programme Film Junction: Market Mentors which ran from November 2012 through to March 2013 and saw 12 producers UK-wide mentored by 6 distributors such as Soda, LionsGate, Fox Searchlight, Revolver, The Works and Momentum. This programme was co-funded by the Sector Skills Council, Creative Skillset, and branded under the BFI Film Forever. Its course director was Angus Finney, the author of this paper. A similar scheme is being launched concurrently with the publication of this report, and is shaped by its findings.

This report also takes into account some of the views and debates that emerged from Audience Connect, a day-long programme in Cardiff aimed at helping film and media professionals understand the creative and business potential that comes from understanding the changing relationship between content and audience.

This report, in part, marks a further step towards an industry where producers are empowered to explore and work much closer to their intended audiences. A 'Brave New World' awaits.

1. Once all distribution costs and both MGs are recouped, the 15% fee will cease. The full contracted fee in the original agreement will be shared between the producer and distributor on a 50-50 ongoing bases, with costs off the top.

THE CASE OF THE INDEPENDENT FILM SECTOR AND THE CURRENT RESTRUCTURING OF THE FILM VALUE CHAIN

An analysis of feature film producers and the wider independent production sector, on the same pages as film distributors, marks something of a first in the UK. As we will note later in this opening section, the producer when entering the stage of 'development' remains many stages away from the key player responsible for a film's release and reaching the anticipated audience, the film distributor. As such, it is helpful to take a critical look at the Film Value Chain before exploring the theme of joint ventures further.

The film value chain is a term that applies to all the various stages of creation, distribution and exploitation of product across the global film business. The independently-structured film industry rarely makes and delivers to a final audience a product developed, produced and distributed by a single company or entity. The independent business is comprised of a chain of connected companies, individuals and freelancers, all working on different elements of the film-making and exploitation process, at varying stages of the process.

Chart 1's model (see below) demonstrates the independent film value chain structure(s) and interlinking stages, and is useful as a tool to examine the inherent problems, challenges and weaknesses of the fragmented system. It should be noted that while Chart 1 shows the dominant model, there are other models involving for example direct distribution, which removes sales from the equation, that are evolving rapidly.

The strategic effect of what could be termed a 'dis-intermediated model' is that each element in the chain is heavily dependent on the next player/operator's partnership and cooperation in order to drive a project forward. A network of varying interacting players have to be attracted, managed and, in many cases, forced into focusing and delivering specific commitments and activities in order for a film project to proceed. The inherent risk of failure is acute at each stage.

CHART 1

The existing film value chain model with seven stages (Stage 1)



The time line associated with such a chain is very hard to accurately map and predict. Unlike less fragmented value chains, where the product moves seamlessly from concept to delivery, film faces a high hurdle rate. The seed idea, and early sunk costs in a concept, idea and writer's work to produce a realisable screenplay, is seven, highly complex stages away from contact with the end-user, the film consumer. And critically for this paper's focus, the producer is six steps away from the distributor when the linear chain is taken face value. The fastest route through this chain will always take a minimum of 18-24 months, and numerous films have considerably more extended journeys. At a Film London Production Finance Market workshop in 2012, four leading UK producers, Andrea Calderwood, Stephen Woolley, Peter Watson and David Parfitt, all agreed that on average their films took approximately five years from idea to completion with only rare exceptions.

Finding effective ways to capture the 'returns' or 'value' from an initial concept (or innovation), and to create and exploit a structure that compensates for the risks taken, are a significant challenge. Unfortunately for producers and writers in the early stages of development and financing, there is no guarantee that they will extract or create any value flowing from their work and ideas. Nor is it likely that they will remain in control of the underlying copyright and potentially rewarding license rights if a hit should occur.

The extended Film Value Chain leaves the producer far away from the consumer, and often uninformed about market demands and user behaviour. Data and well researched comparisons and prior experience are in the gift of distributors, rarely producers. Worse than that, emerging producers are all-too-often resentful of the roles of sales companies, distributors and their marketing executives – wasting time ignoring or second guessing them rather than understanding the need to work with each link to reach the end-user. The producer-sales-distributor relationship is inherently unstable; while the UK distribution sector – albeit a gatekeeper link between product and the audience – is

highly competitive and lives under the dominant shadow of the Hollywood global oligopoly.

Also important to note are two bottlenecking trends in the UK distribution market that also impact on access and audience attention: the first is the volume of competition. On average 12 films every Friday are released theatrically, meaning nearly 50 a month and therefore now more than 600 a year. The impact of this shorter run/more intensive shop window is that distributors have less time to focus on projects at their inception or even mid-package. The second issue that producers are facing is a changing distribution landscape: E1 recently acquired Momentum Pictures, and is applying a very different product and acquisition strategy to the former independent company's more elective focus. Meanwhile, Revolver has recently disappeared from the market, although some of the recent population of its staff may have an interesting effect on alternative routes to distribution that are discussed later in the paper.

However, there is also a trend of new market entrants, including for example Will Clarke's production/distribution operation Altitude, who are actively seeking talent and strong producer relationships to help extend their production flow and consistency. Film-makers such as Clarke, who have extensive theatrical and ancillary distribution and marketing knowledge offer invaluable partners to talent. But producers knocking on such doors will need to have an understanding of the importance of building visibility through their own IP, talent relationships and brand-building.

GATE KEEPING TRENDS

Historically, film distribution has been identified as the main risk-taker in the film value chain. It has acted as a "gate keeper" essentially selecting and determining which films get made, marketed and distributed. That model is facing significant and rising disruption and is under increasing pressure to change. The arrival of direct links between the producer and the audience, in particular via the Internet, is beginning to fundamentally change the industry's architecture and economic characteristics.

Production and publishing roles, as per the music and book publishing models, are becoming increasingly important at the cost of distribution's previously dominant position. Just as television broadcasters are being forced to adapt to a consumer who wants a programme instantly, rather than follow a forced schedule (or anachronistically copy a show for later viewing), so too is the distributor finding pressure on what the film consumer demands within their own pressurized leisure time zones, rather than what suits the distributor's time scale of delivery. In addition, the historical artificial constraints on consumer access (note the rigid windows timing and pricing structure), is also under pressure to not just loosen but is now snapping at the sacrosanct theatrical window.

Overall, it is the potential tightening of the film value chain, whereby the producer is brought much closer to the consumer (and hence closer to potential revenue streams), that is of significant interest going forward. Niche audiences, once able to be tapped and marketed directly, have significant value if able to be reached less expensively. Communities offer the potential for fan-bases and, on occasion, significant 'special interest' core-audiences.

CHART 2

The new value system (Stage 2)



Chart 2 places the aggregator (e.g. Google, Amazon, Apple, etc.) at the centre of the link between the producer and the audience. We should watch out for consolidation, and the emergence of 'super-independent' producer players that are linked to aggregators – who in turn control platforms and content access - and are able to achieve critical mass. In turn, the aggregators – rather than the traditional Hollywood studios - will have considerable control over the industry's new emerging structure (1). One area that illustrates the importance of special interest content and its relationship to a defined audience is special interest documentary product. The rising success of the dedicated documentary distributor Dogwoof, and the role that services such as NT Live offer in delivering niche content to multiple partners and territories

are two strong cases in point.

AUDIENCE ON DEMAND

The Digital Revolution, however, is not “heading in a single direction”, a point made by Mike Gubbins in his recent Cine Regio report, *The Digital Revolution* (2). Gubbins, a respected author and Chair of Ffilm Cymru Wales, points out that the fragmentation of demand, rather than shifting taste, is actually the immediate threat. And that this fragmented demand has exacerbated divisions of geography, culture, language, etc.. Production levels are out of kilter with demand on current platforms, making it difficult to construct sustainable businesses and leading to much wasted talent. There is, Gubbins stresses, much more data available now about patterns of behavior, and each individual transaction online creates a footprint of meta data that can help guide decision-making.

Whilst there is a lack of transparency about online revenues, VOD rights and audience data in all areas of the industry, making it difficult to formulate strategies, it will take new dynamic suppliers to force open the commercial data. Most producers make too few films to accumulate audience data, while distributor use of improved consumer knowledge is inefficiently targeted at the opening weekend of theatrical release.

In addition, producers have found themselves historically without direct access to the audience. Perhaps producer-distributor partnerships will open up the data banks and enable a more enlightened breed of film-making entrepreneurs in the future? Strong producers are aware that there are many opportunities for creating demand and building audiences that start at the development stage of a film. The opportunity for direct marketing relationships when promoting a film and building a fan base is key for any producer to manage, rather than simply hand over to a distributor. These can and should be carried through multiple - now often through concurrent and non-exclusive exploitation - platforms, prolonging the life and value of a film and rewarding the producer in turn.

Welcome to a very different, restructured film value chain, but one where the producer can remain central but increasingly connected to the audience.

A NOTE ON THE EMERGING DIGITAL LANDSCAPE

Traditionally, regarding the sale or rental of film and television programming to online audiences, Hollywood content has been “king” according to Stuart Cunningham (Ibid). Until recently there has been little evidence of a critical mass of online viewers willing to pay for independent films or non-Hollywood content – or major on-line platforms willing to pay Advances for such niche, specialised product. But that situation is set to undergo considerable change.

According to sources interviewed for this report, online distribution is now entering an early stage of maturity. With it heralds the arrival of a leading set of firms whose profitability may also begin to stabilize. “This stage is now approaching and that the composition of an online distribution oligopoly is now predictable. Companies within this emerging online oligopoly, by design, are likely to emerge as the first global online television ‘networks’ and it is these interests that will have to answer the key question: how is screen content going to be paid for sustainably into the future?”(Ibid)

Cunningham also argues that all the evidence points to Hollywood, and the firms that own the major studios, not controlling the online distribution space – this despite numerous millions having been spent trying to do just that. Apple, Amazon, Netflix and Hulu have all been previously mentioned, but other firms also have to potential to dominate in this space. YouTube, in tandem with its parent company Google, has rapidly emerged since 2009 (as it took its first steps to professionalise its content and lay foundations for reinventing itself as a global television network online) as perhaps the most threatening market challenger to all – incumbents and new players alike. Facebook has thus far only dabbled tentatively in the online video distribution space but has the scale, resources and dedicated user-base to become a serious player in Internet television should it choose to do so and there are some indicators that it might.

The power and profitability in screen industries have always resided in distribution. As Jonathan Knee (2011) argues, “The economic structure of the media business is not fundamentally different from that of business in general. The most-prevalent sources of industrial strength are the mutually reinforcing competitive advantages of scale and customer captivity. Content creation simply does not lend itself to either, while aggregation is amenable to both”. To what extent is the present moment one where we can trace a decoupling of powerful controllers of content supply and those emerging powers which control the new distribution platforms? (Ibid)

EXAMPLES OF UK AND IRISH PRODUCERS WHO HAVE DEVELOPED DISTRIBUTOR PARTNERSHIPS OR COMPANIES

WORKING TITLE

The most high profile and commercially successful producer team that has worked over two decades with distribution partners/owners is Working Title. The producer team of Tim Bevan and Eric Felner, forged when PolyGram backed the company in 1992, has gone on to produce more than 100 films grossing more than \$5bn world-wide, with more than 60% of those revenues under the ownership of Universal since 1999. That astonishing success, both in terms of productivity and commercial results has also been matched by a plethora of awards and accolades.

One consistent pattern to their results has been the crucial impact of international revenue streams, bringing in more than two-thirds of all revenue streams. Critics rather blithely suggest that they have little to do with the independent film world, but that misses the wider producer-distributor relationship perspective.

Reviewing a wide series of interviews, talks and press cuttings over the last decade, and it becomes clear that their strengths include:

- a complimentary partnership, with respective and distinct skills
- an ability to retain passion and enthusiasm about their material
- identifying writing and directing talent, not just Richard Curtis
- the confidence to develop a range of material but always with a potential market in mind
- acting as a magnet to A-list talent and retaining many of those relationships
- working closely with their distribution partners/owners without losing their own very specific voice, taste and day-to-day decision making power
- the ability to learn from mistakes and disappointments
- attention to detail
- a level of continuity and confidence in the producers' taste and decision making on the part of the distribution operation
- the building of a 'brand awareness' with audiences who trust the Working Title logo and its films

ELEMENT FILMS (IRELAND)

Producer Ed Guiney and his partner Andrew Lowe decided to set up a distribution arm to their Irish production company Element Pictures in 2007. The decision was partly motivated by maximising their own title's revenue streams from the local market, but also they spotted a gap in the Irish distribution sector which was often under servicing UK distributors' product. Boosted by a close servicing deal with Optimum Releasing, which was renewed and continued by Studio Canal, the company has firmly established itself as a key local distribution operation.

However, as producers the light switched on for Guiney when it came to their production *The Guard*. Directed by John Michael McDonagh and starring Brendan Gleeson and Don Cheadle, the comedy thriller as released in 2011. "It was the most formative professional experience of my career, both as a producer and distributor," explained Guiney. He points out that the old days of a producer putting up the money and calling the shots are of course long gone. The issue facing nearly all independent producers today is that "unless a film is a gargantuan hit, there's no further money in it for them. They get a fee, often deferred, and that's it. That system makes the producer constantly think about the next film, and how to keep feeding the company, rather than the one they're on. Hence they don't want to fall out with the talent, as that could compromise their next meal ticket. Likewise, multi-party financing often means that one financier or partner doesn't care enough to fight the fight that may be needed to make the film that much better."

The first cut of *The Guard* came in at around 2hrs, 30 mins. The director was quite happy, but Element were on the hook given that they owned the UK and Irish distribution rights. After a year of editing and cuts, the film came in finally

at 94 minutes. “There’s no way that we’d have fought for the film if we hadn’t been distributing it ourselves,” explains Guiney. “I’ve been guilty of that as a producer on certain films, when there was simply no point in going up against the director, and I’ve seen that happen with financiers and distributors also.”

The Guard was a significant hit in Ireland, taking more than £3.5m at the box office, and a further £1m from UK via Studio Canal servicing the film for Element. When placed next to a world-wide gross of around \$19.5m, the \$7m from Ireland and the UK were extremely valuable to Element, especially the Irish hit result. “We were hugely incentivised to make it work, and really gave proper thought to the entire campaign. That again is very different to the classic pre-buy, where the distributor puts up an Advance against a screenplay and package, but then gets to actually see the film many months later at the delivery stage. By then, it’s a case of either “good, or bad” and they simply get it into their system. They’ve had no influence on the actual film-making process.”

Any system that involves the producer (and possibly the director) having more skin in the game is a good plan, according to Guiney. Beyond his own extensive experience as a producer and now local distributor, his concern lies with the way the independent film sector has evolved into a fragmented, emasculating system which is so often less than the sum of its parts rather than more. Specifically, if producers are able to bring a meaningful contribution to the release of a film and have a larger stake in its success (via the BFI locked box system for example), that can only be a step in the right direction.

CASE STUDY: SEE-SAW AND *THE KING’S SPEECH*

The King’s Speech has now established itself as one of the UK’s and independent’s cinema’s most successful films ever. The story of how it came to the screen and found its global audience is instructive in the art of development, packaging, financing and marketing. Based on the story of King George V1 of Great Britain, his sudden ascension to the throne after his brother’s abdication, and his ensuing battle with, and ultimate triumph over a serious speech impediment with the help of a therapist, the project started its life as a stage play.

Writer David Seidler changed tack when he was encouraged by producers Simon Egan and Gareth Unwin of Bedlam Productions to instead adapt the material for film. Early in that change of strategy, Unwin enlisted the help of Iain Canning and Emile Sherman of Sew-Saw Films, a recently established Australian/UK-based production company with access to Australian distribution support via Transmission Films and independent development finance. Canning, a former acquisitions executive at sales and financing company Renaissance Films, had recently executive produced *Control*, while Sherman had produced Neil Armfield’s *Candy*, starring the late Heath Ledger and Geoffrey Rush.

Unwin was mindful that his skills to this point lay in line producing, so his strategy in bringing in See-Saw was instructive, as Canning and Sherman got behind the development financing and packaging process despite being turned down by the UK Film Council for single project development finance. Fortunately, See-Saw was awarded a Vision award worth £75k from the same source shortly after, and Bedlam and See-Saw agreed to split the development costs, with Seidler now set to work on the screenplay.

More critically in the light of this paper’s focus, Canning and Sherman had teamed up with Transmission, and taken shares in the new Australian distributor. Run by Andrew Mackie and Richard Payten, Transmission had evolved out of Dendy, and was establishing itself as a fresh, interesting distributor of both specialised and potential cross-over titles.

Ironically, despite posting an early draft of the script through Geoffrey Rush’s Melbourne home’s letterbox to the irritation of Rush’s agents, Rush became attached in principal to playing the part of Lionel Logue, the speech therapist who helps George V1 to overcome his stammer. “This brown envelope was on my front doormat one day, and I thought, “Oh, this is interesting.” The attached letter basically said, “Excuse the invasion, and for not going through the protocol of your agent, but we’re desperate for you to know that this script exists, because there is this wonderful role that we could love for you to consider.” So I read it.” And he was in, despite the irritation of his agents, given the approach.

As the screenplay developed, the producer team rested on a budget of around £9m, given the scale of the film and the historical setting, which was knocked down by exchange rate fluctuations to settle ultimately at £8.2m. They were also armed with a very strong comparison (‘comp’): *The Queen* had been released in 2006, and had gone on to take \$123m worldwide, including \$67m from international following a successful awards campaign, spearheaded by Miramax.

As such, the producers needed a strong package and committed financing partners to pull it off. The cornerstone territories, UK and Australia/New Zealand were covered with an advance from Transmission of \$700k and (initially) £1m from Momentum – whom Canning had worked with on *Control* – and which was later upped to £1.3m for the UK advance. In addition, a top sales company was needed to help pre-sell the film whilst providing a combination of high-yet-realistic sales projections. Glen Basner, a former Miramax executive and by now running his own sales company FilmNation, provided both appropriate estimates but also strong links to The Weinstein Company, who were circling the film at the same time as Fox Searchlight.

The producers faced an interesting choice: To go with Fox Searchlight via Andrew Macdonald's UK production company, or to stick with TWC, Momentum and Transmission – and find the remaining finance required to close the film. Fox's offer was couched in essence as a 'studio' deal via DNA, where a tough green lighting process (including final approvals over budget and cast) still would have to be met. By contrast, the TWC deal, which in part thanks to FilmNation had risen to an advance of \$6.1 for North America, Latin America, Benelux, France, Germany and Scandinavia, left enough coverage for the remaining 'gap' as long as around £1.2m of equity could be raised. The art of the TWC deal was how to get the highest number from these territories, whilst leaving enough significant territorial value on the table to close the finance.

It was no secret across the film industry that TWC was experiencing a difficult financial period in 2008-09, thanks to a previous financing round with Goldman Sachs that raised doubts about TWC operating as a going concern. Entertainment banks had started to refuse to discount TWC paper, leaving the producers needing to find a financier that had the appetite and ability to cover TWC's Advance. At the Cannes Film Festival in May 2009 Canning pitched to Prescience Film, a London-based film financier. Paul Brett, one of the principals at Prescience, and senior executive Anne Sheehan, responded very positively to the screenplay, package and the opportunity to cash flow TWC's advance. In addition, Aegis, Prescience's senior debt fund, was in a position to cash flow the UK tax credit, and finance the remaining 'gap' once TWC's deposit and overall minimum guarantee had been taken into consideration.

The producers decided to stick to the independent model, politely declining the DNA/Fox offer, and closing the remaining finance with the UKFC and a post production deal.

The rest, in terms of shoot and launch, is now of course recent record breaking film history. But the lessons from a Producer-Distributor strategy is instructive, given See Saw's investment and shareholding in Transmission, and the fact that Momentum, a leading UK distributor (since bought by E1 Entertainment) were the first to put their money down on *The King's Speech*. As such, it's interesting to see the distributor's perspective on their relationship with See Saw.

What follows is an extracted interview with co-managing director Andrew Mackie of Transmission.

FINNEY: What drew you and Richard into a much closer relationship, both professionally and in terms of shares/financials, with See-Saw?

MACKIE: It was a few things:

- 1) With the transition to self-distribution evident we felt a closer tie and involvement with production would be a prudent move to 'future proof' ourselves.
- 2) Emile Sherman's family were also a good fit as they became our financial backer
- 3) We had a strong existing relationship with Emile and Iain and felt we shared similar tastes
- 4) See-Saw's output ensured we would have a reliable pipeline of quality titles for which we wouldn't have to compete

FINNEY: What are the particular advantages from your perspective re the project selection/development process - assuming that See-Saw checks in early!

MACKIE: They mostly check in on what we think before they commit to a project. We give them a sense of what we think our territory is worth. We offer a marketplace sounding board on many other aspects too - script, cast and director. It's a productive arrangement as I feel we can help prevent them from making choices that may hurt the project commercially down the track.

FINNEY: What impact did Transmission have on *The King's Speech* during the process of financing?

MACKIE: We were big supporters of the project from early on (mostly from the perspective of our Australian/NZ market) and put up a substantial advance (at a time when it wasn't yet cast)/ The guys almost did a worldwide Searchlight deal and we helped talk them out of it (as it also would've cut us out of the equation!).

FINNEY: Do you see other distributors starting to develop closer producer ties inside and outside Australia?

MACKIE: Definitely - in fact many already have. Hopscotch/E1 established a production division a few years back and Madman have similarly ventured into production. It enables us to take control over what projects get made. It also means we don't have to compete in the open market quite as much.

FINNEY: Would you consider (or do you have) other formal or informal partnerships outside See-Saw?

MACKIE: Not at this stage but we are certainly exploring other partnerships. See-Saw has been fantastic for us, and we'd like to explore doing in-house development.



FINDINGS FROM THE FFILM CYMRU WALES AND CREATIVE SKILLSET 'MARKET MENTOR' PROGRAMME

This section of the report examines both 'strategic' aspects – including material selection, package evaluation, pricing, market opportunities, demographics, tools – alongside 'commercial terms' – including P&A risk, MG sharing and revenue splits. It does so through an analysis of the Market Mentor Programme, a programme set up to actively try to connect producers and distributors through project discussion and market analysis across a period of 6 months. The producers selected to attend the Market Mentor programme, which built upon an earlier Film Junction producer Mentor programme, are listed below.

FILM JUNCTION - MARKET MENTOR PRODUCERS

NAME	COMPANY	DISTRIBUTOR MENTOR
Nicky Bentham	Neon Films	Nick Manzi, Lionsgate
Kristian Brodie	Agile Films	Julia Short, The Works
Brendan Byrne	Hot Shot Films	David Shear
Alastair Clark	Wellington Films	Kate Gardiner, Fox Searchlight
Rachel Connors	Black Milk	Ed Fletcher, Soda Pictures
Cat Cooper	Elfin Productions	Robert Walak, Momentum
Jane Dauncey	Machine Productions	Julia Short, The Works
John Giwa-Amu	Red and Black Films	David Shear
Emily Leo	WigWam	Ed Fletcher, Soda Pictures
Ivana Mackinnon	Stray Bear	Kate Gardiner, Fox Searchlight
Antony Smith	Tornado Films	Nick Manzi, Lionsgate
Jonathan Taylor	Dan Films	Robert Walak, Momentum

The producers' current projects were discussed in detail among the group in the first session (October 2012), and each producer then met with their distributor mentor to explore their project/slate in more specific detail. The second meeting (December 2012) required each producer to have put together a full package of material, including synopsis, log line, casting list, directors' statement, producers statement, comparison titles, finance plan and marketing plan.

No distributors were present during this session, allowing the producers to try out ideas, discuss strategy, and garner feedback from their peers. They then arranged to meet their mentor outside the programme but prior to the final session in February 2013.

During the final session, detailed sessions with Ed Fletcher, Soda; David Shear, formerly of Revolver; and Danny Perkins, Studio Canal, provided an insight into the varying strategies of smaller and mini-major sized distributors; and how the UK market and the distributor business model has tightened over the past 5 years. Indeed, as the course evolved, E1 bought out Momentum, while Revolver filed for administration, underlining the fragile state of the UK market place today.

On the final day, each producer presented their project to the majority of the distributor mentors (and their peers) over the course of the day. Detailed discussions took place, with considerable emphasis from the distributors about the challenge of:

- finding and creating both space and appetite in the UK market for UK films;
- the need for a compelling concept and package to garner attention and potential 'must see' promise;

- the critical importance of cast, both at a theatrical and ancillary level;
- the level of risk attached to prints and advertising spend if miscalculated
- the need for producers to recognise the value next to the price of their projects
- the help a distributor can offer in positioning a project: offering key elements, marketing tools and on-line audience 'drivers' relevant for theatrical and ancillary
- why minimum guarantees (or Advances) against UK rights have taken a significant drop in the past three years, and the impact on distributors if they miss-assess the value of product that they pre-buy.

WIDER FINDINGS FROM MARKET MENTORS

As a pilot scheme that marks the first time distributors and producers have worked closely together in the UK under a formal training programme, certain themes asserted themselves. Firstly, the overall generosity shown by the distributors in providing time, and transparent insights into their experience and market knowledge. Secondly, the collaborative and open approach taken by the producer cohort. Presenting in front of 11 other producers is not an easy task, and it was an exercise repeated throughout the course to considerable effect.

That said, there were also some key divides in terms of both knowledge and approach between the two sectors that emerged from the programme. They included:

1. The commercial advantage distributors can garner via their access to UK market data via tools such as EDI's A-Z 'bible'. This is in addition to their own historical data (which of course includes p&a spends and ancillary numbers). The A-Z is a document (with hard copy and on-line versions) that virtually none of the producers were aware of at the start of the programme. Contained within the document are the key theatrical statistics of films released in the UK over the last ten years, including final box office gross, length of release, screen averages, etc. Access to this data is of course limited given its cost and scarcity re circulation; yet it is vital for a better understanding of data and information when building for example 'comps' (comparative titles) and audience trends.
2. What became apparent over the duration of the course is that given that a UK producer is facing a 'buyer's market', the acquiring party can always push the boundaries of commercial 'asks'. For example, some of the larger mini-major players would routinely suggest 'names' that still provide some box office insurance, whilst maximising the ability "to sell box sets off a Tesco shelf – such as Liam Neeson." Numerous examples arose over the course of the 6 months, leaving producers visibly frustrated at the narrowness of their options in return for any kind of meaningful minimum guarantee or even realistic dialogue on occasion.
3. The tyranny of theatrical, and how the industry post-release has used box office to 'price' ancillary windows such as pay-TV, became a dominant theme throughout the programme. Producers were more ready to question the theatrical assumption, given that the on-line market has opened up a range of platform exploitation opportunities, albeit many are in their infancy and provide 'digital dime' income streams rather than 'analogue dollars.'
4. The value of a producer working closely with a distributor once a film is being prepared for UK release was emphasised strongly. "Keeping things solid, knowing what you've got and what you still need to do, is very important," explained Soda's Ed Fletcher. "I think it's also critical for producers to get in touch earlier and try out ideas, concepts and stories before they're too far down the road." Producers tended to agree, but not to the point that a knock back meant that they were 'chasing the market' or trying to second guess the audience at the development stage.

For example, producer Ivana Mackinnon commented: "I think producers need to listen to distributors but follow their own heads in development. Most of the big successes come from films that distributors would not recognise as potential successes from a pitch or outline. Why? Because they are different. And so many distributors and sales agents work in terms of what is selling at market now, not what might in three to four years time. So I think a mixture of communication and fluidity is the best way forwards."

Certain relationships blossomed as a result of the course. John Giwa-Amu's Red and Black Films teamed up with Shear Entertainment on his film *The Machine* (set for UK release March 2014); while Giwa-Amu also boarded fellow participant Nicky Bentham's *The Silent Storm* as a co-producer as a direct result of the course.

5. Further key comments and findings from producer participants:

Emily Leo's Wigwam has actively embraced the concept of producer-distributor joint ventures, but has decided to go about it in a more informal manner since the course. The production company decided to move into shared offices recently with Coffee and Cigarettes, the new consultancy set up by previous Revolver executives.

"They are friends of friends and the idea is to create a relaxed informal environment where we share ideas, give each other advice, share knowledge and probably contacts. We're running two separate companies but there will be overlap. They are pitching on our project iBoy, for example, but know that we've also spoken to LionsGate."

"We're also considering genuinely what self distribution means for us, if we could use people like Coffee and Cigarettes who are basically many of the old Revolver guys now working freelance. We are asking ourselves that if we can raise P&A for ourselves, are we better off taking that risk?"

When producer Antony Smith (Tornado Films) found out about the Film Junction scheme and what it had to offer, he was excited by the prospect of being partnered with a distributor. This offered something different to schemes he had previously taken part in. He was partnered with Nick Manzi of Lionsgate.

"He was an interesting character, not somebody that I could sit down with any longer than an hour ... (but) I found him perhaps a bit stuck in the 'old testament' of distribution. I left the first meeting with Nick feeling a little demotivated. I had to ground myself in the fact that I had been there and done it and that it wasn't all doom and gloom. I think I would have been completely crushed had I little experience. In fairness though he did invite me to contact him at any time to discuss things or ask questions.

As a producer it's very rare that you get encouraged or thanked. I think that those who are meant to be adding value down the line should also be nurturing relationships with Producers, as they ultimately are the custodians of content. I hear the same stories from Directors and Writers.

What was particularly noticeable though was that Sales agents were not missed. The dialogue between producers and distributors felt clean, unhindered and open. Indeed, something I found to be gratifying. In my view there are too many layers between the Producer and the consumer, any barriers that can be brought down the better.

Also, the negotiation with the distributor is on a completely different level. I have recently negotiated the distribution on a film I produced called *The Darkest Day* with Grindstone in North America, Condor in France, Tiberius in Germany and Revolver in the UK. ...However, prior to agreeing the deals with the above I also engaged with Universal and eOne. What has been wonderful is that those relationships have continued and we are all keeping in contact about other projects. This, in turn, has encouraged other investors into my portfolio.

So, even though the partnering with Nick may not have been right for my project, an open and on going dialogue is crucial. We cannot work in a communicative industry where no-one talks, or, there are gatekeepers preventing meaningful dialogue. The learning experience I went through on Film Junction: Market Mentors and through my own experiences of selling the film simply cannot be quantified, and now I realize that the sales part of my job has been remiss for so many years. It's only now that I feel more rounded as a producer.

In conclusion, I would suggest that the Film Junction scheme is a valuable one and one that I would happily recommend to seasoned producers. I would also note though that to develop the scheme further there should perhaps be representatives there from the 'new testament' of distribution ie the likes of Vimeo, whom have their own DIY distribution platform; Distrify and Google perhaps? As dialogue is being encouraged between Producers and Distributors it would also be worthwhile having a module on sales literacy in terms of Pre-sale and acquisition splits. I could personally have done with this on *The Darkest Day*."

Further comments who preferred to remain anonymous:

"Distributor knowledge of the market is absolutely crucial but it has struck me that distributors are usually just as reactive as creatives in studios, so actually joint ventures only work if you are with the right team of people, you have the same sort of ambitions. And then like everything in this business, it's all about relationships...."

"I agree with their suggestion about aligning the interests of distributors and producers. I think we all need to be on

the same side and feeling that we both share in the risks and upside. Producers' risks are normally in the five bloody years of development! But we should be incentivised to stay on board and help release and support the film rather than moving on. Things are changing rapidly and I think this is happening anyway."

"Producers and distributors need to be talking all the time. What I feel less comfortable with is the idea of fixed partnerships like the ones that the Film Council supported in their slate deals of years gone by."

"It's amazing when you compare the kind of deal on offer from some of the new agents/consultants next to typical distribution terms. The 35% fee, with any Advance and costs out of your 65% share, alongside the DVD royalty system, is swept away with by the new consulting offer."



A BRIEF SWOT ANALYSIS: SUPPORTING PRODUCER-DISTRIBUTOR JOINT VENTURES AND FURTHER TRAINING INITIATIVES

STRENGTHS

The benefit for producers to connect and communicate with distributors clearly outweighs any more marginal dangers and issues

The sharing of data, audience information and marketing strategies should be at the centre of joint ventures and producer-training programmes going forwards

The inclusion of the new style agencies and consultants is essential not just for self-distribution approaches, but as a real emerging alternative to vanilla style UK film distribution

The demise of Advances for films around and below £2m, alongside the commercial deal terms, makes alternative routes to market essential

BFI's focus on emerging talent and smaller scale product is a sensible and realistic interpretation of the Film Forever recommendation.

Training and wider data dissemination should be both continued and acted upon going forwards

WEAKNESSES

The majority of distributors are in semi-crisis and are undergoing a failure in their business model which is yet to be corrected. Are they the right vehicles for producers to be fixated upon exclusively?

Distributors react to a given, current market, and cannot see three, four or five years in front when confronted with fresh material and packages. They are reactive, not proactive.

Buyers and acquisition executives are mindful of their own corporate or SME cultures, taste and associated assumptions. Producers taking advice must calibrate feedback rather than assume each distributor has the right answer for their project.

Awarding larger distributors with P&A funding or co-funding is a pointless exercise: funding needs to be concentrated on reaching new audiences and supporting niche and smaller independents to maintain sustainable business models going forwards.

OPPORTUNITIES

There are numerous opportunities encapsulated within this report. They include:

By making and promoting links between producers and distributors, public agencies are able to close the feed-back loop that has remained open and untapped historically

Strategies going forwards need to address the lack of data both theatrically and across the ancillaries available to film producers. The public sector could play a key role here.

Emerging user-driven media, new platforms and delivery devices; direct access to the consumer; and the opportunity to build meta data on user's taste and behaviour are all elements that need to be enshrined in future research and development/training programmes going forwards.

Stronger recognition of alternative release platforms, in partnership with emerging agencies and consultants (such as David Shear Entertainment and Coffee & Cigarettes), should also be central to future training initiatives.

Alternative routes to market, when further understood and established, will offer over time valuable ways of circulating film for both public and private sources of finance.

New routes to market and to engage audiences are taking place in a dynamic and fast-evolving landscape, so producers will need to be responsive, adaptable, open minded and flexible if they are to navigate new climes successfully.



NOTES AND READING

BOOKS

Screen Distribution and the New King Kongs of the Online World (2013), Stuart Cunningham and Jon Silver, Palgrave Pivot series, Palgrave Macmillan.

Digital Revolution: The Active Audience (2012), Mike Gubbins, Cine Regio.

Digital Disruption: Cinema Moves On-line (2012), Dina Iordanova and Stuart Cunningham, St Andrews Film Studies

The Screenplay Business: Managing creativity and script development in the film industry (2013), Peter Bloore, Routledge

The International Film Business: A Market Guide Beyond Hollywood (2010), Angus Finney, Routledge

See also:

Audience in the Mind; Sampomedia/Mike Gubbins (2014), Commissioned by CineRegio

PAPERS

Bloore, Peter (2009) Re-defining the Independent Film Value Chain; [Online] UK Film Council, London (published February 2009).

Rappa, Michael, Managing The Digital Enterprise: Business Models On The Web, 1 January 2008. <http://digitalenterprise.org/models.html>

Olsberg SPI, Building sustainable film businesses: the challenges for industry and government, June 2012

EVENT AND COURSE REFERENCES

Audience Connect

http://issuu.com/filmagencywales/docs/audience_connect_programme_brochure

Film Junction

www.film-junction.co.uk

APPENDIX 1

FILM FOREVER STATEMENT (EXTRACTED)

We support the principle and accept the Film Policy Review recommendation that producers, writers and directors should participate in and benefit from a share of recouped BFI investment revenues allocated to a 'Locked Box' to be held by the BFI and available to them to invest in their own future film-making activities. In some instances, the allocation of 'Locked Box' monies is in the process of being agreed between Producers Alliance for Cinema and Television (PACT), Directors UK (DUK) and Writers Guild Great Britain (WGGB) and will be subject to State Aid approval and agreement by the BFI Board of Governors.

DEVELOPMENT

We will recycle 100% of the money that is recouped by the BFI from an investment in development, to be allocated to a 'Locked Box' to be held by the BFI and available to the producer in question for investment in its further film making activities.

BFI PRODUCER CORRIDOR ENTITLEMENT

We will maintain and continue to review the current percentage share (a blended rate of 37.5%) of the BFI's recouped income which will be held by the BFI in a 'Locked Box' with allocations of this income to be subject to the agreement between PACT, DUK and WGGB. Any sums paid out by way of such corridor entitlement will be repayable to the BFI from the parties' share of net profits from the film in question.

PRODUCER EQUITY ENTITLEMENT

We will continue to promote the producer equity entitlement (where the value of the advance against the UK Film Tax Relief is treated as the producer's own equity in the film). These revenues will be held by the BFI in a 'Locked Box' with allocations of these revenues to be subject to the agreement between PACT, DUK and WGGB.

PRODUCER/DISTRIBUTOR JOINT VENTURES

We will pilot joint ventures to encourage UK producers and UK distributors to align their interests more closely. A portion of the proposed BFI production award on a limited number of titles will be available to the producer to be used as a 50% contribution towards the UK distributor's minimum guarantee. In return for sharing the distribution risk, the distributor would allow a 50% share of its net revenues to be held by the BFI in a 'Locked Box' with allocations of these revenues to be subject to the agreement between PACT, DUK and WGGB. Any sums paid out by way of such 'Locked Box' revenues will be repayable to the BFI from the parties' share of net profits from the film in question. We will consider projects from those making and distributing low-budget and commercially challenging works, as well as those working on higher profile films that carry some commercial risks.

APPENDIX 2

THE AUTHOR AND COMMISSIONERS OF THIS REPORT

ANGUS FINNEY

Is a leading film industry expert who runs the annual Film London Production Finance Market; teaches at Cambridge University and is the course director of the new MA in International Film at Exeter University/London Film School. He lectures and trains international film-makers and financiers in South Africa, Scandinavia, the UAE and across the UK. His most recent book, *The International Film Industry – A Market Guide Beyond Hollywood* (Routledge, 2010), is now the leading film industry text book and its second edition will be published in 2014. Finney has also worked in the City of London's private sector as a media risk manager, an expert witness in national inquiries and film tax trials, and was the former managing director of film production, finance and sales agency, Renaissance Films. He has just completed his PhD in Business Strategy at Cass Business School, City University London.

FFILM CYMRU WALES

Is the strategic development agency for film in Wales, with support focused on making, showing, seeing and learning about film. In terms of 'making', the agency prioritises its funding for Welsh talent, particularly writers, directors, producers and their companies. Recent films include *The Machine*, *The Canal*, *American Interior*, *Kelly + Victor*, *Submarine*, *Sleep Furiously*, *Patagonia* and *Mugabe and the White African*.

With a focus on building a 'virtuous circle' of audience feedback and understanding, Ffilm Cymru Wales additionally prioritises film education with an aim of building connections between young audiences, film professionals and policy-makers; research and experimentation.

www.ffilmcymruwales.com

CREATIVE SKILLSET

Is the Creative Industries' Sector Skills Council (SSC) covering TV, film, radio, interactive media, animation, computer games, facilities, photo imaging, publishing, advertising and fashion and textiles.

The company aims to support the productivity of our industry to ensure that it remains globally competitive. We do this by influencing and leading; developing skills, training and education policy; and through opening up the industries to the UK's pool of diverse talent.

We conduct consultation work with industry, publish research and strategic documents, run funding schemes and project work, and provide information about the challenges that face the industries and what we need to do to overcome them.

www.creativeskillset.org/creativeskillset/

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