Terry Ilott

Student filmmaker
Screen International
My Indecision Is Final
Variety
Bridge Media
Hammer Films
Film Business Academy/Cass Business School
NFTS/LFS/Met Film School
Film in UK:

• Boom and bust.
• Absence of long-lived companies.
• Failure of industry champions.
• Reliance on direct and indirect inward investment.
• A history of not-quite-success
  Ealing, Hammer, British Lion, Palace, Goldcrest Rank, EMI, PFE
Symptoms of market failure

• Increasing profit margins (uncapped potential)
• “Natural” monopolies
• Asymmetrical information
• Absence of competitive pricing
• Rationing of supply
• Public sector support
The characteristics of the current model

• Prototypical production,
• High level of wastage in project development,
• High unit costs of production,
• High costs of marketing,
• High rate of failure in the market (i.e. hit dependent),
• Impossibility of forecasting demand
• Short shelf-life in the primary market,
• No price elasticity in the consumer market,
• Significant sunk costs.
• Producers do not keep the gains of their innovation.
• Expressive value is consumed experimentally, leading to high levels of uncertainty.
• Creative goods are indivisible: they cannot be sold in different quantities.
• Charge for value added, not cost incurred.
The competition for audiences

1. Film vs other former of leisure expenditure
2. Studio vs studio – “Red Queen” behaviour.
Result?

- Constant upward pressure on film development, production and marketing costs – stars, talent, production values, creativity, advertising, press and PR.
Cost of growth

- CAGR
- Cashflow
- Book value of assets
- Return on assets
- Operating margins
Plus: risks

- Greenlight
- Budget overage
- Sunk costs (escalation)
- Completion
- Acquisition
- Supplier
- Marketing
- Competition
- Performance
- Management
- Overhead (slippage)
- Deal terms
- Credit/fraud
- Finance
- Exchange rate
- Interest rate
- Regulation
- Ransom
- Key person
- Piracy
Mitigation of risk

• Vertical integration
• Horizontal integration
• Portfolio investment (probability and regression to the mean)
• Critical mass
• Capital concentration
• These are the barriers that protect the competitive advantage of the Hollywood studios.
Flaky, or just different?

• Creative teams, not functional teams
• Project vision, not enterprise vision
• Talent dependent
• Rapid growth, high volatility
• Shortage of entry points and career paths; distrust of paper qualifications
• “enthusiastic” as well as “industrious” employees
Working in an industry where failure is the norm.

- **Conversion ratios:**
  - Developed projects: productions.
  - Productions: distribution
  - Distribution: commercial success

- **Commercial ratios:**
  - Profit: turnover
  - Return on capital employed
Hence...

Underlying economics gives rise to structure:

• Oligopoly of major studios
• Barriers to entry
• Split between studios and independents

And explains apparently “flaky” culture
As well as UK boom and bust.
For what?

• The uncapped potential of success: the importance of break-even and the prospect of increasing profits.
  
  Very low marginal costs.
  
  Price maintenance rather than price reductions.
• Migration of value towards the retail end of the chain.
• Golden future for exhibition.
• Importance of mobile (and emerging markets).
• The gradual end of windows and territories.
• The end of scarcity and hence the remediation of market failure.
The new entertainment value chain – Lanzolla (2007)