

Building UK Film Companies

UK Film Council

International Support Systems for Film

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OLSBERG|SPI

Overview

1. Introduction
2. Support systems' success factors – project based support
3. Support systems' success factors – company support
4. Notable individual mechanisms
5. Company strategies – success factors
6. Summary

1.1 Introduction

- At the request of the UK Film Council, Olsberg SPI has analysed a selection of public support systems to see the degree to which they have helped in developing film companies of scale
- Film companies under consideration are those where film production is the only element or a major part of their business
- The countries included in the study are: Australia, Brazil, Canada, France, Germany, Spain, South Korea, Sweden and the UK
- The study includes an analysis of:
 - Success factors on a country-by-country basis
 - Notable individual mechanisms
 - Factors concerning company growth

2.1 Support systems' success factors – project-based support

- SPI first looked at those initiatives focussed on film projects, the predominant type of support
- We identified a range of success factors for such initiatives across the selected territories
- The main success factors are as follows:
 - A system that rewards project success
 - Levies – on box office, broadcasters, distributors, VoD
 - Broadcasters mandated to finance film production - bolting together some elements of the value chain
 - Quotas – cinema and/or television
 - System combines well with other countries' support (e.g. co-production)

2.2 Support systems' success factors – project-based support

- We also collated a set of performance indicators (where available) to assess the strength of the production ecology in each of the countries
- The performance indicators are as follows:
 - Production volume
 - Number of films
 - Average budget of film

2.3 Support systems' success factors – project-based support

- The following slide provides an overview of the success factors in each of the territories and present these against the performance indicators
- The grey bullets indicate where the match is applicable to a certain extent
- Where a Performance Indicator cell is blank, it denotes that information is either not publicly collated, readily accessible or complete

2.4 Support systems' success factors – project-based support

	<i>Country</i>								
	Aus	Bzl	Can	Frn	Ger	Spn	SKr	Swe	UK
<i>Overall success factors</i>									
Holistic range of consistent, significant, strategic initiatives									
System that rewards project success									
Levy on broadcasters or distributors									
Levy on box office or exhibitors									
Levy on DVD or digital revenue									
Broadcasters mandated to invest in film									
Quotas on cinema and/or television									
System combines well with other country support (e.g. co-production)									
<i>Performance indicators</i>									
Production volume 2008 (€m)	89	139*	187	1,259			230		269
Number of films 2008	34	90*	75	196	128	173	113	21	86
Average budget 2008 (€m)	2.6	1.5*	2.5	6.4			2		3.1

* Figures are from 2005

3.1 Support systems' success factors – company support

- SPI then addressed those systems specifically aimed at stimulating company growth
- Public systems generally offer company-based support in two ways: direct and indirect
- Direct support is focused specifically on corporate issues:
 - Specific company development support
 - A generic system in a country focussed on corporate growth as a driver of successful activity
- Indirect support uses project-based initiatives to deliver a business model that improves the risk/reward equation:
 - Rewards success of films that connect to audiences
 - Flexible recoupment terms on selective schemes
 - Automatic spend schemes treated as producer equity
 - Slate funding
 - Risk-reduction: spend-related rebates

3.2 Support systems' success factors – company support

- The following slide provides a snapshot of direct and indirect company support on offer across the selected territories
- The grey bullets indicate where the match is applicable to a certain extent
- Green bullets indicate the relevant scheme is only available regionally, not nationally

4.1 Notable individual mechanisms – company support

- In this section we elaborate on two examples where public support has been targeted directly at building company sustainability
- Our research shows that Australia offers both national and regional support to company development
- Regional support is also offered in Sweden
- Direct company building
 - *Enterprise Australia*, operated by Screen Australia, is the only dedicated national scheme. A few regions have modest schemes. E.g. Victoria (Australia), West Sweden
- Business audit
 - Film i Väst (Sweden) conducts quarterly reviews and annual inspections. *Enterprise Australia* also requires business audits to be conducted

4.2 Notable individual mechanisms – project support

- There are notable examples of project-based public support that indirectly contribute to company growth:
 - Systems that emphasise rewarding success
e.g. France (soutien automatique à la production), Germany (reference scheme), Spain (automatic/complementary support)
 - Mandating contributions along the value chain encourages vertical diversification.
e.g. France (Canal +), Spain (Telecinco)
 - Terms of trade: flexible conditions, particularly relating to recoupment
e.g. German regional funds, German national fund (FFA), Ireland's 50% producer's corridor, Australia's offset as producer equity

4.3 Notable individual mechanisms – project support

- Notable examples (continued):
 - Strong national strategy is complemented by strong regional support (Germany)
 - Publicly supported credit lines e.g. Spain (ICO), France (IFCIC)
 - Recycling distribution revenues from overseas films (i.e. Hollywood) for investment in domestic films (Brazil)
 - Any form of levy that recycles revenues from domestic and non-domestic film back into the system (Sweden, France)
 - Stability and permanence of support e.g. Sweden Film Agreement, or CNC's existence legislated for and annual budget voted by parliament

5.1 Company strategies – success factors

- Our findings show that not many public support systems provide direct support for company growth
- Having examined public sector involvement in film company development, SPI then investigated the corporate environment to identify those factors that have contributed to the growth of film companies of scale
- SPI conducted informal, confidential surveys with 20+ international, larger-scale film businesses about their corporate strategies

5.2 Company strategies – success factors

- The following two slides summarise the results of this research
- The first slide maps out company growth success factors and public policy support systems
- The second slide elaborates on the obstacles that impede successful interface between them

5.3 Company strategies – success factors

Factors contributing to company growth:

- Ability to make successful films and share in revenues*
- Diversification*
- Entrepreneurship*
- Portfolio approach*
- Corporate relationships*
- International relationships*
- Ability to rely on substantial public funding*
- Luck*

Public policy support mechanisms:

- Project support*
- Company support*
- Generic SME support*

Obstacles



5.4 Company strategies – success factors

Factors contributing to company growth

Public policy support



Obstacles:

Market failure:

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

Policy support:

- *Very few public policies focussed specifically on company growth*
- *Focus on individual project support*
- *And other ('cultural') areas not directly contributing to corporate growth*

Difficult business model i.e.:

- *Access to finance*
- *Limited IP ownership and access to revenues*
- *Producer often has no finances to invest*
- *Complex multi party funding structures*
- *Mismatch of risk and return*
- *Distance from consumer*
- *No convincing digital business model*

5.5 Company strategies – success factors

- The company survey reveals that there are various routes to success including:
 - Access to U.S./Hollywood (for English language countries)
 - Making successful films in a system that rewards success
 - Portfolio approach (slates)
 - Business diversification (horizontal)
 - Business diversification (vertical)
 - Outstanding entrepreneurship skills
 - Ability to count on public funding on an ongoing and substantial bases
 - Access to other international support systems (e.g. co-productions)

5.6 Company strategies – success factors

- The following slide uses a matrix to match these success routes against public film support systems available in the selected territories

5.7 Company strategies – success factors

	<i>Categories of Film Sector Support</i>					
<i>Routes to Success</i>	Automatic scheme rewarding success	Automatic scheme rewarding spend	Selective scheme	Private finance (tax shelter)	Company development	Regulation e.g. levy or quota
U.S/Hollywood opportunities						
Make successful films/system that rewards success						
Portfolio approach - slates						
Business diversification (horizontal/vertical)						
Outstanding entrepreneurship skills						
Ongoing and substantial public support						
Access to international support systems (e.g. co-productions)						

5.8 Company strategies – success factors

- The principal observation from this matrix is that there is a general lack of cohesion between the public support system's offer and the companies' own corporate growth and development requirements
- Some additional points emerging from the businesses surveyed include:
 - The importance of a disciplined business approach and experienced executive talent (often with previous experience in larger companies)
 - International expansion and importance of co-productions
 - Relationships with talent
 - Understanding and having access to audiences
 - International television production opportunities particularly in English language countries

6.1 Summary

- Our study shows that there is no consistent evidence of public support policies or initiatives aimed specifically at growing companies of scale
- However, there are a range of effective, substantial project support mechanisms that reward success and which can contribute to building businesses
- In most countries, companies of scale producing three or more films per year are diversified businesses where the majority of earnings are derived from areas other than production
- Diversification in companies is encouraged when public film support bodies work across different business areas and at various points along the value chain

6.2 Summary

- There are several barriers which have impeded the establishment of successful companies of scale in the UK in recent years:
 - The current producer business model does not sufficiently work
 - Both public support systems and production businesses are overly focussed on projects rather than company development
 - The rewarding of project successes is not prioritised
 - Difficult terms of trade with investors (both private and public) and exhibitors (rentals)
 - There are no national schemes to encourage corporate diversification

Thank you