FOURTH EDITION

THE MOVIE BUSINESS BOOK

EDITED BY JASON E. SQUIRE

JAY DUPLASS | KEVIN FEIGE | DAVID S. GOYER | ALAN HORN | DOUG LIMAN | SHARI E. REDSTONE

PRODUCING, MARKETING AND DISTRIBUTING MOVIES WORLDWIDE, FROM INDIE MICRO-BUDGETS TO THEATRICAL TENTPOLES, INCLUDING BUSINESS MODELS, DEALMAKING, RELEASE WINDOWS, REVENUE STREAMS AND STUDIO ACCOUNTING, FROM 37 INDUSTRY LEADERS.

A Focal Press Book

ROUTLEDGE

The Movie Business Book

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Fourth Edition

Edited by
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Routledge
Taylor & Francis Group
NEW YORK AND LONDON

Fourth edition published 2017
by Routledge
711 Third Avenue, New York, NY 10017

and by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Routledge is an imprint of the Taylor & Francis Group, an informa business

First edition published 1983 by Prentice-Hall

Third edition published 2004 by Touchstone

Library of Congress Cataloging in Publication Data
A catalog record for this book has been requested

ISBN: 978-1-138-65627-7 (hbk)
ISBN: 978-1-138-65629-1 (pbk)
ISBN: 978-1-315-62196-8 (ebk)

Typeset in Giovanni and Optima
by Florence Production Ltd, Stoodleigh, Devon, UK

For Tari, my love

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Contents

For moviegoers and moviemakers,
and to everyone who has two businesses—
their own and the movie business

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Thank-Yous

Movies are a collaboration and so is this book.

Above all, my deepest appreciation goes to the contributors. It's their book. These extraordinary professionals took considerable time to make their chapters as empowering as possible for the reader. It was joyful to work with them as curator, co-writer and editor.

This Fourth Edition, *MBB4*, is almost entirely new. Every chapter was created exclusively for this book. That's the technical side. On the personal side, these collaborations have fostered friendships and admiration.

A little history: The concept traces back to the pioneering text *The Movie Business: American Film Industry Practice*. It was a privilege to work with my mentor, Professor A. William Bluem. But early attempts to enlist industry experts were pretty discouraging. One famous lawyer was unwilling to share "industry secrets" and suggested this unwillingness as the reason why no book on the movie business had been done. Turns out there were many worthy professionals who understood and supported the need. Their expertise made *The Movie Business: American Film Industry Practice* the primary text on the subject, adopted at universities around the country. We had no idea we were working on the original knowledge formation in the field.

The warm reception of that first book coincided with the growth of film study on campus. Universities began to broaden their curricula to introduce the business side as an interdisciplinary study often coordinated with law as part of a well-rounded treatment of mass media and popular culture.

After Prof. Bluem died, my rededication to the work resulted in *The Movie Business Book* and subsequent editions. Over time, it was adopted by professors who recognized its structure as a one-semester survey course. A growing international readership of students and professionals embraced it with translations in Chinese, Japanese, Korean, Spanish and German.

How is this book put together? It takes about three years. Deciding on subjects and experts is a matter of instinct. Finding an expert is only half the battle; the ideal person must know how to clearly explain the subject and be comfortable with the back-and-forth inherent in the editing process. Most worked from my outlines, after deciding to write an essay or be interviewed for the core material. Then the results are honed and structured, debated and brooded over, rewritten and rewritten, as we engage in a stimulating and delightful process, working closely and even obsessively, via e-mail and over the phone, to get the chapter right. I deeply appreciate each contributor's cooperation as additional material was added for teaching purposes.

None of this would have worked smoothly without the care and kindness of these effective and energetic people:

Elinor Actipis, Lauren Bello, Robert Bishop, Bruce Block, Liz Bohinc, Grace Breton, Gregg Cohenca, Michele Cournoyer, Patricia Dinsky, Joey Dizon, Anne Grennan, Mary Jo Kirwan, Ami Kupetsky, Bob Levin, Katie Letien, Tracy Liang, Megan McNichol, Tony Morgan, Claudia Ojeda, Monica Shapiro, Amber Stepper, Don Tannenbaum, Janelle L. Tipton, Rachel Weiss, Heather Weyers, Alison Winter, Michelle E. Wright.

For their insights and suggestions about new contributors, deep gratitude goes to Rob Aft, Linda Benjamin, Janet Brown, Peter Dekom, Kevin Feige, Jeffrey A. Korchek, Steve Kravit, Cora Olson and Blair Rich.

Warm appreciation to Alan Robbins for his sharp eye, good counsel and advice.

It's a pleasure to thank the excellent Taylor & Francis team including Emily McCloskey, Acquisition Editor at Routledge, for her good will and support; and Production Editor Helen Evans for her keen sense of detail.

For the production workflow chapter on *The Social Network* by Allen Kupetsky, all materials furnished are courtesy of Columbia Pictures via Daniel Yankelevits, SVP, Legal Affairs, who was gracious in granting permission to reprint the examples, as were the *Social Network* creative team of Ceán Chaffin, David Fincher and Aaron Sorkin via Andrea McKee. This all stemmed from their appearing as guest speakers in my USC case study class (CTPR 386) on *The Social Network*.

Thanks also to Constance Minnett, SVP and General Counsel, Warner Bros. Pictures Domestic Distribution, for permitting samples of material in Dan Fellman's chapter.

Special appreciation goes to Thomas D. Selz of Frankfurt, Kurnit, Klein & Selz, New York, who has been a stalwart and trusted advocate over many years.

Applause to Box Office Mojo (boxofficemojo.com), Internet Movie Database (IMDb.com), The Associated Press Stylebook and of course the students who prove each semester why it's wonderful teaching at the USC School of Cinematic Arts. After all, a hidden agenda of teaching is learning.

Visit the official *Movie Business Book* website at www.moviebusinessbook.com, and follow us on Twitter and Facebook.

For her love, understanding and insight throughout, big hugs go to my dear, sweet wife, Tari Hartman Squire.

See you at the movies . . .

JES
Los Angeles, California

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Preface

The practices and procedures of feature moviemaking and related businesses are complex and fascinating. A map of this process is at the heart of this edition, *MBB4*, almost entirely new compared to *MBB3*. The journey through this territory is from the first-hand vantage points of specialists on the industry front lines, as a service to moviegoers and moviemakers. The book is intended for the international reader; after all, the entertainment business is global. Descriptions of business practices, deal points, relationships and strategic decisions herein will be similar to those encountered anywhere movies are made.

A note on style: Contributors will often use interchangeable terms. A movie is a picture, a film or a feature, and a studio is a financier-distributor or a major. Hollywood is not the geographic southern California reference, but a metaphor for anywhere in the world where movies are made to compete in the global marketplace. The term "traditional" relating to management decisions refers to time-honored practice as opposed to digital media practice. *Italics* are used to flag a definition; the term is usually defined in the same sentence. Also, home entertainment refers to digital delivery in addition to traditional packaged goods such as DVDs. Any area of specialty develops its own set of initials, with jargon separating the initiated from newcomers, and the entertainment industry is no exception. It's a world of acronyms. Every effort has been made to define and demystify acronyms as they appear.

The order of chapters covers the sequential life span of a movie, with each section building upon the one before. This is the foundation for all kinds of visual storytelling across the spectrum of delivery platforms. After an orientation in Section One, the first half of the book covers money going out; the second half covers money coming in: expenditures, then revenue.

I. The Creators. This section introduces the most visible of moviemakers. The producer, represented by Michael London, often finds and controls the intellectual property (IP), attaches the director and perhaps stars, secures the financing and is the chief business executive on a picture, staying with it longer than anyone. The director, personified by Doug Liman, is the key creator, collaborating with the producer on creative and business decisions. The director is usually the single artist most closely identified with the finished product. The range of creators includes Jay Duplass, a multi-hyphenate whose career originated in the DIY world.

II. The Property. This section returns to the origin of any movie, the IP, and begins the journey. The work of the screenwriter, described by David S. Goyer, is often represented in the marketplace by a lawyer, agent and manager, such as Jewerl Ross, whose job is to help sell the work so that it becomes property. The process can involve submission to a buyer often supported by a story editor such as Romy Kaufman of Universal Pictures. Movie deals are made based on a variety of IP as outlined by literary agent Joel Gotler, CEO of Intellectual Property Group.

III. Money. Money spent for services rendered is the basis for almost all activity in the business. In this section, the practices of movie financing are examined. Trends in movie investments and issues of increased costs are examined by lawyer Peter J. Dekom. Different ways that talent and companies get paid are examined by finance and distribution consultant Rob Aft of Compliance Consulting. Then, the section widens to an overview from entertainment industry analyst Harold L. Vogel of Vogel Capital Management.

IV. Management. The collective expertise responsible for decision-making is covered next. Movie executive philosophy is described from the unique vantage points of Alan Horn, chairman of The Walt Disney Studios, and Kevin Feige, president of Marvel Studios. The subject is reflected upon by David V. Picker, who has served as president of Columbia Pictures, Paramount Pictures and United Artists. The independent tradition is outlined by professor and associate dean of the UCLA School of Theater, Film and Television Barbara Boyle, based on her executive career.

V. The Deal. All major transactions are structured and codified in agreements. The basic elements of every deal are: the property or service to be rendered; who is providing it to whom; the time frame or duration; the compensation. A chief architect for many deals is the entertainment lawyer, personified by Linda Lichter, who negotiates on behalf of clients often with the financier-distributor's lawyer on the other side. Talent is also represented by agents and business affairs executives, exemplified by Stephen M. Kravit, executive vice president of the Gersh Agency. The producer would probably have to secure over-budget protection, as explained by Steve Mangel, president of

UniFi Completion Guarantors and, in pursuit of specific talent, will have countless dealings with agents, as related by Jessica Tuchinsky, formerly of Creative Artists Agency.

VI. Production. All of the complex preparation and logistical planning is played out in principal photography. Coordinating all the details is the daily responsibility of production management, recounted by executive producer Michael Grillo. This includes the nuts-and-bolts workflow generated by the director's unit, and specifically by second assistant directors such as Allen Kupetsky, whose chapter features scheduling illustrations from his work on *The Social Network.*

VII. Marketing. Completing the movie is only half the battle. The entire enterprise is in financial peril unless the audience can be seduced to pay for experiencing it. Positioning the worldwide paying audience at the first point of sale—theatrical release—is the role of motion picture marketing, highlighted by Blair Rich, executive vice president, Warner Bros. Pictures Worldwide Marketing. Market research, a little-known world with great influence, is illuminated by Kevin Goetz, founder and CEO of Screen Engine/ASI. Film festivals and markets are especially important to the positioning and selling of independent films, and the process is presented by festival consultant Steve Montal.

VIII. Revenue Streams. At this mid-point, content shifts from money going out to money coming in. To understand the orderly "windows" of timed releases that comprise the exploitable life of a movie, the complete system is detailed and examined by Linda Benjamin, president, global strategy and business affairs for RRKidz, Inc. and former executive vice president, business and legal affairs, Relativity Media. The opaque world of studio accounting is brought into sharp focus by Ilan Haimoff, head of the Contract Compliance and Forensics department and partner at Green Hasson Janks Accountants.

IX. Theatrical Distribution. Distributors are the vital link to the paying public. Part salesmen and part magicians, theatrical distribution executives carry on a love–hate relationship with exhibitors to get the product into theatres, while weighing, along with marketing executives, the spending of advertising dollars against box-office revenue. Distribution companies range from studio financier-distributors such as Daniel R. Fellman, president of Warner Bros. Pictures Domestic Distribution, to independents such as Tom Quinn, who launched his own distribution company after serving as co-president of RADiUS, part of The Weinstein Company.

X. Theatrical Exhibition. Theatre owners are key retailers in the movie business, with the earliest direct contact with customers. They are bound together with distributors by their need for each other. Similar business issues are shared by large theatre chains, as represented by Shari E. Redstone, president of National Amusements, and independent exhibitors such as Robert and Greg Laemmle of Laemmle Theatres.

XI. Home Entertainment. This revenue stream, including digital distribution such as video on demand (VOD) and packaged goods (DVD), has undergone the most change of all revenue streams. The studio side of this complex business is detailed by Ronald J. Sanders, president, Warner Bros. Worldwide Home Entertainment Distribution. A growing and diverse enterprise on the digital side is online self-distribution, described by Jamie Wilkinson, founder and CEO of VHX Corporation (vhx.tv).

XII. The DIY Model. Filmmakers can control the destiny of their movies by becoming distributors themselves online, bypassing the traditional business. This new model of creator empowerment and consumer engagement features the use of digital platforms and self-distribution tools. As a result, micro-budget product has proliferated online in a vast democratization of the movie business. These niche movies are perfectly suited to the niche nature of the web. The DIY world is introduced by the editor of this book. The entrepreneurial micro-budget model is personified by producer Eric B. Fleischman, who has made seven features in the two years since college graduation.

XIII. Consumer Products. The licensing and merchandising of titles or characters, especially from franchise movies, are highly profitable forms of brand extension. But these deals are as speculative as any movie, since the products must be designed, made, shipped and stocked online and in thousands of retail stores well before the movie's release date. The relationship between the distributor-licensor and the manufacturer-licensee is described by Al Ovadia, president of Al Ovadia & Associates, and former executive vice president, Sony Pictures Consumer Products.

XIV. International. Movies are a global business, with more than half of a popular English-language movie's money made outside North America. The growing, worldwide marketplace is analyzed country-by-country in detail, covering delivery systems and sources of revenue by international distribution consultant Rob Aft. An overview of the movie business in China, the market with the largest customer base of any other, is described by Shaoyi Sun, professor of film and media studies at Shanghai Theatre Academy. The extraordinary, historic growth of the Chinese movie industry puts it on course to become the highest-grossing market in the world.

XV. The Future. In a world where technological advances occur at breakneck speed, it's important to understand the origins and development of entertainment machinery to fully appreciate where they are heading. A comprehensive review of media technology past, present and future links the related pathways of movies, television, home entertainment, music, digital and other media as analyzed by futurist Dan Ochiva, founder and president of NYC Production and Post News (nycppnews.com).

Among the goals of *MBB4* are to reveal the pressures and priorities of business decisions that affect the final product; to acquaint people working in any one part of the business with how their jobs relate to the wider industry; to remove misconceptions or resistance about the money side of movies; and to act as a record of current industry trends and attitudes that may take on new interest with the passage of time.

If the reader gains a basic understanding of how the movie business works and enjoys the journey along the way, these goals will have been fulfilled.

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CHAPTER 1

Introduction

by Jason E. Squire

More historic change has occurred in the movie business recently than in any decade since the coming of sound. In the traditional model, customers would go out to the movies; in today's model, movies go to the customers who have unlimited choices for other entertainment on personal screens.

Competition for the recreational dollar is intense. Beyond movies, there's a wide range of entertainment products, services and experiences: television, theme parks, animation, music, interactive, live theatre, sports, comics, resorts, radio, fashion, consumer products and more. In the investment world, they are all analyzed under "leisure time" because management issues, customer impatience and risk factors are similar.

Even in the face of increased competition, this is arguably a great time to make a movie because the barriers to entry have disappeared. Anyone can shoot and edit at home, then distribute to the world online. Traditional business models are changing, removing the intermediary by placing buyer and seller in direct contact. Customers have more options than ever, and more control over them. Today's product is highly transportable in a world hungry for visual expression.

Change keeps roiling beneath the surface, stirring up vigilance and anticipation from both industry players and civilians. The boundary between them is fading, as YouTube civilians gain traction, shift to wider audiences and then to movies or television, with the expectation that their online fans will follow.

Disrupters as Levelers

All of this mercurial change forced the studio business to confront certain disrupters. These have included the internet; smartphones and tablets; collapsing release windows; unreliable, impatient customers; the changing face of television; increased costs; and piracy. For the consumer, however, most of these disrupters have acted as levelers.

The internet. We take internet access to movies for granted, but after it was introduced in the 1990s, Hollywood did little to use its power, preferring to sit back and track progress. Savvy executives recognized it as a new distribution platform, a major game-changer. While indies were experimenting with online distribution before 2000, the majors simply waited.

Throughout media history, studios have initially rejected new technology as a threat, only to embrace it later. The business has always been more reactive than proactive. Then, when some hungry outsider establishes an audience and proves a new technology or delivery system to be viable, the majors tiptoe in. Radio, television and home entertainment followed this pattern; the internet is the latest. It took a while for studios to stake a claim on the web and when they did, none wanted to risk it alone. Today, in a rare example of cooperation, NBCUniversal, Disney ABC and Fox Broadcasting are partners in Hulu.

The web brought historic change to movie transactions: It is interactive, direct to the customer; in the past, access to movies had always been distanced, through an intermediary. The web thrives on niche content; traditional distribution had always been driven by the tyranny of the popular. It is global; indie movie licensing had always been territory-by-territory. It is untethered, allowing unlimited access to movies, including pocket-sized. Connecting online directly with the customer offers new distribution and marketing opportunities being shaped in do-it-yourself (DIY) models.

The internet is a great leveler for consumer access with the advent of day-and-date, multi-platform release patterns, which refers to releasing on video on demand (VOD) at the same time as in certain theatres. This gives customers more alternatives sooner than the traditional model. The web is in its formative years. With younger viewers preferring online delivery, the sky's the limit.

Smartphones and tablets. The 2007 release of the iPhone introduced the pocket, personal screen. Its horizontal, wide-screen aspect ratio is that of a movie. While some executives doubted the value of such a small screen, others recognized a device for watching movies on the go, and this was a very big deal.

At the same time that consumers were being thrilled by accelerating technology and personal screens, independent filmmakers were feeling squeezed out of distribution in theatres due to increased costs, especially marketing. They turned to the web and experimented with bypassing theatrical by relying on festivals, social media buzz and VOD, with perhaps a select number of indie theatres in the mix. Audacious business models began to emerge, re-inventing movie distribution and easily migrating movies and other visual media to smartphones and tablets where content was being consumed at increasing rates. These devices have acted as leveling forces for customers, offering easy access to content anytime, anywhere. Central to these new distribution models is collapsing "windows."

Collapsing windows. This refers to re-designing the traditional, timed release patterns of movies that usually premiere in theatres, then on VOD, then DVD, then television. (A *window* refers to a contractual time frame stipulating when a specific distribution platform becomes available.) With all the online competition, most of which is free, it's not surprising that indie movie execs have been eager to accelerate and "collapse windows" to release on every platform, as soon as possible, ubiquitously. Studios have been reluctant, not wanting to alienate theatre chain owners, but some have been experimenting as well. In one example of shrinking the traditional home entertainment window, one studio offered part of their digital revenue to participating theatres that would allow for digital release only weeks after theatrical if the movie's screen count declines to a certain number.

Collapsing windows is another leveler for impatient customers who no longer tolerate forced delays in accessing movies. Their mantra is new, more, now, and the industry must continue to be flexible in shifting release windows to suit specific movies, or risk losing those who otherwise will impulsively move on to the next big thing.

Impatient, unreliable customers. In every decade, there used to be a reliable, substantial movie audience in North America. No longer. Today, it is fragmented.

Parents and grandparents tend to follow viewing habits created in their formative years, with selective theatrical viewing plus cable subscriptions. For young professionals building careers, family and a social life, there is hardly any leisure time to consume appointment-based entertainment (such as a theatre's starting times), so they rely instead on streaming, downloading and DVR recordings. College students, with their busy schedules, often visit YouTube and Netflix, but also show up in movie theatres for a title with heavy social media buzz. It's the younger, wired generation that has the most choice. Those aged 8–12 are in the process of establishing their entertainment habits and spend the most time online. This is the generation to track, the one that has never known life before the web, because their habits will likely follow them into adulthood. They are the future of the business.

An unreliable audience serves as a disrupter for distributors, with no leveling counterbalance. But even with an impatient audience, box offices continue to generate billion-dollar annual grosses for studios. In North America, the audience is no longer reliable and must be seduced, at huge marketing costs, to go out to the movies on opening weekend. In China, becoming the highest-grossing movie market, the business is increasing at historic rates with a reliable audience from a growing middle class.

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The changing face of television. Television is loosely defined as the home screen, with traditional, linear television liberated from the home to portable screens of any size. These screens have expanded the definition of television to include online content, wrangled from any platform or provider possible.

As far as content, a wide range of original programming is coming from online providers including Netflix, Hulu, Amazon, YouTube and Crackle. These used to be hungry outsiders, but now each takes a seat at the media table.

When television was young, in the late 1940s and early 1950s, it was a large, wooden furniture box, the hearth of many living rooms. By the 1960s, families bought second televisions, smaller and portable, but the experience was passive. Today, it's active, matching the on-the-go lifestyles of customers. At home, owners program their large-screen smart televisions, choosing from a myriad of options for online access. Outside, the personal screen is ubiquitous.

For children, their first screens are tablets. *The Telegraph* reported a survey by Miner & Co. Studios that found parents disciplining their kids by taking away their tablet so they have to watch the conventional television monitor. The linear television screen and online screen are blending to expand the definition of television. While this has a leveling effect as far as easily reaching viewers, the trend has been a major disrupter for entrenched, traditional networks.

Increased costs. Since the 1980s, a dual cost spiral has been disruptive: the upward trajectory of production budgets and marketing costs. Increased production costs were rationalized to produce the elaborate visual effects audiences were responding to. Another reason was to pay the higher salaries negotiated by agents and lawyers for certain key artists. Increased marketing costs were being rationalized as benefiting release windows that followed theatrical, especially home entertainment.

At the time, increasing home video revenue offset a significant percentage of negative cost, especially for independent movies. This gave a false sense of security to executives who were approving higher budgets in light of this seemingly ever-expanding cushion. But decades later, by the end of 2005, home video values were trending downward.

Today, costs for mainstream studio product continue to rise to satisfy the proven, global audience appetite for "tentpole" movies during the summer and holidays. While higher costs are not a new disrupter, larger budgets put continual pressure on any financier's bottom line and there is no leveling counterbalance. Studio shooting days are more costly; advertising is more costly; mistakes are more costly. It's more of a crapshoot than ever, at a table restricted to high rollers.

At the same time, the press continues to report annual market-share statistics, accompanied by studio bragging rights, with little regard to the true measure of financial success, which is profitability. Tension between market share and profitability continues.

But there is good news. Reduced costs are the hallmark of the DIY, micro-budget industry. (While DIY stands for do-it-yourself, it actually means do it with a core group of trusted comrades.) DIY production costs are so low that there is no excuse not to make a movie (a refrain repeated throughout this book). The only differentiator is perceived quality, which can lead to online hits and sometimes attract traditional buyers. For example, the 2015 Sundance selection *Tangerine*, shot on an iPhone 5s reportedly for $100,000 went on to a distribution deal with Magnolia Pictures. Lowering costs, especially in the DIY arena, levels the playing field, as filmmakers become their own distributors of micro-budget product online. It's an exciting brave, new world.

Piracy. This concept is remote to most moviegoers, unless someone designs code and therefore cares deeply about protecting intellectual property (IP). The global cost of piracy, in the billions of dollars, cannot be underestimated and has not abated. Not all the blame can be put at the feet of music executives who years ago ignored the trend of increased pirated music downloads by consumers objecting to the high retail cost of CDs. An entire generation grew up believing music should be free, and this has taken its toll on movies as well.

Movie piracy thrives in countries that have the largest gaps between rich and poor, with governments that ignore IP rights. The online world facilitates piracy but also unlimited consumer access. Although it might be said that this has a leveling effect, it's certainly bad for business, period. Entertainment industry efforts continue around the world to protect IP and fight piracy but it is an uphill battle.

In summary, it must be noted that most of these disrupters have introduced new players and levelers, further expanding content and choice. These changes also point to a healthy business, proving how open and adaptable it is. While the traditional movie industry continues to manage the choppy waters of upheaval, online players such as Amazon, Google and Netflix continue to barrel forward, providing more content and by extension, more opportunities for creators and audience.

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Movies as Product

Developed well over a century ago, movies matured in one generation into a complex mixture of art and commerce, capturing the imaginations of worldwide audiences and having a profound impact on behavior, culture, politics and economics.

At its simplest, the feature film is the arranging of light images to win hearts on screens of all sizes. At its most complex, it is a massive venture of global commerce, a vast creative enterprise requiring the logistical discipline of the military, the financial forecasting of the Federal Reserve, and the gambling instinct of Las Vegas, all harnessed in private hands to tell a story. The profit motive is at work here, but the formula to attract audiences is as speculative, uncertain and elusive as can be.

A movie is extremely perishable. It lives and has value as long as it is on people's minds. The public's perception of an average movie's value decreases as access to it increases and as it ages. A successful studio movie can remain in theatres for a month, while a failure can be gone in two weekends. Online, movies have a much longer shelf life, as long as a platform or website sustains it.

A related issue is time. Time is finite, but the alternatives to fill it are infinite. A movie usually takes two hours to watch, but online and via DVR most tend to visit and sample product rather than watch to the end. With competing recreational options inside or outside the home often delivering similar value in less time (or in smaller, more controllable portions), movies are under more pressure than ever.

Three types of movies. In general, three types of movies are being made anywhere in the world:

1. big, expensive blockbusters intended for as wide an audience as possible;
2. local-language movies that travel (by appealing to customers in other countries) and thus have unexpected, greater potential to be profitable; and
3. local-language movies that do not travel, with costs carefully balanced against projected local revenue.

The expensive blockbuster or tentpole movie (propping up the tent of a distributor's other releases) is a very speculative investment. Each Hollywood studio takes this risk because the potential high reward can include revenue for years over its many divisions such as television, home entertainment and especially consumer products. Inventing branded franchise movies has become a studio mainstay. Success can generate three-times-higher grosses overseas than in North America, so it's worth the gamble. But every few years, no studio is immune to writing off losses on a tentpole movie that does not perform to expectations.

The second type, a local-language movie that travels, happens to possess intangible elements of universal appeal. At this point, business kicks in. Ideally, this product is identified via word-of-mouth by scouts for international distributors whose job is to seek out a product that is exportable, and that can easily travel. Here, a fascinating, timeless judgment is being applied: the simple, vulnerable, subjective human instinct as to whether a given movie can generate revenue and profitability.

Most movies made today are in the third category, the local-language movie that does not travel. Almost every center of culture produces movies made at a cost geared to average returns for the local market. Depending on shifting winds of local politics, social habits and economic security to develop a middle class with discretionary income, local-language movies (and other entertainment) rise and fall in popularity. Challenges are similar for a YouTube star, Bollywood producer, French actor or Guangzhou documentary filmmaker, in their effort to attract audiences and generate new product. These are the same goals of any studio executive mounting movies for the global audience.

Movies, with its brands, references, storytelling tropes and glamour, weave in and out of popular culture all over the world. But costs keep growing, and alternative experiences listed at the beginning of this chapter are closing in.

Movie Business Basics

If there is one word that defines the business, it's "uncertainty." The movie business attracts the best and brightest worldwide due to its glamour, high risk and high rewards. When they get closer, it becomes clear that the glamour veneer is merely a marketing tool and any job requires focus, tenacity, long hours and plain hard work. It's a lifestyle, not a career (as has often been said).

Like any business, the motion picture business exists to make money. But there the comparison ends. In what other business is a single product fully created at an investment of tens of millions of dollars, with no real assurance that the public will buy it? In few other businesses does the public "use" the product and then take away with them merely the memory of it (as Samuel Marx observed in his book *Mayer and Thalberg*). In the truest sense, it's an industry based on dreams and leaving—at its best—an afterglow of warm emotions and memories.

Three industrial segments. The theatrical model has three segments: production, distribution and exhibition. Production equates to manufacturing; distribution to sales and exhibition to retail. Production includes principal photography, the most expensive of the segments. Distribution is the all-important strategy to maximize sales amid the multiple revenue streams customers expect. Exhibition, referring to movie theatres, has broadened to include other retail points-of-sale via devices and platforms.

Which came first? Exhibition. Vaudeville theatre circuits blanketed the country by the 1880s offering live performer segments, the mass entertainment of its day. Many movie industry pioneers began as theatre owners. By 1905, they recognized the potential of the new medium and added short silent films to the live vaudeville players on the bill. The public clamored for more, so those savvy exhibitors decided to make their own movies. The rest is history, as those vaudeville theatre circuits set the foundation for movie theatre chains that followed.

A note about "business." The word puts some people off. When applied to movies, it once conjured up conflicts pitting West Coast against East Coast, the creative community against the business community, art against commerce. That's all changed. Movie professionals learn to mix creative and business or they won't survive.

There's no magic formula for a commercial movie. Trends come and go, trying to capture the popular zeitgeist. A successful movie will spawn clones released one year later. When franchises are in vogue, sequels are made as a form of insurance that audiences will want to return to the familiar. But there are still edgy, original movies being made.

Four stages of filmmaking. These are development, pre-production, production, and post-production. Development is actually research and development (R&D). Pre-production, known as prep, includes all the essential hiring, planning, budgeting, scheduling and location scouting. In this stage, everything that can go wrong is anticipated, every contingency considered. Filmmakers insist that good prep can make or break a movie. Production, also known as principal photography, or shooting, is the most expensive stage. Most movie sets are highly charged creative environments where all that ultimately matters is what has been captured, under pressure of "making the day" or staying on schedule. It's been said that movies are made in post, when all of the elements of captured picture and sound (dialogue, music and effects) are arranged and tweaked in the alchemy of creating an emotional, satisfying experience for the audience.

Three business models. For most movies, there are perhaps three business models: the studio model; the independent model; the DIY micro-budget model. The studio model is the traditional business, with its reliance on more high-cost global franchises than ever before. The independent model continues to generate provocative, specialized titles at a much lower cost-to-return level. The DIY micro-budget model thrives on the web (often with limited theatre exposure) and continues to evolve. This newest entry is arguably the most exciting and transformative.

Whether a movie opens in theatres or doesn't, subsequent release windows include premium VOD (higher-priced video on demand streaming via iTunes and Amazon Prime, for example), non-theatrical (including airlines and hotels), digital HD (download to own via

UltraViolet, iTunes and others), DVD/Blu-ray (the only packaged goods on this list), transactional VOD (lower-priced video on demand), pay TV (subscription-based, such as HBO and Showtime), subscription VOD (Netflix, Hulu Plus), free television (ABC, CBS), basic cable (Comcast) and ad-supported VOD (YouTube).

Movies in theatres are appointment viewing, just like linear television. Everything else is on demand. The release of each window is specifically timed in contracts between each platform provider and the IP owner (the copyright holder). The contracts also spell out revenue splits per unit of sale or per licensing of a group of titles. These agreements are usually long-term, so that any reconfiguration of release windows takes a long time.

Global distribution is based on the American model. Each country's rollout is dictated by territorial owners of distribution rights and the sophistication of online technology.

Worldwide interest in opening weekend box office grosses is much like the tracking of a weekly horse race. (What product outside popular culture trumpets weekly sales figures to the press?) Moviegoers enjoy following these reports to track their favorites and because of the high stakes involved. Executives pay close attention to the second weekend's percent change and to ultimate box office performance because those numbers foreshadow the ultimate commercial value of each title. In addition, some after-theatrical deals, such as for television licensing, are often pegged to a percentage of box office gross.

Hallmarks of the business. Theatrical revenue has shifted from a profit center to a loss leader. Every movie is a prototype. The movie industry defies analysis from a strict business point of view because of its uncertainties.

What are the hallmarks of the movie *business*? That movies are a collaborative medium; every picturemaking experience is different; there are no hard and fast rules; financing is an enormous crap-shoot; an entire investment is made before anyone knows if the product is marketable; key decisions spring from intuitive leaps; most practitioners possess a personal mix of creative and business sense; judgments frequently rely on relationships and personalities; movies require a long lead time, making it harder to anticipate audience trends; and as far as profits are concerned, now and then they can be substantial.

It is a cyclical industry, difficult to chart, rooted in creativity and intuition, involving narcissism and greed, capable of dismal losses and euphoric profits, engaged in an ongoing seduction of the paying audience. The single universally acknowledged marketing tool—favorable audience word of mouth—cannot be controlled.

High risk points to why conservative capital has historically shied away from investing, although control of movie companies has always been attractive to a broad spectrum of players. Industry observers insist that "It's not a business," as shorthand for explaining its unpredictability, while movies continue to attract creative entrepreneurs and artists devoted to this most valuable and influential national resource and export.

At its core, the business competes for the work of creators in a limited talent pool that shifts based on audience acceptance. The list of producers, directors, writers, actors and others who have earned an industry following is exclusive and always changing. Energies are intensely spent daily to compete for this limited talent pool and to create new entries into it.

The pubic has a distorted perception of professionals in the business, the result of a powerful marketing machine that highlights glamour and celebrity. Most craftspeople are independent contractors, middle-class freelance artists who may not have a next project. They can be called to distant locations away from family and friends for months. Although well paid, these talented, dedicated nomads often have to wait months between jobs. It's not an easy life, but they would say there is nothing else they would rather do.

Some more history. As vaudeville theatres were giving way to movie theatres, by 1915 hungry outsider (mostly immigrant) entrepreneurs who started as theatre owners decided to organize the sales and licensing of movies (distribution) and also make their own (production). Sudden, worldwide success continued through the 1920s because the pantomime product was highly popular and exportable, with no competition. The transition to sound in the late 1920s was a costly one, reducing overseas revenue due to the new language barrier, but the industry snapped back in the 1930s with established studios as monopolies bearing the same brands as today.

By 1948, after World War II, there was major change. Returning veterans exposed to other cultures had gained new appreciation of movies made abroad. Some talent refused to sign the seven-year studio contracts of old, wherein they had no choice of projects. They started their own production companies, allowing for more control. Before the war, independent exhibitors had petitioned the government to address the monopolistic practices of those theatre-owning, vertically integrated studios. This was resolved by the Supreme Court in 1948 in *U.S. v. Paramount Pictures, Inc. et al.*, which led theatre-owning studios to sell their theatres.

Then there was television, the first great outside threat to the movie business. By the 1950s, studios were producing wide-screen spectaculars to lure customers who were staying home, watching television. The 1960s witnessed a passing of the torch from retiring movie pioneers to a new generation of executives and talent. Social unrest and political upheaval through the 1970s were reflected on the screen in a decade that historians consider a remarkable output of provocative, artistic yet commercial movies. That decade also witnessed a redefining of box-office potential, with breakout successes such as *Jaws* in 1975 introducing the blockbuster release and *Star Wars* in 1977 rewriting the record books while leading to new studio departments devoted to revenue streams including books, soundtrack albums and especially consumer products.

The 1980s were the boom years of home video, with increasing returns that were used as cushions for higher budgets. Studios created divisions to organize something they had never done before: selling movies directly to customers who could actually take them home and own them. Those studios with music divisions used them as a model, since both home video and music sold packaged goods via retailers. In the 1990s, *Titanic* became the highest-grossing picture of the day while serving as a dubious model, going so far over budget that the initiating studio was forced to take on a rival studio partner to share the risk.

Entertainment, like most industries, had gone global. From the 1980s, conglomerates intent on acquiring and delivering content by any new method had bought studios including valuable movie libraries, a trend that continues today.

For their part, studios were looking for deeper-pocketed parents to help survive lean periods. News Corporation bought Fox; Sony bought Columbia; Viacom bought Paramount (and later CBS); Ted Turner bought the MGM library, which became part of TimeWarner; Comcast bought NBCUniversal. Only Disney has remained its own master, while buying ABC, ESPN and later Pixar, Marvel and Lucasfilm. Larger, diversified parents have helped offset cash-flow uncertainty, the between-hits periods that are the downside of the movie business. But with each takeover, movies would play a smaller and smaller role in relation to other sources of revenue. Top movie executives, who would have been company owners two generations ago, were now middle managers of global media empires.

By the turn of the century, studios were staring into the future represented by the internet, a nirvana promising direct-to-customer commerce. But the movie industry's exploration of this new, interactive pipeline was slowed by fear and the threat of piracy. It was left to hungry outsiders such as Netflix, Amazon and Google to gamble on content with their direct reach to customers and become major players in the business.

Meanwhile, the most popular English-language movies were making more money outside the United States than inside.

The Global Future

With the U.S. movie industry mature, overseas markets, dynamic and fascinating, represent the growth part of the business. Some countries bypassed cable, with its labor-intensive infrastructure, and moved to satellite, online and mobile broadband. Any list of the most popular movies or television shows in a given country contains an increasing number of local-language product, demonstrating healthy popularity in the face of English-language juggernauts. Online viewing allows for enjoying more cross-cultural product, reducing social barriers. After all, the visual language of movies is universal.

Actually, the movie business has always been international. The pantomime of silent films was easily exported with title cards in the local language. But the transition to sound created dialogue barriers (along with issues of politics and economics) that curtailed film exports until after World War II. Then, a flourishing of artistic expression in most countries, coupled with tourism and the natural curiosity that goes with it, created a cultural appetite that led to a vibrant business of importing and exporting movies and later television programming.

In the U.S., studios were fully financing pictures and distributing them worldwide. But in the 1960s and 1970s, in a new global approach, entrepreneurs such as Joseph E. Levine and Dino De Laurentiis raised money by combining financing from different countries in exchange for distribution rights divided among those countries. Today, American studios take on partners to bring equity financing to the table, offsetting a studio's risk on selected movies in exchange for distribution rights perhaps in those same territories.

The system of buying and selling movies for import and export is based on supply and demand. Variables such as currency fluctuation, government regulation, frozen funds, local taste, regional instability, censorship and piracy come into play. The highlights of this commerce are film festivals and convention-style markets worldwide.

The global industry will expand as countries stabilize politically. After all, leisure-time purchases are made from discretionary income, not money used to pay for essentials, by members of a solid middle class who have embraced movies as part of their recreational lifestyle.

Although issues of market potential, investment regulation, film content and audience taste vary around the world, the basic business skills applied to moviemaking remain the same. In developing a screenplay, action must be rewritten to conform to budget; in dealmaking, all parties must be protected; in securing funds, ingenuity prevails; in production, creativity is influenced by pressures of time and money; in distribution, imaginative selling is required; and in exhibition, the anxiety of anticipating public response is ever present. Because the product involves huge amounts of money, it is up to lawyers, accountants and agents to apply formulas and intuition to reduce odds and construct frameworks of responsibility and recourse on behalf of financiers and creators.

Meanwhile, global players are poised to expand the definition of movies, as technology continues to push the envelope. Screens are windows and their shifting sizes and shapes have influenced creators and customers. For example, virtual reality (VR) allows for venturing through the screen, as foreseen by Lewis Carroll in 1871 as Alice makes her way *Through the Looking-Glass*.

Entertainment Studies

This is to underscore the need to teach movie business as part of wider entertainment industry studies, including television, theme parks, animation, music, interactive, live theatre, sports, comics, resorts, radio, fashion, consumer products and more. It's all connected. This will fortify students with the background and tools to compete in an evolving industry where the borders between these worlds continue to fade. After all, it's likely that their careers will span a range of categories, and they must be prepared for the crossover. It should all be taught under the heading of Entertainment Studies.

The idea was crystallized in this writer's article for *The New York Times* Sunday Money & Business section (April 19, 1998) entitled "What's Your Major? Entertainment Studies." It was good to hear from students, professors and executives who endorsed such a curriculum, were planning a class with this approach or were considering offering one. Continuing efforts in this direction are strongly encouraged.

Using the movie business as a template to study how money is arranged for, spent, protected, and returned in a creative industry is at the heart of this fourth edition *Movie Business Book, MBB4*. With the same enthusiasm as anyone discovering this material for the first time, it is a pleasure to present it to the reader.

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PART I

The Creators

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CHAPTER 2

The Entrepreneurial Producer

by **MICHAEL LONDON**, principal and founder of Groundswell Productions, an independent production and financing company based in Los Angeles. Mr. London has produced a range of features, television movies and series. Among the movies he produced are *40 Days and 40 Nights* (directed by Michael Lehmann), *Thirteen* (Catherine Hardwicke), *House of Sand and Fog* (Vadim Perelman), *Sideways* (Alexander Payne), *The Illusionist* (Neil Burger), *King of California* (Mike Cahill), *Smart People* (Noam Murro), *All Good Things* (Andrew Jarecki), *Win Win* (Tom McCarthy), *Lola Versus* (Daryl Wein), *Very Good Girls* (Naomi Foner), *Love the Coopers* (Jessie Nelson), and *Trumbo* (Jay Roach). He was also executive producer on *Appaloosa* (Ed Harris), *The Informant!* (Steven Soderbergh), and Academy Award nominee *Milk* (Gus Van Sant). Among his awards are "Producer of the Year" from the Palm Springs International Film Festival; Golden Globe, Independent Spirit Award, and Academy Award nomination for *Sideways*.

The entrepreneurial independent producer initiates the movie. The job is akin to a general contractor building a house. In both cases, the person oversees talented people, each with a specialty, and needs to be familiar with everyone's discipline.

The first step is identifying an underlying idea or piece of material. This involves securing rights to the property, attaching a writer and perhaps financing development. Ultimately, it will mean working with a financing source for the production stage and functioning as a kind of quality control over the production process. Using the general contractor analogy, the independent producer is beholden to whoever is paying the bills, while keeping the work on budget and on schedule, but is not necessarily the person doing the building. That's the work of the director, line producer, and department heads.

Initiating a project is the result of a daily search of journalism, media, popular culture, and especially the literary marketplace, until something compelling is found that feels like a movie. Then, it's about acquiring the rights to that intellectual property (IP), usually by an option to purchase the material.

Anything that gets made in the independent world is made against huge odds. When a producer submits a project to a financing source, more than likely the response is going to be "no." Over time, this is a character-building experience; projects that are automatic and easy are often not the ones that attract entrepreneurial producers. It is that fire in the belly that pushes the producer forward against all odds.

The submission process requires thinking through why a piece of material is appealing and how to articulate that belief without getting caught up in what other people want to see. That's a great trap for a producer. Any producer who starts thinking in terms of what other people want to see is not being true to personal instincts. It takes a long time to feel confident about one's instincts.

The independent producer often tries to go as far down the road as possible without taking on partners in order to maintain leverage. In practice, however, there are many permutations, depending on the project and marketplace climate. Bringing on a financing partner, with the corresponding sharing of leverage, is essential at some point to getting the picture made. The timing of these partnerships can vary greatly.

In the development phase, money is often spent out-of-pocket to option the material and take it off the market. An *option deal* gives the producer exclusive rights to shop the material for a specific duration. It involves a low option price and a high purchase price that is paid by a financing entity if and when the film goes into production.

The search for material is an ongoing process of reading submissions from agents, managers, and others in the business, while keeping pace with the publishing world through journalism, upcoming books, blogs, graphic novels–wherever a good idea for a movie might come from. These different examples of IP can be sources of movies and television shows. (See Chapter 8 by Joel Gotler.) It's also important to be out in the world and alert to what's happening so that the producer's sensibility reflects not only personal taste but also what's interesting and provocative with audiences.

A lot of time is spent reading books and scripts. Every morning, turn on the computer and look for something interesting. When it turns up, a producer uses access and relationships to reach whoever controls the rights. Express interest and negotiate to acquire the rights. Sometimes, the producer becomes a detective to secure the rights. There may be a story unfolding in the news so it's a matter of tracing how to reach the people involved, or their representatives, to negotiate for their life rights.

With an original screenplay, an entrepreneurial producer with a vision about the property usually works with a writer who shares that vision. This involves patience, as it can take months or even years working with that screenwriter to get the script to the point where a financing source will commit to the project. With a novel or non-fiction book, the author sometimes wants to know what talent the producer intends to attach to the project. These talent names can be more valuable than money. In either case, at this point, perhaps little or no holding money changes hands, with all parties working in good faith. However, there can also be a proper written agreement between the rights holder and the producer, giving the producer the exclusive right to shop the material for a specific period of time. Once the producer brings in a financier, the rights holder might receive a bonus contained in that agreement.

Strategic planning at the development stage depends on the property. Will a studio or other financing source pay to develop it? If so, make a list of what companies might be interested based on reputation and personalities, and what talent can be brought to the table beyond the IP to get them interested. If not, the property will be developed on its own and a writer must be found. There are development investors who might put up seed money to pay the writer, and they would come on board as producing partners.

The producer does not make much money during development, even if a deep-pocketed financier or studio is involved. As will be stated elsewhere in this book, the full cash fee of any talent on a movie, including the producer, is not payable until the first day of principal photography. Development is often spending time and effort on spec, so the entrepreneurial producer must have a number of projects in different stages.

Once the screenplay is developed and ready for the marketplace, the search for production financing accelerates. If the producer packages a project with a writer, director, and performer, it makes the submission more concrete and saleable. The more a prospective buyer can envision the movie, the more it is likely to sell. To return to the general contractor analogy, a screenplay is the blueprint. Attaching the director and performer makes the project more concrete for financiers. There may be no formal deal with these attached talent, but instead an understanding that they would secure their own deals with any buyer that wants to move forward.

How to find the right buyer? It comes down to being familiar with the financing marketplace and creating a list of worthy candidates, whether studio, production company, equity financier or other financing partner. Ideally, the package would attract more than one buyer, creating competition.

It's best to make each submission personally, to speak to the buyer directly about what is compelling about the project and why someone should invest in it. This is a piece of the puzzle that often requires relationships. Based on responses, the producer moves on to subsequent submissions and learns more about the package's viability.

There are constantly new sources of financing announced in the trades and time should be spent cultivating them as well as traditional sources. This comes down to networking and staying current with all buyers so that when there is a new project, the producer remembers who was looking for something similar.

Let's assume a financing entity responds to the package, whether studio, production company or equity financing source. The financier would make a deal with the producer and pay for a mutually agreed-upon screenwriter (or for the earlier screenwriter to continue) to further develop the screenplay in order to achieve a draft strong enough to proceed to production.

If a financier embraces the producer's screenplay and talent package and wants to proceed to production, this decision triggers conversations between the financier and each of the talents' representatives to negotiate individual deals. It can take months for the agents and lawyers to do these deals, assuming the financier's enthusiasm doesn't falter in the interim.

Achieving the green light and proceeding to production is exciting, with the financier committing to the film. At this point, the general contractor hands over the keys to the director, the creative engine for making the movie. The studio or financing entity looks to the producer to be responsible about money, keeping the project on budget. Production designer, director of photography, editor, wardrobe, all of these department heads are people the producer has to sign off on, in assembling the best possible team.

During prep (pre-production), there is casting, location scouting, scheduling, and hiring an expert crew around the director. Some of this bleeds into the work of the line producer, responsible for day-to-day money on the set, so that's an important early hire. (See Chapter 20 by Michael Grillo.)

Financing entities want producing partners to be intimately involved, every day of the shoot. But when the budget gets reduced, the producer fee is often an early casualty. Producers wind up holding the movie together and working longer than anyone on a picture, but often with comparatively limited compensation.

When a filmmaker's vision exceeds the resources available, there are conversations with the financier about budget. Issues arise before shooting and often after the tech scout (usually done with the producer, director, production designer, director of photography). What happens if every department head says they each need a half a million dollars more; the director has found three extra, expensive locations; the script may have grown in size?

The two weeks before a movie's start date can involve a lot of contentious dialogue about this. How can the movie be made for the budget available? Sometimes at studios the budget can increase, but usually not in the independent world. Independent investors are pegging the budget at what they perceive to be the value of the film. This process of balancing the budget can be adversarial as the parties decide what stays in the movie and what goes. The director doesn't get all the locations or cast wanted; the writer has to give up favorite scenes. Ideally, choices are made in the best interest of the movie. It's a lesson about the personalities of people the producer has committed to, and about seeing what people are made of in those tough couple of weeks right before shooting starts.

The first week of production is crucial, with the crew easing into a complex working relationship. After perhaps three years, all the creative and business conversations to set up the movie lead to the reality of making it. Sometimes it's turning out exactly as hoped; sometimes it seems completely different. If something's not working, sometimes it's adjustable, through talking with the director and cast to solve the issue. The first week is about reconciling the producer's vision with the reality on the screen.

During principal photography, the financier checks in every day to make sure the movie is on schedule. They also read production reports of completed days and watch the dailies. With the use of new digital formats and broadband internet connections, dailies can be watched early in the morning from what was shot the day before, in order to have immediate conversations with the director. If there are issues with an actor, the producer can deal with it right away. Technology facilitates an ongoing dialogue.

Any producer not spending enough time on set, or not watching dailies or not talking to the director is not really doing the job. Be inside the process and keep up with both creative and financial issues. The financier is usually nervous. When not on the set, it's easy to imagine that money is not being spent wisely or that the creative process is not going well. As a result, an important part of being a producer—and this comes from experience—is to reassure people that things are going well.

Keeping the production on schedule is a prime responsibility of the producer. Financiers are keenly focused on this variable, as is the completion bond company on an independent film. (See Chapter 18 by Steve Mangel.) Most movies are bonded. If the shooting company is going over, or is not making their days or weeks, the bond company will come in and tell them what to do. In extreme cases, the director can lose control of the set. A bond company representative, usually very experienced, is on the set saying, "I'll take away this scene if you can't get back on schedule." This is an extremely uncomfortable scenario for producers, who try their best to avoid working with filmmakers who cannot make their schedule. Falling behind almost always reflects an underlying problem: the director's vision wasn't specific enough; or the production designer was spending money without anyone knowing; or the DP doesn't work fast enough.

Editing begins during principal photography, with editorial usually cutting only a few days behind the shooting company. Many of the key decisions, including casting and the director's planning, have been made in pre-production. But during post, the producer can come up with ideas and input. Many directors welcome another voice in post.

With a newer director, it's important to see edited sequences and stay close to the editing process. With more experienced directors, there's no need to monitor the edited work as closely. Often if there's a good relationship with the director, the producer will see some scenes cut together over a weekend that the director is excited about or worried about, welcoming the feedback. Sometimes a scene is shot that doesn't seem to work. In this case, the producer wants to see the cut in case it's necessary to re-shoot it to do something different.

Per DGA rules, the director usually has ten weeks to cut a film before showing it to the financier. This first screening of the movie is always nerve-wracking. If the producer hasn't seen an assembly before, there's the luxury of having been away for ten weeks and this brings a clarity to the screening. But there is also the fear that it's not going to resemble what the producer hoped it would be.

First cuts are famously disappointing. Editing is an arduous process and first cuts often don't resemble what the movie will evolve into. After the screening, the producer has to control emotions and be surgical about where things can be improved and how to keep the director's mood up. What's going to be too brutal for the director to hear? How to give notes without the studio or financier feeling like they have a problem on their hands? It's one of the most challenging moments in the making of a movie.

Music is vital to the movie so it's important to follow progress from the composer's scoring session, when the music is being performed, to the final mix of the movie. The financiers are nervous, eager to get
to the preview process, and much of this anxiety can fall on the shoulders of the composer and the director. The producer needs to monitor this and try to maintain equilibrium. Subtle nuances of pacing and emotion can be created through editing and music that go a long way in conveying these values to the audience. The producer will try to maintain those creative moments, even in an accelerated post schedule.

Final cut is another negotiation. Contractually, final cut usually resides with the money. If there is a difference of opinion with the money, the producer hopes to be able to persuade, with reasonable suggestions, what needs to be done. Sometimes a preview can mollify any concerns on the part of the financier.

During shooting, the producer discusses distribution strategy with the financier. Topics include whether to sell the movie based on the trailer or a promo reel (a composite of scenes that convey tone) and also the right moment to introduce the movie to the marketplace. Every movie is its own little business, so it depends on the attributes of the film and the marketplace appetite for it.

The sooner a movie is shown to an audience, the better. Sometimes it's a small friends-and-family audience, after the financier has seen it. Sometimes, it's a recruited preview audience. At this stage, everyone is so emotionally overwrought that filmmakers and financiers are perhaps not really sure about their instincts or their vision. When a movie is previewed for 75 strangers, the audience is a microcosm of what will happen upon release. It's a great leveler of neurotic feelings and fears. Previews are a helpful way to create a common view, via the audience, of what might need to be done to improve the movie, instead of having the director, financier, and producer locked in combat. It can act as an arbiter of these differences.

Previews are a function of market research involving measuring, or testing, audience reactions. There are a few big testing companies; most producers have a relationship with one of them. The preview process helps to understand how people are receiving a movie. Movies are not a static object to admire on a wall at home. They are an audience experience.

Metric numbers are used by people trying to quantify how good a movie is. A lot of independent movies don't score well because they don't fit a genre precisely. I've worked on very few that have scored well. *Sideways*, a very successful movie, never scored above the 60s on a scale of 100. Any movie that challenges, is original or unique, is not going to get high scores. But the producer will get helpful feedback from watching the audience during the screening, listening to them in a focus group and reading their cards afterward. It's a real talent to interpret what the audience cards mean. (See Chapter 23 by Kevin Goetz.) After a preview, the parties gather and decide whether or how to try to improve the audience response. Then the movie is tested again and the changes are evaluated.

Testing is a function of marketing, which often kicks in during production. On a studio movie, marketing people are involved early, formulating ideas of how it should be sold, capturing digital interviews and behind-the-scenes footage on the set, and absorbing enough so they can start making trailers and posters to determine how best to represent the experience of the movie.

Once the film is finished, there may or may not be a distribution deal in place. With a studio distributor, the movie is turned over to a large and effective machine. In the independent world, strategically the most important distribution deal is for North America. This deal is used to attract territorial distribution deals all over the world. For rights outside North America, typically a foreign sales agent (often from the talent agency of talent working on the movie) is employed who has been selling rights to the movie, country by country, since before it started shooting. This part of the process is complex, intense and opaque. Having a marketing plan to show to a buyer is almost as important as the movie itself. Sometimes producers work with independent marketing consultants who put together a trailer for distributor buyers. Once a cut of the movie is prepared, the sales agent can finish selling off territories. (The term "selling" is used for territorial deals, although technically they are licensing deals.)

Without the security of a North American deal, strategy turns to the festival circuit. Which festival is best to submit to so that acquisitions executives will see the movie? Will it be screened, for example, at the American Film Market in Santa Monica in November? Should there be different music on the movie? As the movie proceeds far into production, distributors prefer to wait a few months and see the finished product at Sundance or another festival. This means the producer must decide at what point the movie is actually finished, another diplomatic challenge. Sometimes it's when the money runs out.

What if the movie doesn't get into Sundance? A range of many other film festivals, submission rules, and online applications can be found on Withoutabox.com. There are many high-stakes variables around selling an independent movie. The goal is to become an official selection, which helps in future advertising. Should the movie get into a festival where there's a new buyer who might bid up the price, or into a festival where all the movies acquired last year failed? Unfortunately, the quality of the movie is usually not the determining factor in whether it will be sold. As in other stages of the process, the producer has to be thick-skinned, passionate, and believe in the film.

There is a gap between the perception of a movie in the world and the reality of the movie on the screen. The buzz surrounding a movie in production, as to how it is turning out, is often inaccurate. If it's favorable buzz, producers usually stoke those expectations so that buyers are more interested in seeing their movie. Distributors know this, try to shut out the noise about a film and see it fresh, as a finished product. (See Chapter 28 by Tom Quinn.) There is something to the idea of withholding it from buyers to improve the want-to-see, and this is part of the ongoing conversations with the sales agent. But, ultimately, no one knows if it's good or bad (meaning commercial or not) until civilian audiences see it. Many films have been bought for high figures in the hothouse environment of Sundance that did not deliver at the box office.

If overseas territories are still available on the film, the sales agent will attend the American Film Market and other global markets, where buyers and sellers gather to make deals. This continues the work of territorial sales, a very labor-intensive part of the business. If bids are made, the sales agent reports them to the producer and to the financiers, who are trying to cover their investment through guarantees from each territory, usually after the centerpiece North American deal has been made.

Now let's turn to a producer's support system. Internally, there is often a producing partner, a development executive and assistants so there is an overhead cost to maintain. Externally, there is a lawyer and agent.

What is useful preparation to be a producer? Apprentice with a producer or production company in order to learn strong story skills and the art of navigating both IP and talent in the marketplace. Recognize the value of taste. Any fledgling producer should try to secure a piece of IP and test it in the marketplace. Buyers will not care about the producer, they will care about the material. If your taste coincides with theirs, you can become a producer. It's not a field that can be taught; it can only be learned by doing.

With costs of digital production so low, there are decreasing barriers to entry. Anyone can make a movie with an iPhone and digital editing equipment. Instead of spending three years in a development job, raise some money and go make a movie.

Unfortunately there is not always a high regard among studios and financiers for what creative producers do. Producers don't have benefits; they aren't paid a producing fee until a movie goes forward. Part of the problem is that Hollywood is filled with people who call themselves producers but have other full-time jobs and no producing credits. As a result, the notion of a producer as a business function has been diminished. Studios, in controlling the movies they make, don't want creative producers coming between themselves and talent. Independent financiers want to be producing movies themselves, but may not have the experience or skills. They see entrepreneurial producers as a necessary evil to bring them projects, but they don't want to share the producing authority.

The producer is perceived very differently in television. My own business shifts back and forth in whichever world is more suitable to a property. Power in television is in the hands of the writer-producer, similar to the director in feature films. It's difficult for a network to stay ahead of the fast pace of a series production schedule, so they rely on producers making good decisions on the set. It's exciting and fun. The writing process is alive because there are multiple episodes, and scenes are changing all the time as producers work with the writers. Network executives tend to be interested in entrepreneurial feature producers because of taste and development skills.

The glamorous world of the producer is a product of industry myth. There is not a lot of money in it (with rare exception) and fees are going down. The work is painstaking, methodical, and instinctive. The producer works on projects with great passion and emotional investment, knowing that only a small number are likely to get made. It's not for everyone.

As an entrepreneurial producer, I straddle the independent and studio worlds and work mostly with financing generated outside the studio system. Although independent filmmaking can be much more challenging than working under a studio umbrella, it can also be far more satisfying creatively.

CHAPTER 3

The Director

by **DOUG LIMAN**, director-producer of critically acclaimed movies, based in New York. Credits include *Swingers*, *Go*, *The Bourne Identity*, *Mr. and Mrs. Smith*, *Jumper*, *Fair Game* and *Live Die Repeat* (also known as *Edge of Tomorrow*). For *Swingers*, he received the MTV Movie Award for Best New Filmmaker and European Film Award for Best Non-European Film; for *Go*, the Independent Spirit Award for Best Director; for *Live Die Repeat*, the Hugo Award and the Second Annual Japan Cool Content Contribution Award (J3C Award) from the Japan External Trade Organization. Mr. Liman has also directed cutting-edge commercials for companies including Nike, Levi's and PlayStation, and developed and produced several hit television series, such as *The O. C.*, *Covert Affairs* and *Suits*. He is politically active, continuing some of the work of his father Arthur Liman.

The director is quite simply a storyteller. The impulse to tell a story dramatically at a party, making it more compelling and more fun, is the same impulse I bring to filmmaking. All of the tools and all the gifted personnel working on a movie are woven together to help tell that story. This hasn't changed, whether directing a small independent movie like *Swingers* or a big studio movie like *Mr. and Mrs. Smith.*

The *Swingers* screenplay was written by Jon Favreau, a good friend who was hoping to raise money at Sundance in order to direct it.