



Building UK Film Companies

UK Film Council Think Tank

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

Overall success factors	Country								
	Aus	Bzl	Can	Frn	Ger	Spn	SKr	Swe	UK
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)	●		●	●	●	●		●	
Performance indicators									
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

3.3 Support systems' success factors – company support

	<i>Countries</i>								
	Aus	Bzl	Can	Frn	Ger	Spn	SKr	Swe	UK
<i>Direct options</i>									
Specific corporate development support	●								●
General focus on corporate growth as a driver of successful activity		●					●		
<i>Indirect options</i>									
Reward success that connects to audiences			●	●	●	●		●	
Variable/soft recoupment terms on selective schemes	●		●	●	●	●		●	
Automatic spend schemes treated as producer equity	●								●
Risk reduction: spend-related rebates	●		●	●	●				●
Slate funding	●		●	●	●			●	●

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 (linked with lottery issues?)



Thank you