AMERICAN FILM MARKET®
PRESENTS

THE INSPIRATION FOR THE NEW MOTION PICTURE
MOVIE MONEY CONFIDENTIAL

FILMMAKERS AND FINANCING

BUSINESS PLANS FOR INDEPENDENTS

LOUISE LEVISON

A Focal Press Book

NINTH EDITION

ROUTLEDGE

Filmmakers and Financing

This updated ninth edition of Louise Levison's ultimate filmmaker's guide provides easy-to-follow steps for writing an investor-winning business plan for independent films.

This new edition includes information on current distribution models and the evolving digital streaming service landscape. Updated examples and references solidify this edition as the go-to source for creating a successful film business plan. Complete with comprehensive explanations on how to write each of the eight sections of a business plan; a complete sample plan for reference; and a companion website with additional information and financial tables, this book gives readers the tools needed to secure financing for a film.

Essential reading for students and professionals alike, this book is ideal for anyone looking to further their understanding of film financing and how to create a successful business plan.

Louise Levison (www.moviemoney.com) has a 30-year track record for creating business plans for films (both single and slates) and other entertainment companies. Her clients have raised money for low-budget films such as *The Blair Witch Project*, the most profitable independent film in history, and for slates with budgets totalling up to $300 million. She is publisher and editor of *The Film Entrepreneur: A Newsletter for Independent Filmmakers and Investors*, which is available for free at moviemoney.com. This book is the inspiration for the feature documentary *Movie Money CONFIDENTIAL*, in which Levison is interviewed and for which she was the technical advisor. She taught at UCLA for 22 years and has been a Visiting Professor at the Taipei (Taiwan) National University of the Arts and the University of Montana (Missoula). Levison holds an MA in Asian Area Studies and an MBA in Finance.

"An excellent, insightful guide to attracting financing for indie films. Louise Levison takes a sane, balanced approach to research, comparables, and projections, achieving honest outlooks in business plans that are accurate and convincing to equity investors. An important tool for filmmakers and producers seeking innovative financing models."

—**Danny Glover**, *Actor/Director/Producer*

"Thank you so much for all your help from the business plan to the emails and introductions. You have helped this film become what it is today."

—**Rob Cowie**, *Producer,* The Blair Witch Project

"How to raise funds for independent films was the best-kept secret in Hollywood until Levison's book was published."

—**Rick Pamplin**, *Writer/Director, Pamplin Film Company*

"If you are an independent filmmaker trying to raise any private financing for your film, you absolutely must read, absorb, and understand the material and advice in Louise's book ... I tell all my clients to buy a copy, because they will continually use and refer back to it ... I do."

—**Harris Tulchin**, *Entertainment Attorney/Producer and Co-Author:*
The Independent Film Producer's Survival Guide

"*Filmmakers and Financing* is an indispensable navigational guide to successful financing, production, and release of independent films. Louise Levison has synthesized her years of professional experience into an invaluable roadmap for the filmmaking community."

—**William Nix**, *Chairman, Creative Projects Group,*
Executive Producer, The Prophet

"Need money for a movie? Here's the road map every indie filmmaker needs to find it. It worked for me!"

—**Paul Sirmons**, *Director/Producer*, The First of May
and former Florida Film Commissioner

"If Louise Levison's *Filmmakers and Financing* were only about business plans it would be worth more than its cover price. In addition, Levison gives sage, savvy, and clear introductions to every important aspect of film business—marketing, distribution, varieties of investors, financing options—it's all here, including a sample business plan. This book is a 'must have' for any filmmaker's bookshelf."

—**Morrie Warshawski**, *Consultant and*
Author of Shaking the Money Tree

"A 'must have' educational and reference tool to help you conquer current industry practices regarding finance, production, and distribution. Louise has consistently delivered a plethora of information that is easy for a beginning filmmaker to understand, while at the same time very useful to the entertainment veteran. NO filmmaker's library would be complete without it."

—**J. David Williams**, *Distributor,*
Shiloh *and* The Omega Code

Filmmakers and Financing

Business Plans for Independents

Ninth Edition

Louise Levison

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For Leonard the Wonder Cat,
And his sister and brother, HRH Buffy and Angel,
who have left us but continue to inspire …

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Foreword

Despite the near hero worship accorded successful independent film producers and studio executives, not one of them would be able to function without a strong backup team. The myth of the one-person band is just that—a myth. Without the talent and hard work of the lawyers, bankers, accountants, development personnel, and administrative staff—not to mention the literally hundreds of people involved in actually making the films—no independent producer could survive, much less succeed.

To marshal all the disparate talents involved in mounting a major film production, the most important element is a common vision of the ultimate end product. In the same way that directors need a storyboard to communicate their vision of what the film will look like, producers need their own version of a storyboard (that is, a business plan) to explain their objectives, hopes, aspirations, and, yes, even their dreams.

Gone are the days when a business plan was regarded as inappropriate for an artistic endeavor such as producing a film. These days, the risks are too large, the competition too intense, and the sophistication of investors too great to "leave the details until later." Completion guarantees, discounted cash flows, letters of credit, foreign sales contracts, domestic distribution deals, internal rates of return, gross deals, rolling breaks, third-party participants' security interest, bank discounting, residuals, and cross-collateralization—all these terms, to name just a few, have become part of the regular vocabulary of today's independent producers. Without a detailed business plan to coordinate all these elements, it would be virtually impossible to produce a major film. So, dear independent producer, read on …

Jake Eberts

The late Jake Eberts helped develop and finance films that have earned 64 Oscar nominations and received 27 Academy Awards. He is also a partner in Allied Productions East. Among the films on which he has been Producer or Executive Producer are *Chariots of Fire, Gandhi, The Killing Fields, Driving Miss Daisy, Dances with Wolves, A River Runs Through It, The Legend of Bagger Vance, The Education of Little Tree, Chicken Run, James and the Giant Peach, Open Range, Journey to Mecca, The Illusionist*, and *The Last Empress*.

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And last but not least, to the late Leonard the Wonder Cat, Buffy, and Angel for being my inspirations for the cat tales

Introduction

Controlling Your Destiny

A business plan always evolves.

—ROB FRIEDMAN, FORMER
Co-Chair Motion Picture Group. Lionsgate Entertainment

WHY SHOULD YOU BUY THIS BOOK?

The trouble with movies as a business is that it's an art, And the trouble with movies as art, is that it's a business.

—GARSON KANIN, DIRECTOR

You know that you need a business plan, right? You know that the investor wants a plan. What do you do next? What goes into this sucker?

First step: Step back and take a deep breath.
Second step: Think about both quotes. You need to take this piece of art and explain to an investor why it is good business.
Third step: Do not skip the rest of this introduction. Read all of it.

Here we go with that old what, where, when, why, and how stuff. What is the product, who is going to buy it, and why will they care anyway? You are asking yourself the questions and then evaluating your own answers: Tricky business, since you may have assumed all investors will love this script and give you money. The business

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of filmmaking has also changed over the last two years. How does that impact what you knew three years ago?

From the dawn of film—actually, from the dawn of time—there have been individuals who have wanted to do it their own way. People who are not content to live by the rules of others continually strike out on their own. Here we are in 2021 with the number of independent filmmakers still growing. Whether you use this book as a step-by-step guide for writing a plan or as a test of your own ability to be in business, it will help you meld creative thought with business fundamentals. It has been written in language that is accessible to those who are not skilled in business jargon. Understanding business is not that hard.

Why do you need a business plan? You are an artist. Why take the time to learn about how companies function and what investors want to know? This book will give you answers to those questions. In the end, however, you will need to decide if they are meaningful for you.

What if, after reading this book, you decide you would be better off selling your script to a studio? Have you wasted your money? No. You will have saved money by reading this book first. It is better to find out now, rather than several months or thousands of dollars down the road, that running a business is not for you. And making even one movie is running a business.

Goals of This Book

My goal in writing this book is to give the independent filmmaker an introduction to the world of business and to provide a format to help you present yourself and your projects in the best possible light. People want to know who *you* are and what you will do. Dreams are good; the nature of an entrepreneur is to be a dreamer. Your plan will bring the dream and the reality together.

There are many filmmakers with projects who are struggling to obtain equity (private) dollars. Being able to see your project from the investor's viewpoint and being able to present it to the financial community in a recognizable form will give you a useful edge on the competition.

Throughout the book, I emphasize that this is your plan. When I write a business plan, it is the client's plan, and that person or group must understand it.

A Constantly Changing Medium

My friend Jerry Quigg suggested calling this book *Sex, Films, and Investing* when I wrote the first edition. The film, *Sex, Lies and Videotape* had been released five years previously and for the first time had made multiplex theater owners realize that there were significant benefits to having lower-budget independent films filling their available screens. This book bridges the gap for you between the passion for filmmaking and the day-to-day realities of creating a successful company.

As you read this, the motion picture business has been changing right before your eyes. For eight editions, the big news in the industry chapter was which company was buying Universal Pictures. Now the big news might be how well the company's streaming service Peacock is doing. There is constant buying and selling, with new alliances being made every day. The "paradigm" (an in-vogue word meaning "pattern") shift that has been taking place in terms of streaming due to the pandemic is much different than the changes taking place in technology today. No matter how many tools for viewing a film divide the finite audience, however, theatrical motion pictures have kept chugging down the track. Movies are needed to fuel that engine, and you can be the one to provide them.

People go into independent filmmaking for many reasons. They are driven primarily by the subject matter, theme, or style of the pictures they want to make. I have talked to thousands of filmmakers who have told me what types of films they want to make. No two people have had the same vision, but they all share the same goal—to own their project and control it. Whether a filmmaker decides to make one film or many, it is up to him or her to understand how the business world functions.

With new opportunities appearing for the independent filmmaker, more people want their own companies. Books and articles have been written about the ins and outs of writing or finding the perfect script, how to do the budget, finding the best location, and what camera to use. None of that information is in this book. The question before us is not the process of production but how to get the money.

You might argue, "But I'm making a film. This is different from other businesses." The details of any business will differ from industry to industry and from segment to segment, but the principles are the same. Movies, whether small or large, involve many people, all of whom expect to get paid. Even if you are a collective, people assume money will be distributed at some point. Raising money involves intermediaries such as consultants, CPAs, agents, finders, and lawyers, who expect to receive a fee for what they do. And do not forget the investor, who hopes to see a return on his or her investment. All films need certain standard ingredients to get going and stay alive. To get the show on the road, you need to put together a business plan.

It is true that independent films have been made and have found success without a business plan. Many more films without one, however, have not been funded and have never seen the light of day. No plan can guarantee the thrill of victory, but not having a plan could bring you closer to the agony of defeat. When you read about all those productions setting up shop with a large influx of capital, which of these scenarios do you believe?

Scenario 1: Louise, you've had such extraordinary success at Megalomaniac Studios that we would like to give you $100 million. Have fun and send us our share.

Scenario 2: Louise, you've had such extraordinary success at Megalomaniac Studios that we would like to explore the possibility of having you head your own company with $5 million in seed capital. Why don't you get together with Victor Visionary and create a business plan? If we agree with your analysis and the numbers look good, we're in business.

Trust me (a famous Hollywood term): Scenario 2 is far more likely. Wealthy people do not throw around big bucks on a whim. An investor may say, "Louise, you have a great idea." However, before that impulse leads to cash in your bank account, many questions will be asked. Eventually, someone will ask you for—you guessed it—a business plan.

The purpose of this book is to show you how to make all that analysis into a coherent story. It is more than just the outline, however. The standard business plan outline has not changed for over 100 years. Open any book on business planning and you will see the same types of headings: Executive Summary, Company, Product (Film), Industry, Markets, Distributions, and Finance.

I have tweaked the standard plan to relate to film. This book will help you take the next steps to expound and polish your business plan within those guidelines. It specifies not only what you need to include but also why and how. I will give you samples—both good and bad—for writing the individual sections of your business plan.

How Has the Pandemic Affected Production and Financing?

The movie business will be forever changed no doubt, but movie theaters will be ready for their closeup … they will star in an uplifting sequel of their own.

—Paul Dergarabedian, Comscore

As with the 2008 to 2009 recession, the questions were which movies would the audience prefer and would there be investors for indie movies? The audience went to see both comedies and inspirational films that made them feel better. Investors who pulled their money out of the market while it was unstable often liked the idea of buying points in a film. While a small investment compared to their stock, they seemed to like "betting" on something. *The New York Times* ran a headline in January of 2009 saying, "Suddenly, Hollywood Seems a Conservative Investment."

The pandemic presented an additional problem because the theaters closed. Streaming temporarily took over the business model for almost two years. As theaters have reopened and newer vaccines are in use, good films—both specialty and blockbuster—are bringing people back to the big screen. The general economic picture is better, and it is time to make that film. If you are reading this book in 2022, you want to be in production in 2023 and looking for distributors in late 2024 or 2025. Unless you have an angel investor ready to give you all the budget based on the script, you have to give him a business plan and legal agreements before you can move ahead.

Whenever you are reading this edition, the economic picture will be different. What did not change during the pandemic, however, was the availability of equity investors. As with the stock crash, they pulled their money out of an unstable market and were willing to invest when asked. The films made during that period are going through the theatrical model now.

If you have lingering doubts about the cinema's economic future, the most reliable forecast on theater openings is, at the time of writing (three-quarters of the way into 2021), from the *Global Entertainment and Media Outlook, 2021–2025* by PricewaterhouseCoopers (PwC). The study projects a total worldwide box office of $43.3 billion by the end of 2025 and a U.S. box office of $11.3 billion.

Movies as a Business

The biggest misconception about the movie business is that the *movie* is more important than the *business*. Many of us tend to think about filmmaking not as a business at all but as an art form; in that case, it would be called *show art* instead of *show business*. Often the most difficult concept for filmmakers is looking at the movie as a commercial enterprise. The word *commercial* can be viewed in two very different ways. When it comes to artistic endeavors many people give the word a negative connotation. The strict definition is "prepared for sale," but in many people's minds, the words "without regard to quality" are added to the end of that definition. Looking at the term in the broader sense, however, the filmmaker trades a seat at the film for someone else's dollar ($4, $9, or $15, as the case may be). Whether this trade occurs at a multiplex mall theater or at a video store, the buyer expects to get value for the trade, and the value is definitely in the eye of the beholder.

The Blair Witch Project, which earned $300 million worldwide and for which the initial business plan (yes, the filmmakers had one from yours truly) called for raising $300,000, was always considered a commercial project by the filmmakers, who stuck to their vision and were successful in their effort. They were innovative not only in using a mockumentary format but also in their use of the then new (1993) Internet. The point is that they made a film that brought profit to themselves and their investors—the real meaning of the word *commercial*. The definition of *independent film* depends on the speaker's agenda. Filmmakers often want to ascribe exclusionary creative definitions to the term. When you go into the market to raise money from private investors, whether domestic or foreign, it doesn't matter if your film is a no-budget production or a $200-million blockbuster. You are still finding your own financing.

Often, I have been on panels with a filmmaker who declares that someone else's film is not independent if it belongs to "a genre" or is "in a specific genre" (i.e., horror, comedy, or family). This drives me crazy. In the end, esoteric discussions don't really matter. We all have our own agendas. If you want to find financing for your film, however, I suggest embracing the broader definition of the term used in this book: An independent film is one made by those individuals or companies other than the now five major U.S. studios that control the production and assume the majority of the financial risk. (Money paid for the right to distribute a film is discussed in Chapter 9.)

It seems to be a simple concept. If you produce a gizmo designed to lose money, you go out of business. Why would it be any different with a film? Many films lose money (ask the studios), but many films are successful, also. Film investors have a right to expect to earn back their money at least. Unfortunately, many auteur filmmakers find the concepts of creativity and being responsible for money mutually exclusive. If you suffer from this malady, take two aspirin, and rethink your position. Even relatives have their limits; they don't want to lose money either. You are using *other people's money*. Be respectful of it.

People Get the Money

A question frequently asked of me by students and clients is, "How much money have your business plans raised?" My answer: "None. People raise money. Business plans are only a marketing tool." Some of the best business plans I ever wrote are lying in a wanna be filmmakers drawer. They haven't raised a cent. In addition, although you may have the most well-written and well-presented business plan ever done, it will not raise money on its own. You simply have to research, write, and/or call people until you find the money.

To be ready to get your project off the ground with investors, you have to be focused on your goal. If you are arguing with your partners, are not ready to make decisions, or are unwilling to look for money, the quality of your business plan is immaterial. The biggest consulting firms down to the smallest ones have plans stored on shelves, gathering dust, because the client was not ready to be serious about taking on necessary elements—a producer, director, or adviser.

In addition, once you track down your financial "prey" and deliver this terrific plan, you have to explain what it is all about—how it represents you. A plan is only a guideline with strategies and forecasts. You have to demonstrate to others that you understand the importance of the steps described within and how you will accomplish them. Unless you understand every step of the plan—rather than just handing over a document written by someone else—you will not be able to do this.

Finally, are you adept at handling business in a professional and impressive manner? When all is said and done, your presentation is important. After all the numbers have been added up, investors are still betting on people. If they are unsure or wary about you, no checks will be written. (Chapters 13 and 14 will help you with this effort.)

All consultants have clients who they would like to keep hidden from investors. Sometimes it would be ideal if the entrepreneur and the investor never met. Some clients like to argue with investors and generally have a take-it-or-leave-it attitude. I once had a client—a successful studio screenwriter—who actually said to an investor, "I'm doing you a favor by giving you this opportunity. Take it or leave it." The investor left it.

Can Anybody Do This?

Developing a business plan involves the proverbial "10 percent inspiration and 90 percent perspiration." In other words, anybody can do it. I even put a detailed financial "course" in the book's companion website to show you how I forecast. Unfortunately, I have found that most people lose interest when faced with the amount of research and work that is required. If you want to make your own films, however, this is part of the price of admission to the club.

To find financing for your films, by the way, you do not have to be part of the business world, have an M.B.A., or be a math genius. My students have often said, "I can't do math." Yes, you can. This book will help you bridge the gap between right-brain creative thinking and left-brain math stuff. All you need is the desire to be in control—a powerful motivation.

Hollywood Is Only an Attitude

"Hollywood" is not a specific place in this book so much as a term that embraces all filmmakers worldwide. The person in Cincinnati, Ohio, with a camcorder who aspires to make a documentary or a feature film is as much a filmmaker as her counterpart in Brisbane, Australia. Watch the film festival rosters and you will quickly see that there is more moviemaking going on outside of Los Angeles and Manhattan, in places like Omaha, Montreal, West Palm Beach, Mexico City, Taipei, and Galway. My client Rick Pamplin, whose story is given in Chapter 14, lived and worked in Los Angeles for a number of years until reaching a different level of independent success in Florida.

An Entrepreneur Is an Entrepreneur ...

I did business planning in several industries—both for-profit and non-profit ones. In all, there were entrepreneurs who were visionaries first and then businesspeople second. For many entrepreneurs, the idea of boiling down a vision into a neatly contained business proposal is as foreign as the notion of taking a job. Nevertheless, the recipe for success in today's competitive business environment demands that we act as managers as well as artists. The most common blunder is to assume that a business plan is a creative piece of fiction used to trick a rich person into giving them money. Even worse is the assumption that creating a business plan is an interesting hobby for someone who has nothing else to do. Independent filmmakers often see themselves only as artistes—creatures whose contact with the murky world of business is tangential to their filmmaking and unimportant. Nothing could be farther from the truth.

When a person has an original idea and develops it into a film, an entrepreneur is born—a person who has personal drive, creates an intimate vision, and is willing to take risks. Entrepreneurs want to make the decisions and be in charge of the show; they want to do what they want to do when they want to do it! I have never met an entrepreneur who was not convinced that he was right, who did not believe that the world could live without his film, and who did not want to control his own destiny. Independent filmmakers are the best kinds of entrepreneurs because they want to push the edge of the envelope and seek new horizons. They are major risk takers.

Film investors bet their dollars on an idea and help it become a reality—a contribution not to be taken lightly. Too often filmmakers believe that investors should donate their money and then quietly go away. Of course, this attitude is not unique to filmmakers. Most entrepreneurs feel that their ideas have more value than the capital needed to make them a reality. Think again, or you won't see any cash.

Art Versus Profit

This topic continues to be a heated discussion on social networking and entertainment industry sites. At the 2010 Los Angeles Film Festival, James Stern, CEO of Endgame, stated three important rules for the filmmaker:

1. Make smarter movies.
2. Respect the money!
3. Before rolling cameras … think "market."

Which one is most important—one's artistic expression or money? My view has always been that both are. If you are using your own money, you can do anything you want. On the other hand, if you are using someone else's money, it doesn't mean that you automatically have to forgo your artist intentions; you just have to make it clear to your financial source what the chances are that they will ever see a return on their money or profit. Then it can be their decision, which is more important.

The Role of the Plan

The business plan is the entrepreneur's single most valuable document and his or her best safeguard for success. The majority of businesses that fail usually have paid little attention to proper planning. In Jake Eberts's book, *My Indecision is Final: The Rise and Fall of Goldcrest Films*, he mentioned several times that the company, which he founded, had no business plan. Although its first film, *Chariots of Fire*, won the Academy Award for Best Picture, the company did not succeed in the long run. Would Goldcrest have fared differently had the company had a business plan? No one can say for sure, but the group of very talented and experienced people consisted of a producer, two famous directors, and Jake the money "finder." Their widely divergent professional and personal agendas were often at odds, affecting the way the business was run. Whether you have one film or a slate, make sure everyone is on the same page.

You have to identify who you are, where you are going, and how you are going to get there. The business plan allows you to plot this path. It gives you the opportunity to develop a clear picture of the growth and bottom-line prospects for your film company. It also enables you to make more effective decisions and helps everyone follow the leader. When you have a clear course laid out, you have guideposts to follow that will show you where you are vis-à-vis your goals. While you may find this secondary to raising money, it really is a priority for fulfilling that goal.

The ideal length and depth of a business plan varies. Before beginning any business, you want to know the nature of your goals and objectives, the desired size of the company, the products and/or services it will sell, its customers and market niche, the amount of revenue likely to flow, and its sources. When you think of a business plan, your first thought may be how to impress the investor. Before you worry about the bank or the distribution company or the wealthy investor, however, you have to make a personal business plan. For all of those people—and for yourself—you have to come up with an agreeable course of action, and you have to stick to it. This book will help you do that.

Is This Book for Someone Making One Film?

In a word, "Yes." After eight editions, people will still call or email and ask me this question. Any movie proposal—whether for a single film or a company—that seeks to raise money from private investors needs a business plan. One film is a business, and the producer (or executive producer) is the manager. You have the same responsibility to investors as if you were making four or five films.

I have used a multifilm plan in Chapter 11 to show all the possible information that needs to be included. If you are doing a single film, the outline is exactly the same but you have fewer numbers to project and tables to calculate. Any one of those films could have been pulled out of the group with all its forecasting—previously a client has been willing to do that when a potential investor did not want to be part of the larger company.

The Facts and Nothing But …

The structure of a business plan is standard, but the contents are not boilerplate. Each film has its own unique qualities. All plans must be substantive, promotional, and succinct. A one-film plan normally has a length of about 20–25 pages, which is comprehensive but not too long. The business plan needs to contain enough information in a readable format that excites the reader but sticks to facts. Perhaps even more important, however, is that the plan clearly represents you and your ideas. Copying someone else's plan is like copying someone's test paper in school. You may give the right answers to the wrong questions.

Several years ago, an acquaintance of mine wrote a business plan that was very professional and cleverly laid out. He found that he had to keep it under lock and key because other producers kept making copies of it. What they failed to recognize was the specialized nature of his company. It was structured to fund development money, not to produce films. The payback to the investors is quite different with development money. The "borrowers" of the product were so enamored of the text and graphics that they were blind to the obvious: The business plan promoted a type of company that they did not plan to run. How they ever managed to explain the relatively lower return to investors we will never know.

NEGOTIATION STANCES

The first strategy that I suggest when negotiating with an investor is leaving the deal points out of the business plan altogether. By doing so, you keep yourself open for the best deal. I advise my clients to hold their cards close to the vest and to let the other person go first. Notice that the financials in the sample business plan in Chapter 11 do not show a breakdown for the split with investors. They simply show the pre-tax dollars available for sharing. How the interested parties decide on equitable shares will depend on the number of parties involved, the types of entities involved, and proposals not foreseen by this plan. The most important fact to remember is that you do not want any of that information in the business plan. I cannot repeat too often that, although written in a way to avoid legal problem, as mine are, the business plan is for marketing and not a legal document. The Investor Offering done by an experienced film attorney will discuss how profits are divided and will have subscription agreements for investors to sign. Never take money based on the business plan alone and without a signed agreement.

The Investor Wants How Much?

It is always perplexing for creative people who have put their hearts and souls into a project to give away 50 percent or more to an investor. A common complaint is, "I'm doing all the work. Why should he get 50 percent?" Your decision has to be based on whether the amount of investment money is worth giving the investor that large a share of the profits. I cannot answer this question for you. Your priorities and goals are part of this decision. A standard business plan ploy that seldom gets funded is the 70/30 or 60/40 split in your favor. There may be someone out there willing to take it, but the chances are that you will give your business plan to a variety of people, so reserve the bargaining for the individual. If potential investors seem unsophisticated, you can try it. If you are lucky, they will only laugh. If you are unlucky, they will laugh while leaving the room.

BUSINESS PLAN OUTLINE

This book is best described as a movie within a movie. To find financing for your projects, you will have to describe how your production or company will function. Accordingly, this book describes how the business works as well as instructing you on how to put the business plan together.

The book is arranged so that the numbered chapters follow the steps of the business plan. As you will see in the sample business plan, I don't include the subsections either.

1. The Executive Summary: A Short Version of Everything
2. The Company: Who, What, When, Where, and Why?
3. The Film: The Investor Needs to Know the Whole Story
4. The Industry: The Facts and Nothing But
5. The Markets: The Spin
6. Distribution: Theatrical and Managing the Changing Landscape

7. Distribution: Streaming and the Wild West of Non-theatrical
8. Risk Factors: Truth in Advertising
9. The Financial Plan: How It Works
10. The Financials: Forecasting Without Fear
11. Sample Business Plan for a Fictional Company
12. Breaking the Rules: Documentary, Animation, and Large Format
13. Other People's Money: Them That Has the Gold Makes Some of the Rules
14. Rick's Story "Fini": Independent Filmmaker Rick Pamplin Interviews Himself

No matter how independent you are, when writing your business plan, do not fool with tradition. You should make it as easy as you can for potential investors to read your plan. They are used to seeing the information in a certain way, so humor them. It is in your best interests not to be an auteur with your business plan. As you devise your plan section by section, you will find yourself being repetitious; likewise, you will find the chapters of this book somewhat repetitious. Think of the plan as a series of building blocks.

ADDITIONAL INFORMATION ON COMPANION WEBSITE

Taylor and Francis has a companion website for *Filmmakers and Financing*. It contains files with additional information that can be downloaded to your computer. Go to those files when a chapter signals there is additional information. The contents of the companion site and how to access it are on page ix.

1

The Executive Summary

A Short Version of Everything

"Begin at the beginning," the King said, gravely, "and go till you come to the end; then stop."

—LEWIS CARROLL,
Alice's Adventures in Wonderland

READ THIS CHAPTER LAST!

This admonition is like saying, "Don't open this package until Christmas!" You are, right this minute, ignoring me and reading this chapter anyway. Fine; but write the Executive Summary last in your business plan. Typically, investors will read those first two pages and then go directly to the financials. It is the hook that pulls readers into your net, and it must represent your future plans precisely.

The Executive Summary is the place where you tell readers what you're about to tell them. Am I confusing you? Remember that old advice about writing term papers: "Tell them what you're going to tell them; tell them; tell them what you told them." You do the same thing in the Executive Summary. It is a condensed version of the rest of your proposal. This is not a term paper; this is your life.

The beginning of your business plan is the section about your film (films, if you are starting a multifilm company). You give a brief overview of the people, the products, and your goals. In the rest of the sections—Company, Film(s), Industry, Markets, Distribution, Risk, and Financing—you provide more detail about how the

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company is going to function. The last section you write is the Executive Summary, which is just a summary. It presents a review of the plan for the reader.

WHY WRITE THE EXECUTIVE SUMMARY LAST?

Developing a business plan is a process of discovery. Until you actually put your business plan together, you cannot be sure what it will contain. As you will see in the rest of this book, much research, thought, and skill go into a proposal of this type. The total plan is the result of everything you learn from the process, and the Executive Summary is the culmination of that full effort.

The Executive Summary is written last for the same reason that you prepare a full budget before you do the top pages. You may have a problem with this comparison if you do the top pages of the budget first or if you do only the top pages. At best, filling in numbers on the top pages is a "guesstimate." Only when you actually work out the real 20 to 30 pages of the budget, based on the script breakdown, will you know the real costs.

Perhaps your guesstimate will end up being right on the mark. I don't think anyone has worked out the precise odds on that happening, but you might be more likely to win a lottery. A more probable scenario is that you will have backed yourself into a corner with original numbers that are too low. The real budget will turn out to be greater than your estimate by $500,000, $2 million, or even more. When that happens, your potential investors will be extremely unimpressed. If you are not sure how their money will be spent, ought they to trust you with it?

A business plan is the same situation magnified a thousand times. All the reasons outlined in the Introduction for writing a business plan come into play. You may be setting parameters for yourself that are unrealistic and that lock you into a plan you cannot carry out. In putting together the proposal, your investigation of the market may cause you to fine-tune your direction. Learning more about distribution—and we all can—may invite a reworking of your film's release strategies.

Even when inventing a fictional company, as I did in "Sample Business Plan for a Fictional Company" (Chapter 11), the Executive Summary must be written last. I did not know what I was going to say in the summary until the rest of the plan was written. Although

I invented the company and the statistics for the sake of an example, my Industry, Markets, Distribution, and Financing sections are all real. I did not know which facts about all those elements would apply to my particular situation. Likewise, until I worked out the numbers and cash flows, I could not summarize the need for cash. The most difficult task for many entrepreneurs is resisting the impulse to write five quick pages and run it up the flagpole to see if anyone salutes. A business plan is not a script, and you cannot get away with handing in only a treatment. Your business plan must be well thought out, and you must present a complete package. Think of this as a rule. Other guidelines are suggestions that you would be wise to follow, but this is definitely a rule. Go through the process first. By the time you have carefully crafted your document and gone through all the steps outlined in this book, you will be able to proceed with as few hitches as possible.

This process has to be a cautious one, not a haphazard one. You want to be sure that your proposal makes business sense; you want to be able to meet any goals or verify any facts that you set forth. Passion does count. The film business is too hard, and it takes too long to tackle projects, if you do not have a passion for your story and filmmaking. However, business facts are the glue that holds everything together in a tidy package.

Investors are the second reason that you write the Executive Summary only after you have carefully devised your business plan. Before you approach any money source, you want to be sure that your project is reasonable and rational. Potential investors do not accumulate their money by chance, and they are not likely to give you money on impulse. If you appear rash and impulsive, your 15 minutes of fame will run out before you know it. Treat potential investors as intelligent people, even if you are approaching the stockbroker's favorite group—widows and orphans. They'll have a business advisor who will read the proposal.

Often an investor will ask to see the Executive Summary first whether you are making one film or forming a company. In order to present him or her with the summary, you have to write the entire plan first or there is nothing to summarize. Since a crucial part of the two or three pages is going to be a financial summary, how will you do that without running out all the data first? You would be making it up, which is not a good idea. The investor will be making initial assumptions based on those numbers. You don't want to be in the position later of saying, "Gee, we were a little off. Our budget is $5 million rather than $2 million, and the net profit is $3 million rather than $15 million." You will have lost an investor.

Besides, if the investor likes what he sees in the Executive Summary the next communication will be, "Let me see the rest of the plan." That person means today—now. As I pointed out earlier, he or she assumes that there is a body of work supporting your summary; therefore, the summary and the complete proposal have to match. You do not want to have to tell potential investors that you will have the complete plan in a month. When equity investors ask for a business plan, you must have all the market explanations, facts, and figures to hand and in order.

STYLE OF THE EXECUTIVE SUMMARY

The image experts say that you have 30 seconds to make an impression, whether it is at a job interview, in a negotiation, or at your local party place on a Friday night. Your business plan has a similar amount of time. First impressions count; they will make the reader either want to read further or toss the proposal aside.

Cicero said that brevity is the charm of eloquence; this thought is a good one to keep in mind. In a few paragraphs, you must summarize the entire business plan to show the goals driving the business, the films, the essential market and distribution factors, and the major elements for the success of the project. Each chapter in the outline has its own summary. I know that it is hard to understand this repetition; students and clients ask about it all the time. That is why I keep coming back to it.

Earlier I said that the Executive Summary is the hook; you can also think of it as the bait that attracts the fish. You want the reader to be intrigued enough to read on. You need not try to rival John Grisham or Stephen King as a writer of thrillers or horror stories. You should not expect to keep readers on the edge of their seats. Simply provide the salient points in the Executive Summary: Less is more. If the Executive Summary of your plan is as long as this chapter, it is entirely too long. You can be long-winded later. All you want to do in the summary is give your readers the facts with as little embellishment as possible. Remember that this is a business proposal, not a script.

LAYING OUT THE EXECUTIVE SUMMARY

Follow your outline when writing the Executive Summary. Give the basic information of each section. Do not deviate from the path that you have already chosen. Anything you say here has to appear in more detail somewhere else in the proposal. Refer to the Executive Summary of the sample business plan in Chapter 11 while reviewing how to lay out your own summary.

Strategic Opportunity

Typically, the first section of the Executive Summary is called "Strategic Opportunity." It includes a few short statistics to show your investor that the film industry is a good investment. My business plans have:

- North American box office revenues
- Revenues for the independent film segment of North American box office
- Worldwide box office revenues
- Future box office revenues worldwide as projected by PricewaterhouseCoopers (usually four years ahead)

The Company

This section describes the outstanding elements of your goals and plans. Here, the reader finds out what the name of your production company is, what type of film or films you are making, and who you are.

A short introduction to your *production team* is included to give investors an idea of your team's experience and expertise. If you happen to be starting a company, you may want to call this the *management team*, as it will include executives who aren't involved in production per se. Indicate any notable attachments—director, producer, and/or actors—but save their bios to follow in the longer Company section. If you have a company plan in which each film has its own director and producers, you may want to include their bios with each film rather than in the Company section.

As we will discuss later, be sure to include only people who have given consent to be involved in your project in some written form. Do not include people who you would like to work with but who have never heard of you. Typically, you can include consultants, such as the business plan advisor or attorney, in the longer Company section; however, if you feel it is important to put them up front to add immediate credibility for your team, do so.

Film

In this section, give readers only the most important information about your proposed film or films. Normally, I include one or two lines that have some punch or are intriguing while still giving the investor the essence of the story. Look at some of the one-line plot summaries in the Internet Movie Database (http://www.imdb.com). For example, for *The Gift*, they have, "A young married couple's lives are thrown into a harrowing tailspin when an acquaintance from the husband's past brings mysterious gifts and a horrifying secret to light after more than 20 years." This sounds more interesting than, "A young couple moves to a new house and run into an evil man." Both are correct, but you want to pique your investors' interest. Like the "elevator pitch," you want to emphasize any sensational, attention-getting words (*harrowing, tailspin, mysterious, horrifying*, and *secret*) but also be concise and clear, using no more than two sentences. The fuller explanation will make your investors ask what the husband did and how horrible it was. If they like it, fine. If they don't, it saves you time—they are not likely to like it after they have read the complete synopsis either.

The Industry

Before describing your specific segment of the marketplace, it is necessary to give an overview of the industry based on what is in the longer Industry section. Mine starts out: "The future for independent films continues to look impressive, as their commercial viability has increased steadily over the last two decades." Then detail a few independent films that have done impressively well in the last two or three years. They do not have to be comparative to your film, but Oscar nominees that the reader will recognize are always a good idea. Next list the independent films that have won the Best Picture Oscar in the last ten years, assuming the current trend continues. Follow up with a quote or two from notable executives and/or analysts.

The Markets

In this section, you should give readers a feel for the markets for your films. Spell out target markets (genres, affinity groups, etc.), as well as typical age groups. In addition, include any self-marketing methods you intend to use, with explanations of their value, such as specific social media sites.

Distribution

Simply saying, "We will get distribution" is not enough. Don't laugh. I've seen this in plans.

If you have distribution attached, give names here. Don't be shy. However, do be circumspect, as with the body of the plan. Mention only real companies from which you have received actual written commitments. Phrases such as "We have interest from many companies to distribute our films" are public relations jargon.

If potential investors think that they will find such meaningless generalizations in the rest of the plan, they may not read on. If you are planning to self-distribute your film, mention it here. Hiding that fact until readers have worked their way through 20 pages or more of the business plan will not help you at all. State your reasons and describe in a few sentences your knowledge in the area of distribution.

Investment Opportunity and Financial Highlights

This section summarizes all the financial information in your plan. The first item to include is that all-important fact that hundreds of people leave out of their plans—how much money you want. Do not keep it a secret. The whole point of handing this plan to potential investors is to relieve them of a little of the green stuff. They know that; they just want to know how much.

Follow with a summary sentence indicating the worldwide box office and projected profit. Whether you are making one film or several over five to ten years, the details will be in your Financial Plan section. Many of your investors will have business experience, whether or not it is in film. They are likely to look directly from the Executive Summary to the tables to see the details of revenues and expenses.

Notice that I continually use the words *projection*, *forecast*, and *estimate* throughout the financial sections. Always qualify any expressions of future gain with one of these three words. I also include a phrase saying that there is no guarantee. For example, "Using a moderate revenue projection and an assumption of general industry distribution costs, we project (but do not guarantee) …."

WHAT DOESN'T BELONG HERE

If by chance you skipped the Introduction, go back and read the Negotiation Stances section. The business plan is a freestanding document. It should not include any investor negotiations or legal language relating to how money will be distributed. The business plan is a marketing document that is part of a total package; however, it is not the total package.

2

The Company

Who, What, When, Where, and Why?

To open a business is easy; to keep it open is difficult.

—CHINESE PROVERB

STARTING IS EASY

To start a business, all you need to do is choose a name and have a phone; ergo, you are in business. To be successful, though, a business involves much more. A company, according to the *American College Dictionary*, is "a number of people united for a joint action … a band, party, or troop of people." The lone screenwriter is an island of self-absorption; the filmmaker is king—long live the king! When they become the producer of even one film, though, they are running a business.

Running a business embodies a totally different set of skills. It is a special kind of collaboration in which dictatorship could work for a while but is not the best system in the long run. For a business to run successfully, everyone must agree on its purpose, direction, and method of operation. This goal requires a lot of planning and communication among different departments and levels of employees.

I always like to recount my first seminar in which I started the day with a discourse on "Common Blunders in Business Planning." At the break, my assistant overheard someone say, "What is all this esoteric nonsense? We came here to find out where the investors are." To make my meaning clear, I started the next day by putting a

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list of film companies on the screen. I asked the seminar participants to tell me what those companies had in common. After attempts by several attendees, one observant person finally recognized that they had all either declared Chapter 11 (bankruptcy with reorganization of the business) or Chapter 7 (bankruptcy with liquidation of the business), or shut the doors in some other way.

The first reaction from the rest of the group was that these companies were all too big and that somehow their size contributed to their downfall. The reason the companies failed—whether big or small—was the same in either case, however: lack of planning. Anyone can have bad luck, especially people in the film business. Part of planning, however, is looking at the likely future results of current decisions. In doing this, you can build in ways of dealing with bad luck or mitigate its effect. Granted, some crises are beyond your control. A bank failure, the bankruptcy of a distributor, or the failure of an investor to deliver the money are such outside events. Hopefully, careful planning can help you deal with these external occurrences.

The business plan diagrams a path for you to follow. Along the way, there may be forks in the road and new paths to take; flexibility in adjusting to such changing conditions is the key. On the other hand, taking every highway and byway that you see might take you in circles. In that case, you will never get a project completed and in the theaters. A balance is needed, therefore, between flexibility and rigidity. Planning provides this balance.

KNOW YOURSELF FIRST

When asked what they want to do, many filmmakers (or entrepreneurs of any stripe) reply either "I want to make money" or "I want to make films." There is nothing intrinsically wrong with either answer, but there are more questions to be considered. For example, what is the nature of the films you will make? What are you willing to do for money? And, ultimately, who are you?

Before characterizing your company for yourself or anyone else, make sure that you really know yourself. For example, one filmmaker told me that she intended to live and work in South Dakota; she would make her films there and seek all money there. For her, this goal was non-negotiable. Her position may seem rigid to some people, but you need to know where you draw a line in the sand.

Goals 101

Having and keeping a clear vision is important; it is as easy or as hard as you want to make it. Ensuring that you understand what you are truly about is the first step. A full course in Goals 101 is too long to include here, but we can quickly review the basic principles with minimum academic jargon.

Setting goals merely means clearly stating your main purpose. Objectives are often shorter-term accomplishments aimed at helping you meet your main goal. For example, writing this book was one of my long-term goals; teaching university classes was a short-term objective to help me reach my goal. I felt that the best way to establish credibility for a book was by teaching in extension at University of California at Los Angeles (UCLA). From the beginning, I knew that the pay would be low compared to consulting and other work; however, over the short term, the book was more important. That goal made it worthwhile to forego some of my potential consulting revenue in favor of the time I put into teaching the class. (In the end, I enjoyed teaching so much that I continued at UCLA—first on campus and then online—for a total of 23 years until I moved to Florida, through seven editions of the book.)

The business and personal aspects of your life may mesh quite well, but any conflicts between the two need to be reconciled at the beginning. Otherwise those conflicts may interfere with your success in one or both areas. Covert agendas are sometimes good to use with competitors but fooling yourself is downright dangerous.

Formulating Your Goals

Formulating your goals may seem complicated, but it involves just two simple but essential steps:

1. Take a meeting with yourself at the start. (In Los Angeles and New York, everyone "does lunch.") Think about your plans, look at them, dream about them, and then set out to test them against reality.

2. Write your plans down. Entrepreneurs love to declare that they can keep everything in their heads and do not have to write anything down. Big mistake! If your ideas are so clear, it will take you only a few minutes to commit them to paper or an electronic device of your choice. Anything you cannot explain clearly and concisely to yourself will not be clear to someone else. Writing down your goals allows you to see the target you are trying to hit. Then you can establish intermediate objectives or a realistic plan to accomplish these goals.

A word about money is in order. John D. Rockefeller said, "Mere money-making was never my goal"; other successful executives have made similar statements. Many television/cable and online talk shows and other programs like *Shark Tank* have brought together groups of entrepreneurs to find out what motivates them. They almost always identify making the product, negotiating the deal, or some other activity as their main motivation; the money followed when they did the things they liked. Do something that you enjoy, that you are passionate about, and that you are good at; then the money, according to many popular books, will follow.

Whether or not you become rich, I cannot stress too often that filmmaking is not an easy business. Be sure that it is the filmmaking that draws you—not just the tinsel, glitter, and a desire to stand on the stage at the Oscars.

Personal Goals Versus Business Goals

Finding fulfilment is an elusive goal. To start, you must list and prioritize your goals. Unless you know where you are heading, you will be severely hampered in making decisions as you walk down your path. People have both business and personal goals, so it is crucial to look at both categories.

First, look at your personal goals to make sure that you do not inadvertently overlook something you want. This question has been the hardest for students and clients to answer. Someone will say that it is to move to Los Angeles to pursue film or hire a good director. Your personal goals have nothing to do with work per se; they are your private desires, your plans about your lifestyle, your dreams that will bring a feeling of satisfaction outside of work. Can you identify your personal goals? What is important to you? Is it family? Going to church? Riding horses in Montana? Consider the pursuits and activities that you find meaningful. Decide which are important enough to have time for outside of pursuing your business.

If the idea of personal objectives still perplexes you, take some time to think about it. Being passionate about films is one thing; having nothing else in your life is something else. Once you can identify your personal goals, continue on.

List your personal goals on something, not in your head; writing in the margins of this book is permitted. Describe as many or as few goals as you want. Here are some examples to help you get started:

1. Improve my standard of living.
2. Live and spend quality time with my family in Council Bluffs.
3. Play in poker tournaments (my list).
4. Work out with a fitness trainer on a regular basis (should be on my list!).
5. Volunteer at a local food bank every two months.

Now identify your filmmaking (i.e., business) goals. Again, make a list using the following examples as a guide:

1. Make inspirational films.
2. Form a company that will make action/adventure films with budgets of less than $10 million.
3. Create a distribution division in four years.
4. Make a feature documentary that will influence national health care.
5. Sell your company to Disney in ten years.

Now list both the personal goals and the business goals side by side; then rank them in order, with "1" representing the most important to you. (Note: You can download a format from the book's website.) Only you can set these priorities; there is no right or wrong way to do it. Once you have made the two lists, compare them. What conflicts do you see? How can you reconcile them? Accomplish this task and you will be ready to write the story of your business. You also will be ready to draw any lines in the sand about work that conflicts with your combined list.

GETTING IT ALL TOGETHER

Putting together the story (or script) of your company is like making an extended pitch, only longer. (Chapter 13 has more on pitching.) You want to convince an unknown investor of the following:

1. You know exactly what you are going to do.
2. You are creating a marketable product.
3. You are able to carry it off.

Essentially, you are presenting the basic "plot" of your company. The difference is that a script provides conflicts and resolutions as plot points. By completing the previous writing exercise, you should have resolved any conflicts. Remember what your teacher taught you in high school English: who, what, when, where, why, and how. These questions are your guidelines for formatting the Company section of your business plan. Before you go any further, ponder these questions again:

- Why are you making films?
- Who are you?
- What films or other projects will you make?
- When will you get this show on the road?
- Where are your markets?
- How are you going to accomplish everything?

Note that the standard order has changed a bit. The *why* needs to come at the beginning to set the scene for the rest of the story.

Why?

Now that you have listed your personal and business goals you can identify the underlying aim of your company, known in corporate circles as the "mission statement." This statement describes your film's or company's (remember that even if you are only making one film, you are a company) reasons for existence to you, your partners and managers, your employees, and, most of all, your money sources. It allows those marching forward with you to be marching to the same drummer.

A major reason for failure is lack of agreement on where the management/production team is headed. A film is always a group project; there is far too much to accomplish for one person to do everything. It is important to ensure that company personnel do not go off in three or four different directions. Many companies that fail do so because of lack of focus; your company does not have to be one of them.

What is it you really want to do? Make franchise films? Make children's films? Focus on car crashes and other special effects? Clearly define your objectives for both yourself and others. As long as people can identify with where you are heading, they will not get lost along the way.

When your goals are down on paper, stand aside and take an objective look. Does this sound doable to you? Would it sound reasonable if someone else presented it to you? Put yourself in the position of the potential investor. Would you put your money in this project?

By the way, in writing this description, you are not required to incorporate all your goals for the world to see. Your personal goals are yours alone—unless they affect the production significantly. Suppose, for example, that you are active in animal rights organizations. For that reason, you are adamant that no animals ever appear in your films. Everyone working with you has the right to know about this dictum. Investors don't need to know, since your films don't involve animals.

I often am approached by producers who have strong feelings about the source of investment money (how it was earned) or about certain countries in which they refuse to distribute their films. Such decisions are yours alone unless you have partners in the project. As for countries, however, you may not have a choice. Normally, these countries end up being major markets. Either it will affect your forecast negatively, which will put off potential investment money, or distributors will simply refuse to take the project. They do not like to give up lucrative markets and potential profits. You have a right to your principles; if they affect future revenues, however, you must tell your investors what they are.

This brings us to a brief discussion about honesty. What if you intend to make, say, environmental films but fear that you will lose potential investors by being explicit? Should you keep your true plans to yourself? Should you claim to be making some other type of film, such as action/adventure? This question has come up in seminars and classes repeatedly. In my first UCLA class, the following conversation took place a decade before the release of *An Inconvenient Truth*:

STUDENT: If I tell them that I'm going to make environmental films, they won't give me the money.
LL: What are you going to tell them?
STUDENT: I won't tell them what kinds of films I plan to make.
LL: You have to tell them something. No one is going to buy a pig in a poke.
STUDENT: I'll tell them that I'm going to make action films. Those always sell well.
LL: Then you would be lying to your own investors.
STUDENT: So? The idea is to get the money, isn't it?
LL: If lying doesn't bother you, how about fraud? The best-case scenario is that they will take their money back. At the very worst, you can be liable for criminal penalties.
STUDENT (with shrug of his shoulders): So?

I explained the likelihood that an investor would sue him and win. As a new filmmaker without any money, he might never recover from the costs of the lawsuit. This still didn't seem to faze him, as he simply didn't believe me. As far as I know, he never got to the point of raising money.

You may think that I invented this conversation to make a point. I wish that I had. Unfortunately, it is a true story. Is it surprising that, at the same time, the university offered an ethics course and no one signed up for it? My job is not to lecture anyone, although it is tempting. Your moral values are your own. Suffice it to say that fraud is not a good offense to commit, and investors do not respond well to it.

Who?

By this time, you ought to know who you are, both personally and professionally. Now you can use the mission statement to define your company. Start the Company section of your business plan with a short statement that introduces the company. Give its history, ownership structure, and details of origin. Include the following in the statement:

1. Type of company: limited liability company (LLC) currently is the usual format (and name of state where filed)
2. Names of principal management/production people

A beginning statement might be something like this:

> AAA Productions is a California limited liability company formed for the development and production of Hispanic-themed films as well as the employment of Hispanic actors in primary roles. Over the next four years, the company plans to produce three independently financed feature films with budgets between $2 million and $7 million. Successful films over the past ten years have shown the boxoffice value for this genre.

Not only has the writer said what films the company intends to make, but they have also identified a specific goal that is both professional and personal. The company's "principal purpose" describes its mission statement. It is closely tied to the personal beliefs and desires of members of the company.

What?

Mysteries do not work, except in scripts. The readers of your business plan want a straightforward summary of your intentions. Saying that you will make films without a discussion of content is not enough. What specifically do you plan to do? In the Company section of the business plan include a short recap of your film(s). You will explain the individual projects in more detail later in the Film(s) section. You should summarize all the areas that your plan covers, such as the following:

1. Films
2. Budgets
3. Types of functions (development, production, and distribution) in which you will be involved

Rationality must intercede here. What you want to do and what you are most likely to get done may be two different things. In one of the piles of business plans from outside sources at my office, for example, a group stated that it planned to make 10 to 12 feature films a year with average budgets between $8 and $15 million. This undertaking is laudable even for a large independent production company like Lionsgate, or even a major studio. It is questionable for a brand new company due to the quantity of resources—both money and people—involved. For this brand-new company, it was a foolish goal. No one in the company had ever made a film before. Even if someone had, consider the effort. The films would require more than $100 million in production costs alone in the first year, not to say anything about finding the staff, cast, and crew to make them. If you were an investor, is this a project you would view as "reasonable" for your hard-earned money?

Of course, people beat the odds every day. If entrepreneurs believed in the word *impossible*, there would be no progress in the world. Nevertheless, you should weigh the scope of your venture against the experience of the people involved in it. For a new company, aiming to produce one low-to-moderately budgeted film in the first year makes the odds of receiving funding much better. I always tell first-time filmmakers to make and distribute one film first; then do a business plan for a slate of films. Since I make more money if they do a company plan with lots of films to forecast rather than one, I must believe that advice!

Experience producing or directing television programs, commercials, music videos, and industrials is better than no experience at all; however, feature films are different in terms of time and budget. Being circumspect about the size of the feature budget in relation to your experience not only will impress investors but also will keep you from overextending your abilities.

With a one-film plan, you need only to look ahead four or five years (one for production, time for distribution, and two to three for most of the worldwide revenue to flow back to the company). If you are starting a multifilm company, however, you must consider where your company will be ten years or more hence. Analyze everything you plan to be doing over that time. If you plan to include a new distribution company in year four (I'm not recommending it), that goal needs to be part of your plan. Or if your goal is to be successful and sell the company in five years. All of this is part of your projected bottom line. Although you may not know all the specifics, the size, scope, and type of your planned projects need to be stated.

Even if your company has been in business for a long time, or if the principals have considerable experience, never assume that readers have an intimate knowledge of your business. Present the same details in your plan that we have discussed already. If you do happen to give the plan to someone familiar with the industry, they will be happy to know that you understand it, also.

Remember that it is important in this document to keep the malarkey factor to a minimum. That does not mean that you cannot put in a little positive public relations but leave your press clippings for the Pitch Deck or Appendix.

When?

In describing your project or company, you may have already stated how and when you began functioning as a company. You may have a great deal more to say, however. If your company is a start-up, there may be a limited amount of information to provide. Be clear about the current situation, whatever it is. You may still be someone else's employee, for example.

Starting Steps

You have already taken the first step of starting a business—translating your vision into a concrete plan of action. The next step is the practical process of setting up shop. Go ahead and file forms (with the advice of an attorney) that may be necessary for your type of company, have an address (even if it is your home or a post office box), and print business cards.

To digress for a moment, I urge everyone to have a business card. I have found that writers or people with below-the-line jobs tend not to have one. Always have your name, a contact phone, and an email address available to give to anyone you meet. It is crucial once you have the desire to make your own films.

You must create all those minutiae that say to prospective investors, "This person knows what he is doing." Note the following checklist:

- Define the job descriptions of the production team.
- Determine the location and cost of offices.
- Have your stationery and business cards printed.
- Set up phones and a scanner for easy communication.
- Arrange for professional guidance from an attorney and an accountant.
- Introduce yourself to your banker and set up a checking account.

What will be the legal form of this business? There is no one form that is best for everyone:

1. A *sole proprietorship* is owned by one person. It is easy to initiate and faces little regulation. The individual owner has all the control but all the responsibility as well. It is the normal state of doing business for consultants and others who mostly work alone.
2. A *partnership* is a business with two or more co-owners. The LLC is a common form of partnership for independent filmmakers. It is an operating agreement for one person or between you and your production/management partners that you register with your state. This LLC, however, should not be confused with an Investor Offering, which also may be called an LLC (see Chapter 9).

If you already have a company, you probably will want to register a new LLC, which will be in partnership with the funders. For example, Business Strategies is my company. What if Suzy and I decide to make films together? We will set up a new entity (Movie Money Pictures, LLC) for that purpose. MMP, LLC will then be the main (general) partner with the investors in the Investor Offering. That way, all the profits due to the filmmakers will flow to the joint company, rather than Business Strategies or Suzy's original company. It is always important to keep the money and legal business separate from any other companies that either of you have.

Over the years, another common situation I have seen is two people, let's call them Jim and Myrna, deciding to partner on a film or slate of films. Since Myrna has an ongoing company, she suggests that they just make the films as part of her company. The problem is that Myrna's name is on the legal registration with the state or other entity as the legal owner of the company. Unless that is changed to add Jim's name, she now has control of the films. As I suggested above, even if she did that, he might now be responsible for previous debts of the company. Always—I will keep repeating—have your own attorney check any legal agreement before signing it.

Suppose that you have had legal problems with money in the past. Don't be coy. Obviously, you need other people's money for some reason. Most investors will insist on full disclosure. They need to know the depth of the problems to overcome. If you have leftover equity owners from a previous incarnation or have imprudently spent money on cars, consult with—you guessed it—your attorney on what disclosures need to be made. They may only be part of the Investor Offering rather than the plan itself; however, the sin of omission is as serious as the sin of commission.

You may find yourself in another situation. What if a company of the same name or a company that you bought for this purpose was in some other line of business before you bought it? The name is established but the business has not yet functioned as an entertainment entity. On the other hand, you may have bought an operating film company that has been unsuccessful. Both circumstances add assets and credibility to your company. Do not attempt to give the impression that you had anything to do with building the assets that will remain with the original company; on the other hand, be sure to explain any problems that may have occurred under previous owners.

Do not be afraid to state the facts. Investors want to know what they are getting into. Besides, being candid has its own rewards. People with money tend to know other people with money. Even if one prospect is not interested, his friend may be. If there is anything negative to know, an investor probably will find out eventually anyway, and you will lose not only an investor but also the chance for him to recommend you to someone else. When I wrote the first edition of this book, people were not on the Internet. It was a small world then, and the Internet has made it even smaller. Once you start getting a negative rap, the word spreads quickly.

Where?

Potential investors want to know where you are going to sell your films. Although "worldwide" is a good thought, you should be more specific. If you are making your first independent film, it is not likely to have a $25-million budget. (If it does, please reconsider. Your company is not ErosSTX yet.)

There are many different things to choose from when starting a film company. I strongly suggest sticking to theatrical films in the beginning. However, some people want to make films for the broadcast media, streaming, or create their own online division. This may hinder your money-raising efforts if you do not have a significant track record. Remember that the Company section is an introductory statement, not a thesis. A short summary, such as the following one, is all you need.

The company's objectives are to:

- Develop and produce a film that will resonate with both domestic and foreign audience.
- Maintain strong management control over production to obtain the best quality.
- Pursue independent production financing in order to make the best possible deals with distributors, thereby maximizing returns to the investors.

How?

Up to this point, you have essentially outlined everything your company proposes to accomplish. In the rest of the business plan, you will describe each step in detail. Chapter 3, "The Film," is a continuation of the "What." It is an in-depth study of your project(s). Chapters 4 through 10 and 13 describe the *how*. This is the central plot of your business plan. How do you fit into the industry? How will you identify your place in the market? How do distribution and financing work, and how will you pursue each one?

MANAGEMENT AND ORGANIZATION

Conclude the Company section of your business plan with a brief description of your production team and its key members. This means writing just a paragraph or two for each. Save the six- or seven-page résumé for the Pitch Deck/Appendix. How many people you put in this section depends on the strength of the production team.

Generally, you only want to include people above-the-line—producer, executive producer, director, writer, co-producer, assistant producer, and editor. Unless they are producing the film, I put the bios of actors as attachments in the Film section. Track records also are important. Although they are normally considered to be below-the-line, I include noted cinematographers or film music producers in the production/management team.

Track records in other businesses are also important. I just finished a business plan for which one partner has extensive financing experience. I couldn't convince him to let me put his bio in a one-film plan. Even though the filmmaker has experience, this person's business experience would make an investor feel comfortable.

The following is an example:

Production Team

Need Attention, Director and Screenwriter

> *Need Attention will be writing and directing our first two films. Last year, he directed the romantic comedy short film,* Louise Loves. *It was well received at several film festivals and won the critics' award at the Mainline Film Festival. His fifth feature screenplay is in development at Crazed Consultant Films. Attention has directed commercials for 15 years. In addition, he has done promotions for the Big Time cable system.*

Simply Marvellous, Producer

> *Simply Marvellous worked in acquisitions and production at MNY Pictures. Among the films that she was responsible for are* Cat Cries at Sunset, Phantom of La Loggia, *and* Dreaded Consultants IV. *Previous to working in the film industry, she served as Executive Vice President of Marketing at APQ Automotive.*

Frieda Financial, Executive Producer

> *Frieda Financial brings to XXX varied business and entertainment experience, including five years' experience in motion picture finance with the Add 'Em Up accounting firm. Previously, Financial worked in corporate planning for the health care industry.*

Make these descriptions with more detail than I have here, and include all the essential information; however, do not write a PhD thesis. Put long lists of projects in the Pitch Deck—for the sake of your readers' sanity, however, do not create a ten-page listing of all of the director's commercials.

Catch-22 Experience

What do you do when no one in the company has any experience? Tread very carefully. My advice is to attach to someone who does.

Why would any investor believe that you could make a film with no previous experience and no help? The amount of skill expected is related to the budget as well as the genre of the planned film. Suppose you have decided to make a $10-million film for your first venture. You have written a script and have partnered with people with financial or retail backgrounds, but no direct knowledge of or experience with film. Would you take $10 million out of your own pocket for this?

If you don't know people to add to the production group, network through film groups in your area or at film festivals and markets to connect with someone. You also can write to people whose previous work makes you think that they would love your film. Try to be rational here. Do not spend ten years waiting for Mira Nair or Jordan Peele to respond, however. They may be very busy with other projects.

Be careful how you do this, though. You want to avoid making the production of your films look like no one is the leader of the group. One wannabe producer came to me with a plan for a first movie, with himself as executive producer. He planned to start with a $20-million film and felt that running the computer system at a production company was appropriate film experience. His explanation read as follows:

> *So and So has 25 years' experience working with computer systems, 10 of them at X & X Production Company. So and So is the Producer and has an experienced crew ready to work with him. These technicians have a combined experience of 105 years in the film business. If So and So has any questions, they will be able to help him.*

This is a dangerous trap. The expectation that your inexperience will be covered by other people working in various crew positions may backfire. The old saying, "A camel is a horse designed by a committee," is applicable here. The producer is the manager of the business and must make the final decisions; therefore, the person in this position must have knowledge on which to draw. If you don't have it, hire a producer who does. Investors expect to see people in charge who have more than a vague idea of what they are doing. When describing their experience, some people elaborate on the truth to a fault. Think carefully before you do this. Filmmakers often put their most creative efforts into writing the management summaries.

Compare the following real biography to the "elaborated" version that follows:

> *Real biography*: Leonard Levison worked as an assistant to the Associate Producer on *The Bell Rings*. Before that, Levison was a Production Assistant on four films at Great Movies Studios. He began his film career as a grip at the studio.
>
> *"Elaborated" business plan version*: Leonard Levison produced the film *The Bell Rings*. Prior to this project, he produced *Heavier Than Thou*, *The Poker Chip Always Falls*, and two other films at Great Movies Studios. He began his film career as the Executive Producer on various films.

Harmless public relations "puffery," you say? This overstatement is similar to the inflated income some people put down on a home loan application. You might assume that this is just the way things are done, but this action can come back to haunt you. A Los Angeles entertainment attorney told me about a court case in which the fictional management biographies of the filmmakers were the investor's sole reason for suing when a film lost money. He said that he "bet on people" and only read the management portion of the Company section of the business plan. The investor won.

Try to be objective about the film or films that you are creating. If you are making a very low-budget film, experience with short films may be enough. On the other hand, it is less likely that an investor will give money to totally inexperienced filmmakers with a five-film slate. No situation, as I have said, is impossible. The safer you can make the downside (chance of losing money) look for the investors the better; however, it still is unlikely that they will write you a check. No matter how emotionally involved an individual investor might be in the project, there is usually an objective, green-eyeshade CFO sitting nearby, trying to make your plan fit her idea of a "reasonable" investment.

A Word about Partnerships

In forming a company to make either a single film or many, you may want to take on one or more partners. The usual makeup is two or three people who co-own a company and work full time in it. Each one is personally liable for the others. It is quite common for good friends to become partners. Because of the relationships involved, however, many people doing business with friends often do not take the same care that they would take with total strangers.

Handshakes are only an invitation to work together. No matter what the affinity with one another, agreements between people must be signed contracts. Over the years, I have had countless partners come to discuss the business plan without first making their own agreement. In some cases, this has resulted in the project not starting—or worse, being stopped once they have paid—because the people involved had not made their own formal agreement. Once they are faced with making a formal agreement for the purposes of the plan, someone doesn't like the original handshake agreement. Or people don't agree on the details of the original agreement for which there are no notes. Even if there are emails, nothing has been signed, and a change of mind over who will get what is not unusual. I have even been told that I made the potential forecast sound so good that the writer decided to demand an equal percent of the profits rather than the original agreement just to be paid for writing the film.

A good partnership requires the presence of two contradictory elements. First, you and your partners must be very much alike so that your goals and objectives mesh. On the other hand, you must be very unlike and complementary in terms of expertise. Often, one partner is more cautious and the other more adventurous. Whether to form a partnership can be a difficult decision. As in many other situations, list the advantages and disadvantages of a partnership and see how it looks to you.

The following are examples of such lists. First, the advantages of entering into a partnership:

1. I will have a measure of safety because it takes two to make any decision.
2. I will avoid the unremitting and lonely responsibility of doing everything by myself.
3. I will have a partner with skills that are different than my own.
4. I will have someone to share crises with.

Here are some reasons not to enter into a partnership:

1. My share of the profits will be a lot less.
2. I will not have total control.
3. I will have to share recognition at the Academy Awards.
4. My partner's poor judgment could hurt me and the film.

ASSESSING YOUR STRENGTHS AND WEAKNESSES

Casting an unbiased eye over your plans is always hard for entrepreneurs. A strong desire for everything to work often clouds your vision. Evaluating the strengths and weaknesses of your film(s) in the beginning, however, will save time, turmoil, and money later. You might be able to describe the strengths of your company as follows:

- Associates of the company possess unique skills or experience.
- We have special relationships with distributors or other professionals or companies in related fields.
- Unique aspects of this business that will help us are ….

On the reverse side of the ledger are your company's weaknesses. Be honest with yourself when identifying your company's failings. This exercise saves many companies from later failure. By converting the strength statements to negative statements, you can spot problems. Write them down on a piece of paper to review:

- No one in this company possesses unique skills or experience.
- Our films have no distinctive characteristics that set them apart from others of the same genre in the marketplace.
- We have no special relationships with distributors or other professionals in the entertainment industry.

Being good in one area of business does not guarantee success in another. For example, suppose that an entrepreneur from one area of entertainment, such as commercials, decides to go into theatrical films, an area in which he has no experience. Although he knows how to manage a profitable business, feature filmmaking has its own unique set of concerns. The business requires larger sums of money per project than do commercials and involves greater risks in terms of market.

In addition, running a company as opposed to being a studio producer or an independent working on one film at a time requires different skills. Successful executives often rush into new businesses without preparing properly. Used to calling all the shots, they may have trouble delegating authority or may hire lower-level development personnel rather than experienced producers in order to maintain control. The producer can counter these weaknesses by studying the new industry first and hiring seasoned film people. Running through this exercise will help you in two ways: First, you will locate the holes in the dike so that you can plug them before any leaks occur. Second, you can use it to assess how much confidence you or anyone else can have in your organization. Third, pointing out the obvious to readers never hurts. You should not make readers work to see the good points. As to weaknesses, most investors are sophisticated executives and will see the problems themselves. If you do not mention how you will overcome the obstacles your company faces, the investor may question your ability to understand them. Being frank may keep that question from coming up at all.

LESS IS MORE

The Company section of your business plan not only summarizes the essential facts about your company but also is an introduction to the rest of the business plan. It should be short and to the point. Prospective investors want to know the basics, which will be described in exhaustive detail throughout the rest of your proposal. Many readers of this book's previous editions have told me that the phrase that was most important in writing their own plans was "less is more."

3

The Film

The Investor Needs to Know the Whole Story

We have a lot of respect for the fact that you can't make movies without money and that when money comes to the table, that money deserves to have a place in the process as much as anything else in the film-making equation.

—PRODUCER ANTHONY RUSSO

PROJECT SCOPE

If you make good films, investors will come. Everything starts with the story. Over the years, one thing has not changed. To quote the former head of the Motion Picture Association of America (MPAA), "A movie-maker's single indispensable asset—as elementally essential now as it was in the Golden Years—is the Story."

While the industry is going through many technological changes, who knew a silent film in 2011 could return and make money? We learned that one could with the release of *The Artist*, which went on to win the Academy Award for Best Picture that year. Whether you are making one film or a slate of films, this chapter looks at what needs to be addressed in terms of the film's synopsis and its attachments. It demonstrates how to describe them and explains not only the amount of information that you need to include but also what you should leave out.

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The Right to Know

As your partner, the investor has a right to know the complete storyline and what activities are being contemplated to enable them to make an informed decision. In a one-film plan, you should have a full script and budget before creating the business plan. In doing a company plan with films planned over more than one year, you may not have all the scripts. Some of you may not even have specific projects yet. You may have a script to shoot next year but may not have a clue about the script for a film planned four years down the road. Nor can you know what delays may occur along the way. You need to know at least what types of films you plan to make and the estimated budgets. It is less important to be psychic than to be as accurate as possible in terms of intentions and timing. If circumstances alter the original plan, everyone involved will re-evaluate it, including the investors.

Several years ago, a young man came to me with a proposal to create a highly specialized series of films. He planned to sell them in a narrowly segmented market. The plan contained much discussion about the future success of his company, but the only description of the projects was the word "films." He estimated that millions of people would go to see these unspecified films. Being the curious type, I asked him what kinds of films he planned to make. His answer was, "Good ones." I pressed on, trying to elicit more information—after all, he guaranteed that millions would want to see these films. He replied, "I'm not going to tell anybody anything. They might steal the idea. Besides, it's no one's business; all they need to know is that it's a good investment."

Don't laugh too loudly. This story is real and only one of many. This young man's attitude is not unusual. "Films," as you may have realized by now, is not a sufficient description. Putting yourself in the investor's shoes, how would this strike you? You would probably insist on knowing the content of these incredible films, what this guaranteed market was, and how the films were going to pay back your investors. The last cannot be determined without having the bare minimum info—genres and budgets.

There are certainly a couple of valid reasons why a filmmaker (or any other entrepreneur) might worry about revealing the details of a proposed project: (1) no identifiable plans exist, or (2) someone might steal the idea. Although theft of concept is not an unknown phenomenon, there is a difference between not telling the general public all about your plans and refusing to tell a potential money source. Prudent filmmakers refrain from describing script details in a loud voice at the local coffee shop, at a crowded party, or in the lobby of a busy hotel in Park City during Sundance. It is the same as putting it on Twitter, and I can attest to learning about a lot of pending deals by sitting in that hotel lobby. They also should resist the temptation to ask seven or eight friends to read their projects. However, the prudent will give the right people enough information to prove the advisability of the investment.

Success in any business revolves around the product. In film, where all forward motion to the goal is content driven, the story is crucial. To sell your projects, remember the refrain, "Story, story, story." Hype has a place also, but it must take a back seat in the context of this plan. The trick is to do some jazzy selling around a solid idea. On the other hand, all the public relations in the world will not save a bad film. From Chapter 2, "The Company," you know that the first goal of the business plan is to identify your future course of action. The second is to show investors how profitable a film can be. There is no way to forecast your success without specific ideas to evaluate. Does this mean that you must have all your scripts, directors, and stars in tow? Not necessarily, but you do need to have a framework. At the very least, for example, you want to know that you are going to produce X budgets and Y genres over a Z-year period. You must provide enough information to estimate revenues and give the investor a chance to like or not like it.

In this section, you are telling the whole story of the film in one or two pages, endings included. In addition, you are describing what attachments to the film factually exist. Fantasies may play an important part in scriptwriting but using wish lists in this document can present a problem. Confusing the issue by citing a cast that has never heard of the project or books for which you do not have an option will create a false impression. Whether unintended or on purpose, the result is the same. Investors negotiate contracts based on the information you provide. If they find out that you have not been truthful, they can withdraw their money. Worst-case scenario, they can sue you.

FILMS

When describing your film projects, the objective is to tell the whole story with minimal extra prose. You should disclose each film's assets (components that may add commercial value to the project) as well as any nonmonetary values that are important to the types of films you want to make.

Show and Tell

The trick is to tell enough to engage readers but not so much that you risk losing them. As we go through the different elements of this section, we will attempt to draw a line between sufficient content and excessive wordiness. Readers who must wade through pages of information that is hard to follow will just stop reading it—usually permanently.

Writers of scripts, books, and other literary pieces have a tendency when writing nonfiction to create a stream of consciousness that is hard to follow. Fiction requires emotional and subjective content that will draw readers into the fictional world. Business writing—and nonfiction of any kind—requires simplicity and directness. Dr. Linda Seger, noted author of books on screenwriting, says:

> *Screenwriting is about being indirect; proposal writing is about being direct. While the object of good fiction writing is to be subtle, hide exposition, and present many ideas indirectly, good proposal writing ensures that the audience is getting the information clearly and consciously.*

This is the reason why some genius invented the Pitch Deck/Appendix. As you proceed through the following sections, you will get a clearer picture of what this means. There are no official rules as to how much information you ought to include but bring your common sense into play; and always try to be alert to the reader's *point of view*.

Scripts

Disclose enough material about each script so that readers understand its value. A synopsis is the usual format. For most films, you can tell the essentials of the story in a page and indicate the genre of the film.

A student once questioned whether or not to include the title of his script. He feared that someone would steal it because it was innovative and catchy. The chances that someone will finance a film for which you don't indicate the title are slim. More often, writers fear that someone will pirate their ideas rather than their titles. Nevertheless, you can't copyright either one of them.

The first step to take to protect yourself from possible theft of your story is to copyright the script. Most writers register their scripts with the Writers Guild of America. An even better procedure is to file for registration with the Library of Congress in Washington, D.C. Once you have done this, you can prove that your story existed as of a particular date, and you can feel free to give it to others. Keep in mind that registration does not prevent theft; it just helps you prove ownership later. Unfortunately, you cannot copyright ideas themselves. Michael Donaldson, in his book *Clearance and Copyright*, says:

> *Copyright law only protects "expression of an idea that is fixed in a tangible form." This means that written words are protectable; the ideas behind them are not. You can't copy something that is just an idea in the air.*

You also cannot copyright titles. Well-known book titles, such as *The Hunger Games*, will have been trademarked. However, there are other reasons your title can change. Distributors often reserve the right to change it, particularly if they feel it will be confused with another film. If you go through the MPAA process, you may come into conflict with having your title approved. Please don't email me that you have seen multiple films with the same title. It happens. The point is that you want to check the situation for your own film—another good reason for working with a film attorney.

First, put in enough story: Here is a good example of what not to do.

> **Title:** ***Boys Who Wreak Havoc***
>
> *Four teenage boys decide to take over a small Wisconsin town. They kidnap the minister's daughter as a bargaining tool in their effort to make one of their members the mayor. Then strange things happen. At the end, peace reigns.*

This paragraph does not talk enough about the story to give the reader a true idea of everything that is in the film. With a similar project, I asked the client: "What happened in the missing hour and a half?"

You want to include the entire story line. The ending is there but how did we get to it? They need to have enough information so that they do not misconstrue the type of film you plan to make. If the girl is raped or there is a nude scene, be sure to mention it. Failing to mention a scene that affects the nature of the film because you think potential investors might not like it is a sin of omission. If, for example, you let your investor assume that you were making a PG-13–rated film when you know that it will be R-rated, your money source can object and demand his money back. In other instances, filmmakers tell the ongoing story but leave out the ending. You are not trying to get investors to go to the film. If they have money involved, they will go anyway. The business plan is a private document. The investors are the only ones that know.

What if you do not have a specific script or you have one budgeted script but want to do a slate? State this up front. When raising money for one film, you need to have a budget to tell the investor. Then you need at least the genres and estimated budgets of each of the films to follow.

You may be looking for development money to obtain scripts. If this is the case, concentrate on what you know about your project. You must tell investors at least the size of the films that you plan to make. One way to describe this situation is as follows:

> *We are planning to make three films with family themes over the next five years, ranging in size from $1 million to $5 million. Initially, we are raising $2 million to develop and produce the first film.*

Alternatively, you could say that you are raising $15,000 in development money for a business plan, attorney, and attachments. This scenario is not as tempting to investors as the first one, but it is doable. For investors, providing money for development is always a greater risk than providing money for well-planned projects. The danger for the investor is that the producer may never find the right project and begin production. Or an agreement made with the source of production money may further dilute the initial investor's position. However, if you have some experience and a credible team, try for the development money. An attorney can write a proposal for development money that only needs the story description(s) and budgets. It will specify how much money the investors will be paid when production money is raised. In such instances, those providing development money do not share in the production points that other investors buy for a share of the revenues.

Suppose that you know neither the subject of your films nor the size of their budgets. In one plan, the company stated: "The producers plan to make low-budget features with the formula that has proved most profitable both in theatrical and video releases … scripts in this area are plentiful." Seems a little vague, doesn't it? Aren't you curious to know what these proven formulas are?

Typically, the information in a proposal of this type is not enough—the right mix of ingredients is always a balancing act. Even for an experienced moviemaker, this pitch would be hard to sell. Most people want to see specifics to which they can attach a value, either monetary or personal. Anyone with a modicum of business sense understands that handing out money to someone with no real plans except "to make a film" would be foolish.

No doubt you can find an exception to this rule somewhere. Perhaps you've heard about an eager young filmmaker who, with his toothy smile and youthful enthusiasm, convinced a jaded deal-maker to hand over money. Nothing is impossible, but the odds are against it happening. This scenario sounds too much like movie fiction and not enough like real life.

At this point, you may also want to think about the potential audience for your flick. It does not hurt to add a qualifying sentence to your plot synopsis—for example, "Films about Wisconsin, such as *Walter from Wisconsin* and *Cheeseheads Reign Supreme*, have been popular lately. We plan to capitalize on this phenomenon." On the other hand, you may be shooting the film in Wisconsin and raising your money there. In that case, add "Director Buffy Angel was born and raised in Milwaukee, where the film will be shot." However, save the discussion of the distribution and financial ramifications of your films for later sections of the plan. If your readers follow custom, they would have read the Financing section before this one anyway. It is easiest for readers to follow your plan if you group all of the project descriptions together and do not digress with long discussions on other subjects.

ATTACHMENTS AND THEIR VALUES

In this balancing act, any person, place, or thing that adds value to the script is important. You want to give your project every chance to see the light of day, so recount any attachment with a perceptible value. Here are five examples of attachments: (1) options, (2) books,

(3) stars, (4) directors, and (5) money. Notice that your favorable opinion is not one of the choices.

Options

An option is a written agreement giving the producer exclusive rights to a project over a specific length of time. If the option is exclusive, it ensures that no one else can make the project while the producer holds the option. Obviously, if you are the writer, it is your project. However, if you are representing other writers' scripts as part of your package, you must declare the ownership status. Representing films as your own when they are not clearly is a no-no.

Not only the script itself but also the subject may need an option. If you are dealing with true stories of living people (or deceased persons whose estates own the representation of their likeness and life), you may need to seek permission to do the story. Getting the option (rights) after the fact can be a costly process.

You do not want to be in the position of having a deal on the table for a film and having to go back to obtain the rights to it. After the fact, the subject can and often will deny having given verbal permission. If you have not done your homework, it is the subject's right to stop the production, which sometimes leads to an expensive payoff or a court injunction.

Books

A published book adds value to a film in several ways. The sales history adds clout to your project, the specialized market it represents provides a ready-made audience, and the book usually furnishes additional ways to hype the film. Unless it is your book and copyright, the first step to take is—you guessed it—an option. The cost of the option depends, again, on the person you are dealing with and the relative fame of the book. It would be useless to even try to give you prices. As soon as the ink is dry in this book, the market will have changed. In truth, a book option, like a script option, can cost anywhere from nothing to millions of dollars.

An author (or the representatives of an estate) may have a subjective reason for you to make the book into a film and be very generous in making an agreement with you. On the other hand, if money is the primary focus, the author will drive as hard a bargain as possible. This area is one of the few in which your sparkling manner can have a concrete impact. On occasion, deals have been done because the author liked the filmmaker and wanted to see the project get made. Passion for the project counts for a lot in negotiating with authors. One way to be sure that you cannot use the book, however, is to refrain from seeking the rights to it.

Options can be obtained for a reasonable price if the timing and people involved are right. For example, two producers bought the rights for a paperback mystery novel plus the author's next two books for a few thousand dollars. No one else had approached the author, and the books were not the type to make the best-seller lists. Nevertheless, the author had a large audience among mystery fans. With no competitive bidders, the producers were able to make a good deal.

Another producer optioned several books of women's stories. The books had a large following, but the subject was still "soft" at major studios. She couldn't get the deals that she wanted, and that the films deserved. After Best Picture winner *Nomadland* and 2017 nominee *Three Billboards Outside of Ebbing Missouri*, studios and independent companies have been falling all over themselves to make similar deals. It's all in the timing. A change in the attitude of the trendmakers (studio executives, agents, and distributors) increased the value of the producer's optioned books.

Being able to read manuscripts before they are published gives you an advantage over other filmmakers. Agents have access to unpublished manuscripts all the time. If you happen to know about a book that is about to be published by an unknown author and you can strike a deal prior to publication, it may work to your advantage financially.

Real-Life Stories

As documentaries and films based on true stories have become more popular and successful at the box office, it is important to understand that all the options talked about above apply. Over the years, people have approached me to write a business plan for a film about a famous athlete or someone else in the news. When I have asked if they have an option on the story, the reply often has been, "He told me to go ahead." Not good enough. You must get the agreement in writing. It is best to have an attorney draw up the agreement, but at least have something written that is signed by both of you. The same goes for stories about nonhumans.

If you want to make a film about the horse that wins the Kentucky Derby, talk to the people involved and get their agreement in writing. The people that need to give their permission to be portrayed in the film is best discussed with an attorney.

Stars and Other Fantasy People

Attaching star actors, star directors, and famous producers is the fantasy of many independent filmmakers. Having Gal Gadot, Scarlett Johansson, or Chris Hemsworth in your $500,000 film might be a recurrent dream of yours, but, unfortunately, their salaries include several more zeros. Nevertheless, you can have attachments that add value to your project, as long as they are real. No wish lists.

With lower budgets, "bankable" stars (the actors whose names ensure a certain level of box office revenue when the film opens) are probably not an option, but you still can have a name that interests an investor. The value of the name is often in the eye of the beholder. Foreign buyers may put value on names that are only a moderate attraction on a U.S. movie marquee.

Directors

Directors who command high salaries will also be out of reach for very low-budget filmmakers. As the budget gets higher, the experience of the director becomes more important. Emphasize your director's previous experience, but do not fabricate it. If you are planning a $15-million film and your director has never helmed a feature film, the inexperience may be a hindrance in obtaining financing, and could possibly be damaging when trying to complete a good film on budget. You want the director to be able to handle the film and, especially, the actors. In addition, experienced actors often are unwilling to work with an unseasoned director, and investors become more nervous about spending their money.

All the elements in a film are relative to one another. Because the producer has the major responsibility for keeping the budget on track, previous experience with feature films is important. In independent filmmaking, the producer is often the only connection between investors and their money. Once the cash has gone into the film's bank account, investors must depend on the producer to protect its use. Not only does the producer watch the money, but they also have to have enough clout with the director to stop them from going over budget. Always keep in mind that this process is a balancing act of all the different elements.

Money

"Well," you say, "of course, money adds value." It seems redundant but really is not. Clearly, hard cash for development and production has a straightforward relationship to your project, but what about any partial funds attached to your project? For some reason, newer producers do not think to mention them as part of their project's description, but they should. If any money at all is attached to your project, announce it here. If you have paid money for any option, include that information in the details about the option. Keep in mind that it always impresses investors that you have put your own money into securing an option. If you have taken development money without an agreement, get one. Development money should not impact the value of production money shares. If you already have the money, you can mention it here; however, refer the investor to the Investor Offering, which will have the details.

All of the elements in a film are relative to one another. A few years ago, I was asked for some advice by a producer who had been having trouble raising money for several years. He had a totally unknown cast that would cost little money, a director with no feature experience, a simple plot with few locations, and a $15-million budget. I suggested that he should lower the budget, for which there seemed to be no reasonable explanation except that he wanted to film in 3D. He didn't like the advice, and he never raised the money.

You will discuss money at greater length in the Financing section. Remember that all attachments are of value to the film and belong in this section. You want to depict any ingredients of this mix that will positively influence someone to make your film. In addition to hard cash, you should mention any co-production agreements, below-the-line deals, negative pickups, or presales; but make sure you have your deals in writing before putting them in the business plan.

BUDGET

For prospective investors to evaluate your films completely, they need to know the size of the budget. Again, we have two types of films: those with complete scripts and those that are just a gleam in the producer's eye. When real scripts exist, real budgets should exist as well.

To save money, many filmmakers pass a tuning fork over their script and say, "One million dollars." Do not just make up a figure. Anyone who contemplates financing your film will take this number seriously. So should you.

Many independent films have been delayed or postponed permanently because the money ran out during either principal photography or postproduction. The investors have said, "You told me $800,000, so that is all you are getting." Studios often have reserves for a certain amount of budget overruns; indie filmmaker investors do not.

Some filmmakers develop only the two top sheets of the budget—this is just one step ahead of the tuning fork method—and figure out the complete cost later. However, you should calculate the total cost now to save explanations later. Estimating the cost of the general categories (cast, location, wardrobe, and so on) can be extremely dangerous, no matter how experienced you are. Break down the script. Production managers, line producers, and unit production managers often work freelance. Be sure to hire one who has experience with budgeting independent films. Calculate the entire amount and be careful to have enough money. It is always better to keep your budget forecast a little high rather than cutting it too close to the bone.

When describing your film in the Executive Summary and Company sections, you should simply state the size of the budget along with its attachments. A paragraph or two on the entire project will be sufficient. Consider the following example:

> *This film has a $2-million budget, based on filming in Cincinnati. Susie Starstruck and Norman Goodlooking are set to star in the film. Ms. Starstruck has been featured in* The Gangbusters *and* Return of the Moths. *Mr. Goodlooking has appeared in several movies of the week. Herman Tyrant, the Director, has made two low-budget films* (Be My Love *and* Girls Don't Sing) *and has previous experience in commercials. The film has partial financing of $100,000 for development from an equity investor.*

In this paragraph, the writer has explained the essentials. Here, we learn the size of the budget, the location (much of the cost in this example is predicated on the film being shot in a right-to-work state with a good incentive), and the experience of the lead actors and director. One investor already has an equity position, but all of the production units are available. All relevant information belongs to the Investor Offering (see Chapter 9), which is always written by an attorney, not the filmmaker.

Do not worry about repetition; it is part of the building-block formula. You give an overview of the film. Then, in the Distribution and Financing sections, you go into greater detail about pertinent elements.

What if you do not have a full script or any actors and you have little or no experience? Do not lose heart. You can still explain what you are planning to do. Look at this example:

> *The ABC Company plans to make four films over the next five years. The first two films will be low budget ($250,000 and $1 million) and will deal with coming-of-age themes. Both films are in the treatment stage, and the Director, Fearless Author, will write the screenplays. Mr. Author wrote and directed four short films, two of which have won awards at the So And So film festival. Mr. Experienced Producer, whose films include* Growing Up? *And* Life Is a Flower, *has given us a letter of intent agreeing to serve as Executive Producer. The third and fourth films will be in the $3- to $5-million range. Mr. New Producer will produce these films after serving as Co-Producer on the first two. Neither treatments nor scripts exist for the third and fourth films. They will be in development during the first two years.*

A Word about Incentives

Always seek the entire budget of your film without deleting the potential value of incentives. In most cases, this money is not guaranteed and is dispensed only after the film has been made. You first have to raise the entire budget and make the film before incentives can be considered.

Common sense will tell you that this package has less substance than the first one. It may be harder to find financing, but not impossible. If you find yourself in a similar situation, all you can do is try to create as many advantages for yourself as possible. The worst approach you can take is to say, "We are nobody with no plans. We plan to find no one experienced in anything, but we want your money anyway." It's true that no one is going to be this truthful, but on many proposals it is not difficult to read these words between the lines. You have to learn to make realistic compromises to reach your goals. And above all, don't lie.

Too Much Can Be Harmful

One of the biggest nightmares that financial folks have is to receive a ten-pound business plan that includes every piece of paper that was on the filmmaker's desk. Your goal is to have people read your proposal; therefore, you want to give them enough information without making the plan too heavy to lift. Suppose you have a complete budget for each of your projects. Do not put them anywhere in this business plan. An interested party will ask for them soon enough and you can have the dubious thrill of explaining every last nickel. If you have a strong desire to show detail, you can put the top sheets of the budgets in your Appendix for perusal at the reader's convenience. But keep in mind that with a Limited Partnership Agreement, all the investors must receive the same information.

The same goes for full biographies of the stars, director, producer, and anyone else involved with your projects with extensive experience. A few paragraphs describing each principal's background are sufficient. The three-page bios do not need to be in the body of the plan. If you feel strongly that someone will have a burning need for this information, the Appendix is the place for it.

Don't make potential investors guess about the applicable credits by including newspaper reviews in your business plan. Summarize the essentials. If you are bursting at the seams with your wonderful reviews, you know where they go—the Appendix.

As far as I am concerned, photocopies of any kind should be forbidden by law from appearing in business plans. When you are trying to separate investors from their money, a well-typed, neat page counts; it shows that you care enough to give them the very best.

One finished plan given to me a few years ago weighed in at two pounds. Thrown in with the appropriate and readable text were nine pages detailing every industrial and commercial film that the director had made. Later sections included photocopies of numerous charts and articles from various publications. Presumably, the investor was supposed to wade through all this paper and reach a conclusion. Not wise. By filling your plan with extraneous paper, you might appear to be covering up an absence of fact, or you might give the impression that you do not understand the proposal yourself. Personal impressions are intangible, but they count. Always keep in mind that the human beings who read your treatise will have human failings. Once they are distracted or annoyed, their attention may be lost, and your package may be tossed in the "forget it" pile. Some rules are made to be broken, but the one about brevity and clarity is not.

START SMALL AND THINK BIG

I have worked with filmmakers with all kinds of experience, from none to 40 years. Trying to have a start-up company with more than one film is difficult. Often clients want to do films, distribution, video games, and music—all at the same time. My advice is to start small with a new company and expand as it becomes successful. If it is your first film (or all your previous experience is short films), make one film. After that film is finished and released, then put together a plan for a company with several films. If you already are experienced and insist on handling your own distribution, I recommend adding an experienced distribution executive rather than all the expenses of a division. Whichever way you go, don't start out with too much overhead. And if you previously made 20 films with a major studio, remember that you never had to worry then about anything but the script or directing. Now you are dealing with everything in the company.

For a new company, you need to have focus. A business plan is great, with the operative word being *plan*.

4

The Industry

The Facts and Nothing But

The most valuable commodity I know of is information.

—GORDON GEKKO (*WALL STREET)*

A BIT OF HISTORY

As this edition is being published, we are coming out of a pandemic that closed all the theaters as of April 2020. It is not the first. During the devastating flu epidemic of 1918, most theaters closed with exceptions being in Michigan and New York. Similar to the current pandemic we face, safety precautions were taken, such as both the audience and employees wearing masks. In addition, the number of patrons were limited and spaced out. Most of this took place over a month; however, unlike today, there was no Internet or social media to spread information. In addition, no one had to worry about making food concessions safe. The electric popcorn machine was not invented and marketed to theaters until 1925, and indoor concession stands including candy only became an ongoing part of the lobby in the 1930s.

As I am writing this, we do not know the full impact yet. Films will be in theaters, but how many theaters there will be and who will go is an ongoing question. Through 2020 and the first three months of 2021 many people predicted that Netflix and Amazon would buy the multiplexes. The pending purchase of MGM by Amazon, however, throws a different light on the immediate future. Theaters may be left to thrive or not on their own, but will streamers go after more independents when they have finished with each other?

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Getting back to our historical beginnings, moving images had existed before 1877 when photographer Eadweard Muybridge helped former California Governor Leland Stanford settle a bet by using a series of cameras to capture consecutive images of a race-horse in motion. Then William Friese-Greene obtained the first patent on a moving image camera in England in 1889. Next came Thomas Alva Edison with his kinetograph in 1890, and shortly thereafter, the motion picture industry was born. Edison is widely credited with inventing the first camera that would photograph moving images in the 1890s, but he did not patent it in Europe, where the Lumière brothers created the cinematograph in the 1890s. Little theaters sprang up as soon as the technology to project moving pictures appeared.

In 1903, Edison exhibited the first narrative film, *The Great Train Robbery*. Seeing this film presumably inspired Carl Laemmle to open a nickelodeon, and thus, the founder of Universal Studios became the first "independent" in the film business. Edison and the equipment manufacturers banded together to control the patents that existed for photographing, developing, and printing movies. Laemmle decided to ignore them and go into independent production. After several long trials, he won the first movie industry anti-trust suit and formed Independent Moving Pictures Company of America. He was one of several trailblazers who formed start-up companies that would eventually become the major studios. As is true in many industries, though, he and other radical upstarts who built the studios eventually became the conservative guardians of the status quo.

The Eastman Kodak Company, founded by George Eastman, put its first camera in the hands of consumers in 1888. The company filed for Chapter 11 bankruptcy in 2012. Part of the problem, besides the lack of camera sales, was an assertion by the studios that they no longer would buy film stock to make movies. But many directors and cinematographers, led by Christopher Nolan, Martin Scorsese, and Quentin Tarantino, made public statements about preferring film. Tarantino even described digital as the "death of cinema." J. J. Abrams said in an interview, "I would argue film sets the standard, and once it's no longer available, the ability to shoot the benchmark goes away. Suddenly you're left with what are, in many cases, perfectly good but not necessarily the best, the warmest, the most rich and detailed images." In October 2013, the company raised financing and was able to exit from bankruptcy. In 2014, the studios who wanted film for capture, distribution, and archival made a deal with Kodak to continue using 35mm and 75mm stock. In April 2015, Andrew Evenski, president of Motion Picture and Commercial Films at Kodak finalized the new film supply agreements with the studios. When asked about the length of the deals, Evenski couldn't specify, but pointed out that Kodak will make film for the artists who want it for many years to come. As of the company's January 4, 2021, catalog, 16mm, 35mm, and 65mm motion picture film were still available.

Looking at history is essential for putting your own company in perspective, whether 100 years ago or last year. Each industry has its own periods of growth, stagnation, and change. As this cycling occurs, companies move in and out of the system. Not much has changed since the early 1900s. Major studios are still trying to call the shots for the film industry, and thousands of Indie producers and directors are constantly swimming against the tide.

IDENTIFYING YOUR INDUSTRY SEGMENT

Industry analysis is important for two reasons. First, it tests your knowledge of how the system functions and operates. Second, it reassures potential partners and associates that you understand the environment within which the company must function. As noted earlier, no company works in a vacuum. The independent filmmaker (you) and the multinational conglomerate (most studios) play in the same general ballpark.

Film production is somewhat different when looked at from the varied viewpoints of craftspeople, accountants, and producers. All of these people are part of the film industry, but they represent different aspects of it. Likewise, the sales specifications and methods for companies are different not only from each other but also from the act of production. Clearly, you are not going to make a movie without cameras, but the ones you may use are changing. Now we have many films being shot on digital, while other films still are being shot in 35mm and being finished on digital. The business operations of the companies that make equipment are seriously being impacted.

When writing the Industry section of your business plan, it is necessary to note any important business operations that will affect the future of movies. Then, provide a discussion of the process of film production with a focus on the continuum from box office to the *ancillary* (secondary) markets. Within this framework, you must also differentiate among various types of movies. Producing the $356-million *Avengers: Endgame* or the $75-million *John Wick: Chapter 3 – Parabellum* is not the same as making the $1-million *Searching* or the $11.4-million *Parasite*. A film that requires extensive computer-generated special effects is different from one with a character-driven plot. Each has specific production, marketing, and distribution challenges, and they have to be handled in different ways. Once you characterize the industry as a whole, you will then discuss the area that applies specifically to your product.

In your discussion of the motion picture industry, remember that non-theatrical distribution—that is, Blu-ray/DVD, television/cable, pay-per-view, digital download, foreign film—is part of the secondary revenue system for films. Each one is an industry in itself. However, they all affect your business plan in terms of their potential as a revenue source.

And then there is streaming. Although it was growing through the 800-lb gorilla, Netflix, streaming really came into its own during the pandemic. The balance is now swinging back to theatergoing with the continued reopening of theaters, and we'll discuss more about streaming's place in the film ecosystem in Chapter 7.

Suppose that you plan to start a company that will supply movies specifically for cable or the home video market. Or you plan to mix these products with producing theatrical films. You will need to create separate industry descriptions for each type of film. This book focuses on theatrically distributed films and how all the other revenue sources make up the total of each film. When films bypass theatrical and are sent directly to other media platforms you have a problem with forecasting for investors. Currently, no credible source includes data for films that go directly to home entertainment segments or streaming. This may change over the next five years, as more companies are competing in the streaming market.

A Little Knowledge Can Be Dangerous

You can only guess what misinformation and false assumptions about the film industry the readers of your business plan will have. Just the words *film* and *marketing* evoke all sorts of images. Your prospective investors might be financial wizards who have made a ton of money in other businesses, but they will probably be uneducated in the finer workings of film production, distribution, and marketing. One of the biggest problems with new film investors, for example, is that they may expect you to have a contract signed by an A-list star or a distribution agreement. They do not know that money may have to be in escrow to sign the star or that the distribution deal will probably be better once you have a finished film, or, at least, are well into production. Therefore, it is necessary to take investors by the hand and explain the film business to them.

You must always assume that the investors have no previous knowledge of this industry, no matter their success in another business. Things are changing and moving all the time, so you must take the time to be sure that everyone involved has the same facts. It is essential that your narrative shows how the industry as a whole works, where you fit into that picture, and how the segment of independent film operates.

Successful entrepreneurs from other industries, especially real estate and venture capital, often are drawn by the siren call of potential film profits. Coming from a business with a different model, they often try to impose those methods onto film. Even entrepreneurs with film backgrounds may need some help. People within the film business may know how one segment works but not another. In addition, as noted in Chapter 3, "The Film," it can be tricky moving from working for a studio to being an independent filmmaker. The studio is a protected environment. The precise job of a studio producer is quite simple: *Make the film*.

Other specialists within the studio system concentrate on the marketing, distribution, and overall financial strategies. Therefore, a producer working with a studio movie does not necessarily have to be concerned with the business of the industry as a whole. Likewise, if you are a filmmaker in another country, your local industry may function somewhat differently. While investors are similar in terms of wanting to know the financial prospects for their investments, the customs of working environments or how people speak to one another vary around the world.

A Snapshot of the Industry

The total North American box office in 2019 was $11.1 billion. The share for independent films was $2.7 billion, or 24 percent of the total. Worldwide box office revenues totaled $42.2 billion in 2019. Now we can look forward to an $11.3 billion box office domestically and global box office of $43.3 billion based on PwC's *Global Entertainment and Media Outlook, 2021–2025.*

Once dominated by the studio system, movie production has shifted to reflect the increasingly viable economic models for independent film. The success of independent films has been helped by the number of new production and smaller distribution companies emerging in the marketplace every day, as well as the growing interest of major U.S. studios in acting as distributors in this market segment. At CinemaCon 2021, looking ahead to 2022 and beyond, both the MPAA's Chairman and CEO Charles Rivkin and CEO of the National Association of Theater Owners (NATO), John Fithian, cited the preservation of theatrical windows as their main goals. "Streaming is obviously a part of our ecosystem … Theaters have been and continue to be an important part of that ecosystem. I'm confident that audiences will continue to return to the cinema, and that theatrical and streaming will thrive together," Rivkin said. Fithian added, "We in the movie business are about people sitting in the big auditorium … What the exact window [length of time a film is in the theater before being available for home viewing] will be is between exhibitors and distributors, but the idea is that some robust period … will exist theatrically … this is an industry where we all fight for the best business models."

As you go through this chapter, think about what your prospective investor wants to know. When you write the Industry section of your business plan, answer the following questions:

- How healthy is the industry?
- How does the film industry work?
- What is the future of the industry?
- What role will my film play in the industry?

MOTION PICTURE PRODUCTION AND THE STUDIOS

Universal Studios, essentially the first of the Hollywood "major studios," underwent changes that are similar to what has happened with other studios. In 1990, Japanese conglomerate Matsushita

Electric Industrial Co. bought MCA Inc., the parent company of Universal Pictures. After five years of turmoil and disappointing results, in 1994 they sold MCA/Universal to Canada's The Seagram Company Ltd., who in turn sold it to French communications/water company Vivendi in 2000. Vivendi sold Universal Pictures to American mainstay General Electric in 2003. In 2011, Comcast Corporation bought 51 percent of the company, which became NBCUniversal.

A different path was taken by MGM. Formed in 1924 by Marcus Loew, the founder of Lowe's theaters, the studio was taken over by Las Vegas entrepreneur Kirk Kerkorian, who resold and bought it back several times, adding Samuel Goldwyn and Orion Pictures. Finally, in 2010, MGM was bought and taken over by a consortium of private investors, including Sony Corporation of America. After a year, the contract to distribute only Sony films ended, and MGM started functioning as an independent distributor with a recent return to funding films. Then, in 2011, the company was rescued from bankruptcy by a new group of private investors and has since been run as an independent company by Spyglass Entertainment co-chairmen, Roger Birnbaum and Gary Barber. The company co-finances many of its films with studios but also occasionally completely finances a film itself. In such instances, the film is classified as an independent. In 2012 Birnbaum left the company, and in 2018 Barber's contract was not renewed. It was known that MGM was looking for a buyer before the Amazon deal.

Originally, there were the "Big Five" studio dynasties: Warner Brothers (part of Time Warner, Inc.), Twentieth Century Fox, Paramount (now owned by Viacom), Universal (now NBCUniversal), and Metro-Goldwyn-Mayer (now MGM). Later came Columbia Pictures (now Sony Pictures Entertainment) to make it the "Big Six." Finally, The Walt Disney Company was formed. Together, these studios are referred to as "the Majors." (Note: A good source regarding the early days of Hollywood is *The Moguls: Hollywood's Merchants of Myth* by Norman Zierold.) In most cases, the Majors own their own production facilities and have a worldwide distribution organization. With a large corporate hierarchy making production decisions and a large amount of corporate debt to service, the studios aim most of their films at mass audiences. Although the individual power of each has changed over the years, these studios still set the standard for the larger films. With the purchase of 21st Century

Fox by the Disney Company in 2019, and the potential purchase of MGM by Amazon, the studios are back to being the "Big Five."

Until the introduction and development of television for mass consumption in the 1950s, these few studios were responsible for the largest segment of entertainment available to the public. The advent of television as a major medium changed the face of the industry and lessened the studios' grip on the entertainment market. At the same time, a series of Supreme Court decisions forced the studios to disengage from open ownership of movie theaters. The appearance of video as a mass consumer item in the 1970s became competition for both the studios and television and cable networks. When the technology for digital optical disc became available in the mid-1990s, DVDs replaced videos, which companies stopped making in 1997. In this century, the Blu-ray disc was expected to replace DVDs; however, the economic situation in 2008 and 2009 slowed the ability of much of the population to buy the new equipment. Another innovation in the 21st century was digital downloading from the Internet, which competed with all of the above for the movie dollar. Then came streaming. In 2019 and 2020 we saw comments that said if the studios, which licensed their films to the a few major streams, decided to pull that content and stream themselves, the entire dynamic of that business could change. Well, they have.

How It Works

Today's motion picture industry is a multifaceted business that consists of two principal activities: production and distribution. Production, described in this section, involves the developing, financing, and making of motion pictures. Any overview of this complex process necessarily involves simplification. The following is a brief explanation of how the film business operates.

The classic "studio" picture would typically cost more than $10 million in 1993. Or conversely, seldom could you independently finance above that figure unless you were a well-known international filmmaker like Ron Howard or Martin Scorsese. Now there isn't a real threshold, as independent companies like AGC, Eros STXfilms, and Lionsgate are capable of financing movies in the multimillions, thanks to hedge funds and foreign investments. For many years, the studio would occasionally take a chance on a $20-million film ("low-budget" from their point of view), with the knowledge that they had the safety net of spreading that risk over 10 to 15 films.

Earlier in this century, several studios declared, "We're only going to make blockbusters." (In the mid-1970s, the entire film industry stated using the term "blockbuster" for high-budget action movies that became their own event, drawing in a massive percentage of the movie audience.) In 2014, the lure of low-budget films with high box office numbers caused studio executives to re-enter that end of the market and co-finance with independent companies. For example, Blumhouse Productions made a ten-year deal with Universal that took *The Purge* out of the indie lineup. In addition, the company's *Paranormal Activity: The Ghost Dimension* was financed by Paramount. This change affected the indie film box office totals in the short run. Most studios soon went back to "it's only blockbusters" for the potentially bigger reward.

There are four typical steps in the production of a motion picture: development, preproduction, production, and postproduction. During development and preproduction, a writer may be engaged to write a screenplay, or a screenplay may be acquired and rewritten. Certain creative personnel, including directors and various technical personnel, are hired; shooting schedules and locations are planned; and other steps necessary to prepare the motion picture for principal photography are completed. At a studio, a film usually begins in one of two ways. The first method starts with a concept (story idea) from a studio executive, a known writer, or a producer who makes the well-known "30-second pitch." The concept goes into development, and the producers hire scriptwriters. Many executives prefer to work this way. In the second method, a script or book is presented to the studio by an agent or an attorney for the producer and is put into development. The script is polished and the budget determined. The nature of the deal made depends, of course, on the attachments that came with the concept or script. Note that the inception of development does not guarantee production because the studio has many projects on the lot at one time. A project may be changed significantly or even canceled during development.

The next step in the process is preproduction. If talent was not obtained during development, commitments are sought during preproduction. The process is usually more intensive because the project has probably been *greenlit* (given funding to start production). The craftspeople (the *below-the-line* personnel) are hired, and contracts are finalized and signed. Because of many lawsuits over the past 20 years over "handshake deals" that seem to indicate otherwise, producers need to strive to have all their contracts in place before filming begins.

Production commences when principal photography begins and generally continues for a period of not more than three months, although major cast members may not be used for the entire period. Once a film has reached this stage, the studio is unlikely to shut down the production. Even if the picture goes over budget, the studio will usually find a way to complete it. In postproduction, the film is edited, which involves transferring the original filmed material to digital media in order to work easily with the images. In addition, a score is mixed with dialogue, sound effects are synchronized into the final picture, and, in some cases, special effects are added. The expenses associated with this four-step process for creating and finishing a film are referred to as its *negative cost*. A master is then manufactured for duplication of digital files which are released for theatrical distribution and exhibition, but expenses for prints (term remains even though it is about files) and advertising for the film are categorized as *P&A* and are not part of the negative costs of the production. Although postproduction can last from six to nine months, technological developments have changed the time frame for arriving at a master file (or master print as we still sometimes call it) of the film.

Tracking the Studio Dollar

Revenues are derived from the exhibition of the film throughout the world in theaters and through various ancillary outlets. Studios have their own in-house marketing and distribution arms for the worldwide licensing of their products. Because all of the expenses of a film—development, preproduction, production, postproduction, and distribution—are controlled by one corporate body, the accounting is extremely complex.

Much has been written about the pros and cons of nurturing a film through the studio system, which is often a difficult process to understand. One producer has likened it to taking a cab to work, letting it go, and having it come back at night with the meter still running. On the other hand, the studios make a big investment. They provide the money to make the film, and they naturally seek to maximize their return.

If your film is marketed and distributed by a studio, how much of each ticket sale can you expect to receive? Table 4.1 provides a general overview of what happens when a finished film is sent to an exhibitor. The table traces the $10.00 that a viewer pays to see a film. On average, half of that money stays with the theater owner, and half is returned to the distribution arm of the studio. It is possible for studios to get a better deal, but a 50 percent share is most common. The split is based on box office revenue only; the exhibitor keeps all the revenue from popcorn, candy, and soft drinks. For all intents and purposes, the distribution division of a studio is treated like a separate company in terms of its handling of your film. You are charged a distribution fee, generally 55 percent, for the division's efforts in marketing the film. Because the studio controls the project, it decides the amount of this fee. In our example, that leaves $2.25 of the $5.00 for the filmmaker. Next we have the hardest number to estimate: the film's share of the studio's overhead. *Overhead* is all of the studio's fixed costs—that is, the money the studio spends that is not directly chargeable to a particular film. This would be the salaries for management, secretaries, commissary employees, maintenance staff, accountants, and all other employees who service the entire company. A percentage system (usually based on revenues) is used to determine a particular film's share of overhead expenses.

The studios did not make up this system; it is a standard business practice. At all companies, the non-revenue-producing departments are "costed" against the revenue-producing departments,

TABLE 4.1

Tracking the Studio Dollar

Your Ticket	$10.00
Exhibitor Share (50%)	$5.00
Studio Share (50%)	$5.00
Studio Share (50%--see above)	$5.00
minus distribution fee (55% of $5.00)	2.75
	$2.25
minus overhead fee (12% of $5.00)	$0.60
Amount left to apply toward film negative (38% of $5.00)	$1.65
-does not include interest charges	

Note: This example is based on average results. An individual film may differ in actual percentages.

determining the profit line of individual divisions. A department's revenue is taken as a percentage of the total company revenue. That percentage is used to determine how much of the total overhead cost the individual department needs to absorb. In Table 4.1, a fixed percentage is used to determine the overhead fee. Note that it is a percentage of the total rentals that come back to the studio. Thus, the 12 percent fee is taken from the $5.00 ($.60), rather than from the amount left after the distribution fee has been subtracted. In other words, when it is useful for the bottom-line profit, the distribution division is considered to be a separate company to which you are paying money rather than a division of the studio.

Now the filmmaker's share is down to a return of $1.65 or 33 percent of the original $5.00. During production, the studio treats the money spent on the negative cost as a loan and charges you bank rates for the money (prime rate plus one to three percent of points). That interest is added to the negative cost of your film, creating an additional amount above your negative cost to be paid before a positive net profit is reached. We have yet to touch on the idea of stars and directors receiving gross points, which is a percentage of the original $10.00 if the points are paid on "first dollar."

Studio Pros and Cons

When deciding whether to be independent or to make a film within the studio system, a filmmaker has serious options to weigh up. The studio provides an arena for generous budgets and offers plenty of staff to use as a resource during the entire process, from development through postproduction. Unless an extreme budget overrun occurs, the producer and director do not have to worry about running out of funds. In addition, the amount of product being produced at the studio gives the executives tremendous clout with agents and stars. The studio has a mass distribution system that is capable of putting a film on 3,000 to 4,000 screens for the opening weekend if the budget and theme warrant it. *F9: The Fast Saga*, for example, opened in 2021 on 4,179 screens and *A Quiet Place II* on 3,726 screens. However, I should mention that a very large independent company could have the same clout. Lionsgate opened *The Hitman's Wife's Bodyguard* on 2,940 screens and two days later had it on a total of 3,331. Finally, the producer or director of a studio film need not know anything about business beyond the budget of the film, as experienced personnel at the studio conduct all of the other business activities.

On the other hand, the studio has total control over the filmmaking process. Should studio executives choose to exercise this option, they can fire and hire anyone they wish. Once the project enters the studio system, the studio may hire additional writers and the original screenwriters may not even see their names listed under that category on the screen. The Writers Guild can arbitrate and award a "story by" credit to the original writer, but the screenwriting credit may remain with the later writers. Generally, the studio gets final cut privileges as well. No matter who you are or how you are attached to a project, once the film gets to the studio you can be negotiated to a lower position or off the project altogether. The studio is the investor and it calls the shots. If you are a new producer, the probability is high that studio executives will want their own producer on the project.

Those who want to understand more about the studio's systems should watch fictional treatments of it, such as Christopher Guest's film *The Big Picture*, Robert Altman's *The Player*, Jeff Nathanson's *The Last Shot*, or the "Aquaman" segments in HBO's series *Entourage*. Even though Guest's film was made in 1989, not much has changed but the names. I also suggest reading some insightful books on the subject from true insiders, such as William Goldman's *Adventures in the Screen Trade* and the sequel *Which Lie Did I Tell?: More Adventures in the Screen Trade*, Dawn Steel's *They Can Kill You but They Can't Eat You*, and Lynda Obst's *Hello, He Lied*. The studios are filled with major and minor executives in place between the corporate office and film production. There are executive vice-presidents, senior vice-presidents, and plain old vice-presidents. Your picture can be greenlit by one executive, then be put into turnaround with their replacement. The process of getting decisions made is a hazardous journey, and the maxim "No one gets in trouble by saying no" proves to be true more often than not.

MOTION PICTURE PRODUCTION AND THE INDEPENDENTS

What classifies a film as *independent*? The traditional definition of independent is a film that finds the majority of its production financing outside of the U.S. studios system and that is free of studio creative control. When studios acquire the U.S. or North American distribution rights, it is the same as another country acquiring rights. This deal is different from the co-financing deal with Blumhouse, which includes worldwide distribution rights for the studio. Likewise, the Independent Film and Television Alliance (producer of the American Film Market) defines an independent film as one made or distributed by "those companies and individuals apart from the major studios that assume the majority of the financial risk for a production and control its exploitation in the majority of the world." This is the definition of independent film used by Business Strategies to determine the indie segments share of the total North American box office.

It certainly is true that independently financed films made by experienced producers and with budgets in the mid-range of \$20 to \$40 million are being bankrolled by production companies with consortiums of foreign investors. For one entity to take that kind of risk on a single film, however, is not the rule. Besides the production budget, the print and advertising (P&A) cost also has to be recouped for a film to break even.

Independents usually begin as one person/production company raising money for one film at a time, although they may have many projects in different phases of development. Many independent companies are owned or controlled by a creative person, such as a writer-director or writer-producer, in combination with a financial partner or a group. New independents usually make films under \$5 million to start with. *Moonlight*, which was made at the lower end of the range for \$1.5 million and which not only grossed \$82.1 million worldwide but won the Oscar for Best Picture, catapulted the company and filmmaker to star status.

In the late 1980s, with the success of such films as *Dirty Dancing* (made for under \$5 million, it earned more than \$100 million worldwide) and *Look Who's Talking* (made for less than \$10 million, it earned more than \$200 million), the studios tried to distribute small films. With minimum releasing budgets of \$5 million, however, they didn't have the experience or patience to let a small film find its market. Studios eventually lost interest in producing small films, and individual filmmakers and small independent companies took back their territory.

In the early 1990s, *The Crying Game* and *Four Weddings and a Funeral* began a new era for independent filmmakers and distributors. Many companies started with the success of a single film and its sequels. Carolco built its reputation with the *Rambo* films, and New Line achieved prominence and clout with the *Nightmare on Elm Street* series. Other companies have been built on the partnership of a single director and a producer, or of a group of production executives who consistently create high-quality, money-making films.

Miramax, which began as a video company created by the Weinstein brothers, was so successful with independent films that The Walt Disney Company merged the company with theirs in 1993 but originally let it operate essentially independently. Miramax had created a sea change in the independent world when their 1998 film *Shakespeare In Love* won Best Picture. The company initiated the idea of using the same dollar to both purchase publicity for the film and campaign for the Oscar by releasing the film in late December. In 2005, the Weinsteins negotiated a divorce from Disney but lost the use of their Miramax label and much of the catalog. Eventually, Disney sold the Miramax label and catalog to private investors. As a newly independent company, it went through several formations and in 2016 its library of more than 700 films eventually became a global media company under joint ownership of the beIn Media Group (Doha, Qatar) and ViacomCBS. Miramax's CEO is Bill Block.

Earlier, Block was co-president of Artisan Entertainment when it bought the distribution rights to *The Blair Witch Project*, which made Artisan distribution a force to contend with. In 2002, *My Big Fat Greek Wedding* was a hit for IFC Films (now owned by Rainbow Media) and gave Gold Circle Films higher status as a domestic independent producer and distributor. In 2008, Summit Entertainment, which heretofore had been a foreign sales company, earned more than $675 million with its first production, *Twilight*, making the company a major independent player. In 2011, however, the company merged with Lionsgate. Several of my clients had projects working their way through the management hierarchy at Summit when the Lionsgate deal occurred. They had to wait for the inevitable termination of executives in duplicate jobs, then locate who now had their project. In the worst-case scenario, of course, a project that had been championed by a mid-level executive was sent back to the filmmaker by the next person in the same position. In the best of circumstances, the filmmaker knew the new executive in charge of their project.

A realignment of companies caused the structure of the industry to change again, with the relatively "mega" profits from low-budget films encouraging the establishment of "independent" divisions at the studios. By acquiring or creating these divisions, the studios handled more films made by producers using financing from other sources. Disney, for example, purchased Miramax Films, maintaining it as an autonomous division. New Line Cinema (and its then specialty division, Fine Line Pictures) and Castle Rock (director Rob Reiner's company) became part of Turner Broadcasting along with Turner Pictures, which in turn was absorbed by Warner Bros. Universal and Polygram (80 percent owned by Philips N.V.) formed Gramercy Pictures, which was so successful that Polygram Filmed Entertainment (PFE) bought back Universal's share in 1995, only to be bought itself by Seagram-owned Universal. Eventually, Seagram sold October Films (one of the original Indies), Gramercy Pictures, and remaining PFE assets to Barry Diller's new USA Networks, and those three names disappeared into history. Sony Pictures acquired Orion Classics, the only profitable segment of the original Orion Pictures, to form Sony Classics. Twentieth Century Fox formed Fox Searchlight. Metromedia, which owned Orion, bought the Samuel Goldwyn Company, and eventually was itself bought by MGM. Not to be left out of the specialty film biz, Paramount launched Paramount Classics in 1998.

In the 1990s, James Schamus created Good Machine, a producer and distributor of independent films. In 2003, the company became part of Universal as Focus Features. The company's partners were split between going to Universal and staying independent as Good Machine International. Focus Features operated autonomously (i.e., independently) from Universal and was given a budget for production and development of movies by its parent company. Universal, in turn, used Focus as a source of revenue and to find new talent. The specialty film world took a big loss on October 2013 when Universal gave CEO James Schamus his walking papers and absorbed another company, FilmDistrict, and appointed its CEO to take his place. The division still acquired independent films but did not finance any. In February 2016, Universal made another course correction by adding Focus to the division headed by executive vice president of Worldwide Acquisitions Peter Kujawski. The following May, at Cannes, Kujawski said to deadline.com about Focus, "The philosophy driving [acquiring] films for distribution is always going to be about the audience experience and dialogue with the kind of filmmakers that we love … The content philosophy in this version of Focus is … going to be driven by filmmakers, and by [the] first questions you ask in a meeting. Do we love this? … Do we think this can touch and move people? If it passes that bar, then we apply our business model, which is different, one that lets us enter the fray in more ways than we could in the original version of Focus."

Then there is DreamWorks SKG. Formed in 1994 by Steven Spielberg, David Geffen, and Jeffrey Katzenberg, the company was variously called a studio, an independent, and—my personal favorite—an independent studio. In the last quarter of 2005, Paramount bought the DreamWorks live-action titles and their 60-title library, plus worldwide rights to distribute the films from DreamWorks Animation (spun off as a separate independent company in 2004), for between $1.5 and $1.6 billion. Paramount then sold the library to third-party equity investors, retaining a minority interest and the right to buy it back at a future date. Spielberg could greenlight a film budgeted up to $90 million, which caused Business Strategies to count films solely financed by DreamWorks as independent. In October 2008, DreamWorks sought a divorce from Paramount and is once again a standalone production company, starting life anew as DreamWorks Studios. This means that it is a very large, vertically integrated company that makes independent films. (In the strange lexicon of Hollywood, it is referred to once again as "independent studio.") With new investment from India's Reliance and bank loans, DreamWorks weathered the downturn in 2009 and 2010. In 2016, they also acquired investment money from Participant Media and Canada's eOne, and moved their distribution deal from Disney to Universal. Spielberg also revived the Amblin Entertainment name, his original company in 1981, which has offices at Universal. Both DreamWorks and Amblin remain independent companies in production and financing with distribution deals through a studio. DreamWorks Animation, however, closed a sale to Comcast in April 2016, making it part of Universal studios. It is a loss to the independent film sector box office of between $200,000 and $300,000 a year.

In-house specialty divisions provided their parent companies with many advantages. As part of an integrated company, specialty divisions have been able to give the studios the skill to acquire and distribute a different kind of film while the studio is able to provide greater ancillary opportunities for appropriate low- to moderate-budget films through their built-in distribution networks. Specialty labels have proven themselves assets in more literal ways as well. At one point, Time Warner planned to sell New Line for $1 billion (Turner paid $600 million for the company in 1993) to reduce the parent company's debt load. New Line's founder Robert Shaye and the other principals had always made their own production decisions, even as part of Turner Pictures. In the summer of 1997, New Line secured a nonrecourse (i.e., parent company is not held responsible) $400-million loan through a consortium of foreign banks to provide self-sufficient production financing for New Line Cinema. Making their own films meant that New Line kept much more of their revenue than they would have if they had been a division of Warner Bros. Everyone liked this situation until the release of *The Lord of the Rings: Fellowship of the Ring*, the first film of the trilogy. The film earned $1.1 billion worldwide, and all three films went on to earn $3.5 billion. In 2007, New Line was taken in-house and made merely a studio label by Warner Bros., which also swallowed up Bob Berney's Picturehouse and Warner Independent Pictures. Former New Line Cinema chiefs Robert Shaye and Michael Lynne formed independent company, Unique Features.

Eventually, Paramount changed Paramount Vantage from a specialty division to merely a brand name. Relativity Media bought several small companies but eventually went through a second bankruptcy in 2018 and was taken over by new parent company UltraV Holdings, which is a joint venture of several finance companies. Currently, the only studio specialty divisions operating independently are Sony Classics and Working Title Films.

One of the reasons for knowing about these histories is to keep track of who the players are. In many businesses, a factor adding to success is who you know and/or what you know about them.

New Companies

The primary definition of *independent* film is one that remains more than 50 percent independently funded and produced no matter whose studio logo is attached to it. Take time to read the online trade papers and data sources every day and follow important people on social media. You have to decide which sources are significant for your ongoing knowledge of the industry. Take advantage of all the free information.

As always, new companies have formed or merged since the last edition. STX Entertainment, which previously had investments from Chinese companies, merged with India's Eros into publicly traded Eros STX Global Corporation. The single largest shareholder is Hony Capital (Beijing). STXfilms is essentially the same company with more available financing behind it. Stuart Ford, the founder of IM Global (*Hacksaw Ridge*), left that company and formed AGC Studios in 2018. Pure Flix Entertainment, known for the *God's Not Dead* franchise, has changed its corporate name to Pinnacle Peak Picture following the acquisition of the company's subscription VOD service by AFFIRM, a Sony subsidiary. Lakeshore Entertainment sold its 300-title film and TV library and international sales operation to Vine Alternative Investments, which also owns Village Roadshow Entertainment Group. Mark Gill, the former president at Miramax Films, Warner Independent Pictures, and Millennium Films, founded Solstice Studios. The firm develops, fully finances, produces, sells internationally, and distributes feature films in the U.S. on a wide-release basis. Solstice plans to produce three to five movies per year for a global audience—generally in the $20-million to $80-million budget range. Hasbro acquired Entertainment One, which continues as an independent film company. On the other hand, CBS films, which had produced films like *Five Feet Apart* and *Scary Stories to Tell in the Dark*, was folded into CBS Entertainment Group—that move presumably taking it out of the independent category. In addition, prior to talks of merging with Amazon, MGM relaunched American International Pictures and Orion Classic.

More recently, New Slate Ventures was financed by a tech titan, Jordan Fudge, and partners Zach White and Jeremy Allen. The company financed Lee Daniels' *The United States vs. Billie Holiday* and has future projects highlighting "intersectional, inclusive and culturally impactful" stories. The Russo Brothers have returned to their independent roots with the restructuring of their company AGBO and the showing of their new film *Cherry* to buyers at Cannes. Feature film producers Matthew Cooper and Jessamine Burgum launched production company Pinky Promise. The company aims to empower up-and-coming storytellers, especially those with underrepresented perspectives. The Interscope Record company launched Interscope Films, with three films premiering at the Tribeca Film Festival. Lionsgate ended its partnership with Codeblack Films, a division that makes films geared toward the African-American audience. The company continues to operate autonomously under its CEO Jeff Clanagan, who founded it in 2005 and then made the deal with Lionsgate in 2011.

How It Works

An independent film goes through the same production process as a studio film, from development to postproduction. In this case, however, development and preproduction may involve only one or two people, and the entrepreneur, whether producer or director, maintains control over the final product. For the purpose of this discussion, we will assume that the entrepreneur at the helm of an independent film is the producer.

The independent producer is the manager of a small business enterprise. They must have business acumen for dealing with the investors, the money, and all the contracts involved during and after filming. The producer is totally responsible from inception to sale of the film; they must have enough savvy and charisma to win the confidence of the director, talent, agents, attorneys, distributors, and anyone else involved in the film's business dealings. There are a myriad of details the producer must concentrate on every day. Funding sources require regular financial reports, and production problems crop up on a daily basis, even with the best-laid plans.

Tracking the Independent Dollar

Before trying to look at the independent film industry as a separate segment, it is helpful to have a general view of how the money flows. This information is probably the single most important factor that you will need to describe to potential investors. I don't insert this table in plans, as each one has its own forecasts. However, it does serve as a general comparison to the studio system.

Table 4.2 is a simplified example of where the money comes from and where it goes. The figures given are for a fictional film and do not reflect the results of any specific film. In this discussion, the distributor is at the top of the "producer food chain," as all revenues come back to the distribution company first. The distributor's expenses (P&A) and fees (percentage of all revenue plus miscellaneous fees) come before the "total revenue to producer/investor" line, which is the *net profit*.

TABLE 4.2

Tracking the Independent Dollar

REVENGE OF THE CRAZED CONSULTANT *	
(Millions of Dollars)	
Domestic Box Office Gross	10.00
Exhibitor Share of Box Office (50%)	5.00
Distributor Share of Box Office (50%)	5.00
REVENUE	
Domestic	
Theatrical Rentals (50% of total box office)	5.00
Domestic Ancillary [a]	5.50
Domestic Revenue Total	10.50
Foreign	4.50
TOTAL DISTRIBUTOR GROSS REVENUE	15.00
LESS:	
BUDGET	3.00
PRINTS AND ADVERTISING	2.40
TOTAL COSTS	5.40
GROSS INCOME	9.60
Distributor's Fees (35% of Gross Revenue)	3.36
NET PRODUCER/INVESTOR INCOME BEFORE TAXES	6.24

a) home entertainment, television, cable, digital
*This is a fictional film.

The box office receipts for independent films are divided between the exhibitor and a distributor, who collects all the money and takes out fees before sending to the filmmaker. The average split is still 50/50. This is an average figure for the total, although on a weekly basis the split may differ. In the example in Table 4.2, of the $10 million in total U.S. box office, the distributor receives $5 million in domestic rentals. All the revenues from domestic ancillaries (home video—which currently encompasses DVD, Blu-ray, and digital sources, plus television, cable, etc.) and foreign (theatrical and ancillary) flow back to the distributors. These revenue areas add another 110 percent to the revenue stream, or 1.1 percent times the $5.00, which equals $5.50 in our example. The foreign box office and ancillaries are another 90 percent of the $5.00, or $4.50, for a revenue total of $15.00.

Film production costs and distribution fees are paid out as money flows in. From the first revenues, the P&A (known as the "first money out") are paid off. In this example, it is assumed that the P&A cost is covered by the distributor who takes a fee to cover those expenses. Our example used $2.40 of the budget, which is 0.8 percent compared to the budget. The distributor's fee, which is his profit, is 35 percent of the total worldwide revenue in the forecast when a distribution agreement is not in place. The net profit to be split between the filmmaker and investor is $6.24, or a payback of 208 percent of the budget.

Pros and Cons

Independent filmmaking offers many advantages. Firstly, the filmmaker has total control of the script and filming. It is usually the director's film to make and edit. Some filmmakers want to both direct and produce their movies; this can be like working two 36-hour shifts within one 24-hour period. It is probably advisable to have a director who directs and a separate producer who produces, as this provides a system of checks and balances during production that approximates many of the pluses of the studio system. Nevertheless, the filmmaker is able to make these decisions for themself. And if they want to distribute as well, preserving their cut and using their marketing plan, that is another option—though not necessarily a good one as distribution is a specialty in itself, but still an option.

The disadvantages in independent filmmaking are the corollary opposites of the studio advantages. Because there is no cast of characters to fall back on for advice, the producer must have experience or find someone who does. Either you will be the producer and run your production or you will have to hire a producer. Before you hire anyone, you should understand how movies are made and how the financing works. Whether risking $50,000 or $50 million, an investor wants to feel that your company is capable of safeguarding his money. Someone must have the knowledge and the authority to make a final decision.

Money is hard to find. The popular saying is, "If it was easy, everyone would be doing it." Here in Hollywoodland, we get the impression that everyone is. However, that isn't true in other parts of the country and world. Budgets must be calculated as precisely as possible in the beginning because independent investors may not have the same deep pockets as the studios. Even if you find your own angel investor with significant dollars to invest, that person expects you to know the cost of the film. The breakdown of the script determines the budget. When you present a budget to an investor, you promise that this is a reasonable estimate of what it will cost to make what is on the page and that you will stay within that budget. The investor agrees only on the specified amount of money. The producer has an obligation to the investor to make sure that the movie does not run over the budget. Trying to go back to investors for more money after the initial infusion of cash usually doesn't work.

Theatrical Exhibition

There were 44,111 theater screens (including drive-ins) in North America in 2020—down from the 44,283 in 2019 per the 2020 "Theme" (Theatrical and Home Entertainment Market Environment) report released by the MPAA. Worldwide, however, screens increased three percent due to a six percent increase in the Asia Pacific region. At the end of 2020, 98 percent of the world's cinema screens were digital, up one percent from 2019 (https://www.motionpictures.org/research-docs/2020-theme-report).

Film revenues from all other sources are often driven by the North American domestic theatrical performance. Despite many ups and downs, such as the growth of the multichannel universe and the various home entertainment services, theatrical distribution has continued to prosper. For pictures that skip the theatrical circuit and go directly to disc, television/cable, downloading, streaming, or foreign distribution, revenues are not likely to be as high as those for films with a history of U.S. box office revenues and promotion. The U.S. theatrical release of a film has usually ended within three months but can go longer. The average during 2021 also has been two and half to three months.

As with other generally accepted standards, the pandemic has given studios and other companies the option to try different windows of distribution. It is clear that studio films do better when released in theaters before being released online than when released simultaneously. Whether or not there will be a return to pre-COVID is unknown. An exclusive window for blockbusters between 45 to 75 days will be the norm; however, as with independent films, it is likely to depend on the film itself rather than there being one rule for all films.

While studio films begin with a "wide" opening on thousands of screens, independent films start more slowly and build. Rentals will decline toward the end of an independent film's run, but they may very well increase during the first few months. It is not unusual for a smaller film to gain theaters as it becomes more popular. Currently, many indie films are remaining on theater screens while also being available through home entertainment methods.

Social media has had a big impact on distribution. For independent films, it allows the word to spread faster the first weekend, and successful films to expand more rapidly. For potential studio blockbuster films that depend on a big opening, friends tweeting bad reviews on Friday night can now kill the weekend for the film.

Despite some common opinions from distributors, the exhibitor's basic desire is to see people sitting in the theater seats. There has been a lot of discussion about the strong-arm tactics that the major studios supposedly use to keep screens reserved for their use. (This is sometimes referred to as *block booking*.) Exhibitors, however, have always maintained that they will show any film that they think their customers will pay to see. Depending on the location of the individual theater or the chain, local pressures or activities may play a part in the distributor's decision. Not all pictures are appropriate for all theaters.

Time and time again, independent films that have good *buzz* (prerelease notices by reviewers, festival acclaim, and good public relations) and favorable word of mouth from audiences not only survive but also flourish.

DIGITAL AND 3D

Digital

Digital film rapidly changed the film industry. On June 5, 2000, Twentieth Century Fox became the first company to transmit a movie over the Internet from a Hollywood studio to a theater across the country. Well, to be more exact, it originated in Burbank, California, and went over a secure Internet-based network to an audience at the Supercomm trade show in Atlanta. (Trivia buffs take note: The film was the animated space opera *Titan A.E.*) At the end of 2020, 98 percent of all the world's cinema screens were digital, up one percent from 2019. The only analog screens were in the Asia Pacific area.

As we roll rapidly through the twenty-first year of the 21st century, filmmakers keep calling me about the $80,000 digital film they are going to shoot on their low-cost digital camera that will look like a $10-million film and be distributed on 3,000 screens. That deal is not likely. What is missing in those expectations? For one thing, the filmmaker does not have enough experience to obtain the quality with so little money. Despite the fact that most theatrical films are finished onto a digital master, there will be several hundred thousand dollars between a film from your camcorder and it being ready to play theatrically.

Do not assume that the distributor wants to bear the cost. Look at it from their viewpoint. If the distributor is planning on releasing 10 to 20 films a year, they are likely to opt for a film that is already in a format that is compatible with looking good in the theater. "But my film will be so exceptional, he will offer to put up the money," you say. It is within the realm of possibility, but I wouldn't want the distribution of my film to rest on that contingency. Or you may say, "I'll wait until the distributor wants the film, and then I'll raise the money for the upgrade." Although this is not out of the question, don't just assume you will be able to raise the money. Whether it is one investor or several in an offering, you have to go back to those people for the additional $300,000 or more. Will they go for it? Maybe, but you are stuck if they don't. If you raise the money from additional sources, you still have to get the agreement of the original investors. After all, you are changing the amount of money they will receive from your blockbuster film. If a new investor has to be brought in to make up the difference, the original investors need to be willing to give up some of their profit points. In addition, that investor is last in but first out when it comes to paying money to investors. I have seen many films end up in desk drawers rather than being distributed when investors refused to put up more money. You think it doesn't make sense since they are hurting themselves with the lost investment? Yes, but they do it anyway. Those pesky investors with their own rules again.

Then there is the question of quality. When technology experts from the studios are on festival or market panels, they always point out that audiences don't care how you make the film; they care how it looks. If you can really make your ultra-low-budget digital film have the look of a $5- or $10-million film, go for it. But be honest with yourself.

3D

This section would reasonably be titled "Everything old is new again." Readers over 65 will remember this technology's first incarnations from 1952 to 1954, with films like *House of Wax* (the first with stereoscopic sound) and *It Came from Outer Space*. It faded in the late 1950s but had a revival in the early 1980s when the large-format IMAX screens offered their documentaries in 3D. Studios and other production companies have discovered 3D again in the last ten years as the "new format" that will revolutionize the film industry. Thanks to improvements in technology, filmmakers now deliver a better product.

It appears that 3D is here to stay. However, how many films that audience will continue to pay a premium for each year remains to be seen. Exhibitors have continued to convert screens to 3D, though not as rapidly as in the first part of the decade. In 2015, there were 75,065 3D screens worldwide, an increase of 16 percent from the previous year. From 2016 to 2019, the percentage changes were 10 percent (2016), 13 percent (2017), 14 percent (2018), and nine percent (2019). In North America, the number of 3D screens remained within one to two percent, including a decrease of two percent in 2019. Over time there has been some audience fatigue with 3D itself and the higher prices. This factor is more likely to affect studio films in terms of total dollars than indie films; however, there still is a push by some independent filmmakers to convert their digital films to 3D for the large format screens.

In the beginning, U.S. studios were footing the bill for audiences' 3D glasses to help push 3D conversion along. Moviegoers who are fanatical about 3D films now buy their own. All of us, nevertheless, pay the extra money added to the ticket price for the theater's glasses.

FUTURE TRENDS

Revolutionary changes in the manner in which motion pictures are produced and distributed were sweeping the industry before the pandemic. Netflix and Amazon Studios began buying films aggressively at the 2016 Sundance Film Festival, with a total of seven each by the end of February. In terms of Netflix, while the filmmaker may get a nice payment upfront, Ted Sarandos, chief content officer for Netflix, said in a keynote at the Cannes Film Market 2015, "There is no backend because there is no incremental revenue we are earning off that." By 2019, both companies were focusing more on making films in-house, although still buying a few. And there still is no data from streamers that you can use in your business plan.

TABLES AND GRAPHS

A picture may be worth a thousand words, but 20 pictures are not necessarily worth 20,000 words. The introduction of user-friendly computer software brought a new look to business plans. Unfortunately, many people have gone picture crazy and include tables and graphs where words might be better. Making your proposal "look nice" has a point of diminishing returns.

There are certainly benefits to using a few tables and graphs; however, one rule for writing screenplays does apply. What relation do your pictures have to what investors need to know? Graphic representations are not supposed to be self-explanatory; they are used to make the explanation more easily understood. If you include multiple tables and graphs that are not accompanied by explanations and/or that you do not understand, the reader either will be confused and/or think that you are confused. You might well be asked to explain them. Won't that be exciting?

WHAT DO YOU TELL INVESTORS?

All business plans should include a general explanation of the industry and how it works. No matter what your budget, investors need to know how both the studio and the independent sectors work. Your business plan also should have facts that assure investors the industry is healthy. You will find conflicting opinions; it is your choice as to what information to use. As an example, many people have continually reported lower budgets for *The Blair Witch Project*. Recently, I saw a figure of $10,000 for the budget. On the other hand, when the film was released, one trade paper reported the budget as $600,000.

When your rationale makes sense, your investor will feel secure that you know what you are talking about. Know that they are likely to have a Certified Public Accountant (CPA) look over all the figures, so be sure your data is correct. If everything checks out, they will write the check.

5

The Markets

The Spin

I am very conscious of what I consider to be the first audience of any movie that I make. It is those people whose reactions I am most attentive to. They are the ones who will tell me whether I have done my job or not.

—DIRECTOR NIKI CARO

You may view the 7.9 billion people in the world in 2021 as potential moviegoers, but very few filmmakers expect to sell tickets to all of them—that is, until *Jurassic Park* pushed the box office frontier further than ever before in 1993. It earned $1.03 billion worldwide. You do not need to speak English or know anything about biology to enjoy this film. It had something for everyone who was old enough to watch it. Then, in 1998, *Titanic* racked up $1.7 billion worldwide. *Star Wars: The Force Awakens*, released in 2015, earned over $2 billion in box office dollars alone, and in 2019 *Avengers: Endgame* earned $2.8 billion worldwide.

On the independent side, the three films of *The Lord of the Rings* trilogy, released between 2001 and 2003, earned more than $3 billion worldwide and raised the profile of lower-budget indies (including all revenue sources, budget, and P&A) by gaining a significant part of the market. Then through 2011, the seven *Saw* films earned more than $1.4 billion in total revenue. The 2010 film *The Twilight Saga: Eclipse*, however, earned $1 billion in worldwide revenues itself; and the three *John Wick* films earned $584.9 million through 2019. On the lower budget side, 2019's $7.0-million budget film *Five*

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Feet Apart earned $91.2 million worldwide. (Note: As this edition goes to press, we only have worldwide numbers through 2019.)

What does this mean to you, the independent? The purpose of this chapter is not to tell you what stories to write, or how, but to understand the implied mix of your audience, its size, and how to appeal to a wider audience. You also need to present facts to support your analyses. Whether your film's budget is $7 million or $100 million, or has newbie actors or stars, you want to present all the facts and explain them for your investors.

While studios were emphasizing tentpole films, independents had a large portion of the moviegoing audience to themselves. The indie home runs being hit in this century opened the game to many more players. In more recent years, studios have recognized the value in lower-budget films, but their focus still is the blockbuster movie.

On the financing side, everything has gone through a turbulent transformation. With the change in the economic climate since the 2008 to 2009 financial crises, and the COVID-19 pandemic in 2020/2021, many of the investors have moved their money out of big funds. At the same time, they have been investing in individual films or small companies, with some companies continuing to manage production during the height of the pandemic. This has brought more transparency to the investors. It also means you must be extra careful about every word that is written in your plan.

The market comprises all those people who are going to buy tickets, while "marketing involves selling your idea not only to the investor but also to the distributor and audience. In this chapter, we will focus on marketing and selling the film to the investor through the business plan, and will look at the markets. To make terms even more fun, we will also discuss "the Markets," such as the American Film Market and Cannes—the two largest international marketplaces where production and distribution deals are closed.

In the previous section of your business plan, The Industry, we defined both the industry as a whole and independent film as a segment of it. Now, in the Market section, you will build on that definition by further dividing your market segments. Your audience may not be as global in size as "everyone" but it does have its own value. You also will use the projects that were described in the earlier Film section and their components to pinpoint the market. This analysis gives you a base for later estimating the gross revenues in the forecasting.

MARKET SEGMENT

Your market segment, or niche, consists of the type of person out of the total movie-going population who is likely to rush out to see your film the first weekend, as well as secondary target groups that will be interested. You need to identify, for yourself and those reading your proposal, the characteristics and size of this segment. By devising a snapshot of your film's likely audience, you will be able to determine the film's ability, first, to survive and, second, to succeed. Who are the end users of your film—that is, the ticket buyers—and how many of them are there likely to be? Before you worry about marketing strategies and distribution channels, create a picture of the potential size of your market's population. How can you do this? Very carefully. But do not worry. It is easier than you think; it just takes work. You do not need to have inside information or to live in Los Angeles to do this. Research is your tool.

Having divided the industry into studio and independent, you now need to divide your segment into smaller pieces. In looking at this piece of the market, ask yourself these questions:

- What are the genres in your story?
- How large a population segment is likely to see my film?
- What size budget is reasonable vis-à-vis the size of this segment?

Defining Your Segment

Filmmakers would like to appeal to everyone, and some independent films reach a mainstream goal. For the most part, though, an independent film will attract moviegoers from a few identifiable segments of the audience. To understand how to focus your investor's expectations (and your own), you will have to do a little research. You do not have to be an expert, but investigation will help make you and your investor wiser and wealthier.

The profile of your target market in terms of audience might include the following:

- Main film genres—comedy, action, thriller, horror, drama, romance, faith-based

- Subgenres—female protagonist, history, black comedy, family-friendly
- Underlying themes—inspirational, young adult, magical realism
- Special formats—documentary, animation, large format
- Affinity groups—ethnic, urban, religious, sports, age, and sex
- Similar budget parameters

To Pigeonhole or Not to Pigeonhole

Your identification of the target audience for your film begins when you select the genre of the film. The term *genre* can be very confusing. Some people appear to use the term to refer to cheap and formulaic, as in, "it is a genre film." One client of mine was upset that I was cheapening her films by using the term *genre*. For the business plans I write, it is used to refer to films that can be grouped together by plot, setting, and/or theme. Genre doesn't refer to how well you made the film or the size of the budget. You could probably use the word *category*, but it doesn't have the same movie feel.

As a genre, horror films, for example, can have different premises and appeal to different audience segments. They may be like *Get Out*, which is a mystery thriller, or *It*, a supernatural film with a killer clown and lots of blood and gore. Others can be comedy, coming-of-age, or faith-based. In the end, though, they are all horror films. "Part of what horror is, is taking risk and going somewhere that people think you're not supposed to be able to go, in the name of expressing real-life fears," said Jordan Peele, director of *Get Out*.

Genres can be big or small. Drama is considered the most pervasive genre and is combined with others in many films. The next most popular genre by number of films produced is usually comedy. Both of these genres include films that often carry descriptive adjectives, such as *family, romantic, or dark*, to further narrow the category. Then we have thriller and action/adventure, which are unique genres. Very few films are just one genre or theme. A filmmaker wants to use everything that fits the film, which often goes beyond those main genres. For example, 2019's *Run the Race*, which is called "Drama Sport" under the film title on IMDB, is also a Christian film if you link to the "keywords" further down the page. Now you know that there is another large group of audience members whose numbers can be found with further research. Another example is *I, Tonya*. It is identified initially as a "Biography, Comedy," but it also is a female protagonist film. This genre continues to grow its audience of both men and women.

There are also filmmakers who are linked with specific genres and who have become their own genre. Saying a movie will be a Quentin Tarantino, Judd Apatow, or Tyler Perry film creates a frame of reference for the particular experience moviegoers will have. When they deviate from the familiar types of films, their movies often do not do well at the box office.

You can even have a producer genre. Jason Blum produces mostly horror films, like *Get Out*, *The Invisible Man*, and *The Forever Purge*. When a producer or production company is identified with a particular type of experience, the audience tends to pick the film based on that track record rather than anything else. If you feel that your style is akin to a particular director's niche, you may draw from that audience.

Why bother identifying the genre for your film? Many writers and directors believe that categorizing their films is not only meaningless but also, in some cases, demeaning. There are always filmmakers who say, "My picture is different and can't be compared to any other films." Nonetheless, all films can be compared, and you do have competition. By giving your investors these frames of reference, they understand the groups of moviegoers to whom the film might appeal and explain the genesis of your projections. One of the challenges you face with your business plan is being understood. You must be certain that you convey your meaning correctly to investors. It is important, therefore, that you define your terms so that everyone is on the same page.

Art Versus Specialty

As far back as the first edition of this book, production and distribution companies have preferred the term *specialty* for their films rather than *art-house*, and with good reason. *Art* may bring to mind a very narrow image of a type of film. Many would assume the film to be an inaccessible film only for the intellectually intense. *Specialty*, on the other hand, is a broader term without these negative connotations. Until you define it, there may be no frame of reference for the investor. Creating a definitive description that everyone agrees with would be impossible. In writing your business plan, you have to find whatever phrases and film references best convey your meaning.

We usually define the specialty market by sensitivity of story, unique style, experimental, and/or budget size. Our first weekend audience is likely to be small, and the film will grow through word-of-mouth (or word-of-text, in the case of social media). *Booksmart* and *The Shape of Water* are examples of specialty films. These pictures may have nothing in common in story or overall theme, but they provide an expectation for the reader.

An important aspect of specialty films is their distribution (and, consequently, revenue) potential. In recent years, the scope of specialty films has widened tremendously. Typically, a specialty film may open on 1 to 15 screens and expand to more screens as revenue becomes available. On the other hand, if the distributor has enough money and faith, a small independent film can open on many screens. *Eighth Grade* (2018) opened on 4 screens and was on 1,084 screens at its widest distribution. Academy Award Winner *Parasite* opened on 3 screens and played on 2,001 at its widest distribution.

Genres Big and Small

We tend to think of the "main" genres; however, there are strong subgenres/themes. Comedy, for example, has been with us forever. It also has subgenres, however, such as black, slapstick, screwball, cringe, and—one of my favorites—mockumentary. These multiply over time depending on the current culture. There also are combinations of all the other genres: romantic comedy, horror comedy, action comedy, etc. One of my favorite business plans to write was for a supernatural, young adult, faith-based comedy. Any of these subgenres or combinations may go through different periods of audience favoritism. Even if your genre has not been doing well in the marketplace, however, all it takes is one film of any size to suddenly bring it back. Take horror, for example. This genre seemed to fall out of popularity in both film and books in the late 1980s. In film, it languished in the no-budget, direct-to-video, and direct-to-foreign world. Until *Scream* in 1996, the general wisdom also was that horror films were not worth putting any money into; therefore, it was hard to get the investment community interested in the genre. With the movies *I Know What You Did Last Summer* and *The Blair Witch Project* (my personal favorite!), the investors flocked back and have never left. A more recent example is the movie *1917*, a film about World War 1. Before it was released, all the experts said that "period" films were out. Oops! Looks like they are coming back. Unfortunately, the arrival of the pandemic in 2020 prevented a lot of filmmakers from raising their money until recently. But timing is everything. Now production and distribution monies are more available for films like *Benedetta*, and *The Alpinist*.

Suppose you wanted to make a horror film before any of the above films were released. How would you convince someone that your film would be successful? There are several techniques you could use.

1. *Emphasize other elements: Get Out* is a horror/mystery/thriller about a young African-American who visits his white girlfriend's parents for the weekend, where his simmering uneasiness about their reception of him eventually reaches a boiling point. Was racism a more important theme in the film?
2. *Redefine the genre: Twilight* is a teenage Romeo and Juliet vampire story. Moving to a small town to live with her father, Bella meets the mysterious and beautiful Edward. The two fall unconditionally in love with each other—even learning that he is a vampire does not deter her love. How will they resolve this unnatural relationship?
3. *Override the horror genre altogether: The Emoji Movie* unlocks the never-before-seen secret world inside your smartphone. Hidden within is Testopolis, where all your favorite emojis live. Gene, an exuberant emoji, was born without a filter and is bursting with multiple expressions. Determined to become "normal" like the other emojis, he enlists the help of friends. They embark on an epic "app-venture" to find the Code that will fix Gene. But when a greater danger threatens, will these friends be able to save their domain before devilish actions delete it forever?
4. *Use the cycle theory:* The *Paranormal Activity* franchise, *What We Do in the Shadows*, *Unfriended: Dark Web*, and *Searching* are stories with found footage.

More about Cycles

Given the cyclical popularity of some genres or combinations, the technique mentioned above is not a spurious one. A successful film often inspires similar films that try to capitalize on the popularity of the original. *Film noir* is a term coined by French movie critics to describe American crime dramas in the 1940s. After a brief reappearance of the genre in 1962 with the original *Cape Fear*, the genre's real resurgence began in the 1990s with Martin Scorsese's *Cape Fear* remake in 1991, followed by, among others, *The Usual Suspects* in 1994. It encouraged a proliferation of updated film noirs (the darkly lit look of the 1940s films contributed to the term), such as *Fargo*, *Lost Highway*, *Devil in a Blue Dress*, *The Underneath*, *Exotica*, *L.A. Confidential*, *No Country for Old Men*, *The Town*, *The Dark Knight*, *Brooklyn's Finest*, and *Winter's Bone*. Recent examples are *Knives Out*, John Wick 1 to 4, and *Sicario: Day of the Soldado*. These films broadened the boundaries of the noir genre beyond the detective thriller to represent a way of looking at the world through a dark mirror, reflecting the shadowy underside of life. As each year passes, they continue to update the style, content, and themes, as well as media. (Note for all purists: IMDB uses the term *neo-noir* to refer to noir films made after 1950.)

Considering the length of time from development to release, the market may be glutted with a particular type of film for two or three years. When this happens, the audience may reach a saturation point and simply stop going to see films of that genre for a while. Then someone comes along with a well-crafted film that makes money, and the cycle begins again.

Special Niche/Affiliated Groups

The high-cost structures of the studios inhibit their ability to exploit smaller, underdeveloped markets. Independent filmmakers have the ability to tell unusual stories that appeal to a small group of moviegoers depending on the size of the budgets. Films with budgets under $5 million receive a bigger contribution to profit from each revenue segment than films with the large P&A of studio films. (Distributors often refer to the "sweet spot," or budget limit—which can be as low as $2 million—for making a good profit on these films.) When the first edition of this book was published, it appeared to be big news that African-American filmmakers could draw a wide audience. Then Tyler Perry and *Madea* showed up in 2002 to make it clear that there was a "black bloc" audience.

Throughout the 1990s, LGBTQ+ films also came to the fore, capped by the Oscar wins of 2005's *Brokeback Mountain*, produced by Focus Features (then independent), Good Machine, and River Road Entertainment. Not only did the $12.5-million film gross $334 million and win three Oscars (Best Director, Best Original Score, and Best Adapted Screenplay), but much of the $104 million that came from North America was from ancillary sources, which demonstrated for many the value of looking beyond the box office to the audience that would rent a movie. In 2005, however, to make a gay cowboy movie was taking a big chance. By 2010, *The Kids Are All Right* was discussed more as a film about family relations and barely mentioned as one in which a family was headed by a lesbian couple. The main story of *The Imitation Game* was a biopic about the man who created a machine that succeeded in breaking Germany's seemingly unbreakable Enigma machine in World War II. An equally important theme, however, was the tragedy of a gay man in danger of being imprisoned in England for being gay. Made for $15 million, it grossed $95.3 million at the North American box office and $291.2 million worldwide. There is no way to know how much of which genre/theme appealed to the audience. If you had been writing a business plan for the film, each would have had an equal discussion in your business plan. We can say, however, that the acceptance of gay/lesbian/transgender themes in film continues to grow.

Until 2000, the Disney Company seemed to have a lock on family films, which usually referred to animated movies with a "G" rating. It was almost impossible for independents to break into that category. Now Hollywood seems to have discovered that family-friendly films with stories of bright school kids and scrappy ballplayers, in addition to princesses and talking animals, are its next best thing. The industry makes its biggest profits from G- and PG-rated movies, according to many analysts' reports, and continues to fill the nation's screens with films that cover a broad audience, from preteens to grandparents.

Young people go to movies in droves, and, if they like what they see, they go more than once. Older moviegoers go to the same films for the stories that remind them of their experiences. The independent film *My Dog Skip* was part of the family film renaissance in 2000. This was followed by Dimension's *Spy Kids*, a breakout hit with a U.S. box office of $113 million that inspired a franchise. Other examples of PG-rated films are *Are We Done Yet?*, *The World of Arriety*, *Soul Surfer*, *The Second Best Exotic Marigold Hotel*, *McFarland, USA*, and *Lion*. "A strong youth audience for cinema signals future industry growth as we develop another generation of movie-goers," John Fithian noted at CinemaCon.

Inspirational covers a wide range of films from faith-based to new age. They appeal to a wide range of people, from those who are religious or those generally curious, and may include elements of good versus evil, redemption, and the eternal questions of who we are and why we are here. The genre also includes quantum thinking, as with 2015's *Ex Machina*. Since neither faith-based or inspirational is a main keyword, looking at the keywords of similar films would give you a good idea of the types of groups that would be intrigued by your film. In addition to a main genre, you may want to look at the numbers of people interested in additional themes in a film. For example, in one business plan I used the sub-genres supernatural, coming-of-age, and faith-based. Or your characters may show people overcoming great odds that will inspire filmgoers.

In the first ten years of this century, films such as *The Passion of the Christ*, *The Pianist*, the Tyler Perry films, *What the Bleep Do We Know?*, and even *March of the Penguins* alerted production companies and distributors to the fact that there is a major market for inspirational films. When *Facing the Giants* (2006), made for $100,000, earned $21.2 million, distributors took notice. Sony even created the AFFIRM division to handle inspirational films. A few of the significant films that have followed are *End of the Spear*, *Fireproof*, *Courageous*, *Soul Surfer*, *God's Not Dead 1* and *2*, *Heaven Is for Real*, and *Risen*. With an estimated 150 million-plus Christians going to church every week, faith-based movies also have found additional opportunities there. Not only have churches throughout the country installed movie screens to host family movie nights, but there is a group that specializes in helping films get distributed through that pipeline. The churches publicize their special movie nights and charge admission to the audiences. The money usually is split with the filmmakers through distribution agreements that are similar to those made with traditional outlets. Whereas previously a company might have hoped that the audience would see life-affirming elements in their films, they now readily advertise that a film seeks to inspire viewers to lead a life of higher values.

My admonition to my faith-inspired filmmaker clients is to make a film that has a subtle message and doesn't sermonize. Producer Samuel Goldwyn has often been quoted as saying, "If you want to send a message, call Western Union" (ask your grandmother). Or, as Paul Haggis, director of *Crash*, said, "Film is an emotional medium, not an intellectual medium, so you have to move people. You can't just lecture them." You can make a film that will play only to a church audience and be successful. Or you can be subtler and perhaps attract a larger audience to hear your message.

Movies made from "young adult" books, often referred to as YA movies, are the "hot" new genre. While made for an adolescent and young adult audience (ages 12 to 24 in MPAA numbers), they have demonstrated strength far beyond that age group. *Harry Potter* generally is credited with being the first modern book series to bring teen viewers to theaters in the 1990s, followed by Lionsgate/Summit with the *Twilight* and *Hunger Games* franchises. The latter have grossed an estimated $8 billion between them. What makes these young adult stories even more alluring for filmmakers is that their audience is not limited to teenagers. While *Harry Potter* was expected to attract hordes of young men, the revelations for filmmakers were that females turned out in high numbers, as did the parents who had read the books along with their kids. The Lionsgate franchises also had a wide mainstream appeal. Making these films has not been limited to franchises, however. A few of the one-off independent movies based on YA books are *The Perks of Being a Wallflower*, *Warm Bodies*, *The Giver*, *JoJo Rabbit*, and *To All the Boys I've Loved Before*. Any film made for the combined teenage/young adult group has the chance for attracting a significant audience, and films based on books come with a built-in social media appeal. The trick is to make the film appealing without moving too far away from the novel.

Another large group that has continued to grow is the Latino/Hispanic audience. I never knew which term to use as they seem interchangeable, but a Latino investor for one of my clients has suggested that I use the word *Hispanic* to describe the entire market. Films that appeal to this audience also have been considered a "new market" for the past 20 years. The typical moviegoer bought 5.0 tickets per year in 2018, up from 4.7 in 2017. Per capital attendance was highest among the 12- to 17- and 18- to 24-year-old age groups (5.1) and among Latinos (4.7) according to the MPAA *Theme Report*. In 2019, Hispanics continued to make up a large percentage of the population, comprising 19 percent of domestic moviegoers, according to the group's 2019 report. There were 60.5 million people of Hispanic origin living in the U.S. in 2019, and that group is expected to grow to 111.2 million by 2060. Hispanics, however, are a relatively untapped group in terms of film marketing.

The success of Latin American imports has brought more attention and investment to U.S. filmmakers who want to make films with Hispanic/Latino themes, but, at this point, it is still hard for these films to go beyond very limited distribution. Films from U.S. filmmakers, such as *Frida*, *Real Women Have Curves*, and *Tortilla Soup*, plus a few more recent films from South American, such as *Un Gallo con Muchos Huevos* and *Wild Tales*, have helped awaken what has been termed the "sleeping giant" of the Hispanic market.

In more recent years, however, both imports and the U.S.-made films of Hispanic-themes have failed to attract the broad, multiethnic, Spanish-speaking population in the United States. "We've seen advancement in film representation," reported Forbes Magazine in January 2019. But it is not enough. A large part of the problem also is that a great deal of variance "exists within the U.S. Hispanic population depending on age, language, original nationality and other factors." Hispanics said they were drawn to their culture, which is influenced by the different countries from which they, their parents, or grandparents came.

Who Is Going to See This Film?

Demographics are an important subsection. Do you know the age and sex of the person most likely to see your film? Market research properly belongs in the hands of the person doing the actual marketing (probably the distributor), but you can estimate the appeal of your potential market based on its age groups. For example, for years we accepted the term *family* as referring to G-and PG-rated films. Now we have started referring to many films as *family-friendly*, which allows PG-13 to be included.

Teen films are targeted toward an affluent and sizable group. They run the gamut from *The Duff*, *Dope*, *Deadpool*, and *Kick-Ass 1* to *2* as well as to slacker/stoner films, such as *Superbad*, and the *Harold and Kumar* films. Teenage movies are traditionally released at the beginning of the summer, when schools are out and teens have a lot of time to go to the theater. While they often have gone to the same movie more than once with various groups of friends, it is likely that their additional viewings may be via the assortment of ancillary sources available.

Studios always have been eager to make films for the teen and young adult market—usually defined as people between the ages of 12 and 24—which made up 23 percent of moviegoers in 2015, according to the MPAA's *2015 Theatrical Market Statistics*. Within that group, however, 12- to 17-year-olds represented 11 percent of moviegoers and 16 percent of tickets sold in 2015, compared to only 8 percent of the population. At the same time, the 18- to 24-year-old group also "oversampled", for 14 percent of tickets were sold relative to their 10 percent of the population. The crossover age group, those who might go for either teen or adult stories, or both, of the audiences (ages 25 to 39) made up 36 percent. The older audience, with filmgoers of 40 and over remained crucial, making up 40 percent of moviegoers. In 2015, NATO, which collects the audience data for the MPAA, either counted everyone else as under 12 or just assumed that the other 13 percent were ages 2 to 11 so the total would add to 100 percent. The percentages for the wide age range from toddlers (Disney fans) to pre-teens (leaning toward teen films), however, can't be used. The total admissions for different groups of moviegoers changes from year to year; therefore, you will want to check the MPAA's website for current information. Be sure when talking about moviegoer percentages that you are looking at the second line in the graph, not the first one, which is the percentage in the population.

Since the moviegoers dubbed "tweens" (ages 8 to 12) have emerged as a force at the box office during the past several years, I use market research data to explain their importance. For example, a survey by Marketing Sherpa indicates that the buying power of this group is $200 billion. Market research by upsidebusiness.c om also shows that tweens like movies, video games, collectibles, books, and dolls. They also like to spend time talking to their friends on mobile phones and communicating through social media sites, such as Facebook, Twitter, YouTube.com, Nick.com, and Webkinz.co m. Coming-of-age films, such as *The Spectacular Now*, *Boyhood*, *The Way Way Back*, *Vampire Academy*, and all those movies made from dystopian novels, like *The Hunger Games* and *The Divergent* series, owe much to this group.

Be careful to use as wide a market as you have. For example, I have had students say that a film is for women ages 35 to 45. If women are the first group that is going to be attracted, then use the broader categories of 25 and older. Don't leave out the grandmas. The MPAA stats in 2015 showed that 77 percent of moviegoers were over the age of 17, and women still were 51 percent of all moviegoers. For a female protagonist movie like *Brooklyn*, it is your primary group that will make up the first weekend audience.

The old four-quadrant system that the studios like to use is no longer viable. The system says that a film will attract exclusively young boys, young girls, older men, or older women. It is clear now that the sexes and age groups do not necessarily restrict themselves to one kind of film. Young girls like thrillers, while young boys will go to see teen movies no matter what the mix of sexes in the film. At the same time, the age groups for most films have a much broader range than the old system understood. Often we have assumptions about the movie audience that are holdovers from a time when the current available data did not exist.

Production Cost

When writing a business plan you need to find as many ways to support your argument as possible. A valid comparison for films concerns the amount of the production (negative) cost. In some cases, the cost is additional confirmation for your assertions; in other instances, it may be your only argument. There are as many configurations of a film's budget as there are producers. No two situations are ever alike. So, we will review the most common cases and let you extrapolate from there.

Case 1: Similar Films, Similar Budgets

Your films should be able to make equivalent or better revenues as films that share a genre or theme with yours and cost within a reasonable range compared to the total of what you're budgeting for your film. When preparing your proposal, the first step is to read every interview with the filmmakers that you can find. You often will be able to find information on how they made their pictures work—creating a production budget, finding a distributor, and getting by on a low budget. This holds true for film made during the pandemic. The market is more open for a small film to be successful than it has ever been. The potential for having a breakout film increases with the release of each successful film.

Case 2: Similar Films, Higher Budgets

If your film has a story or theme similar to that of others but will be made with a significantly higher budget, you can point out that better attachments are likely to help bring in more revenue. If you have a well-known director who will draw some attention, be sure to mention that it is another Arthur Artiste picture. For a film with a budget of up to $1 or $2 million, both the director and the stars can be unknown; the film will rely totally on its story and quality. For a larger film, story and quality will still matter, but name value will mean even more.

Case 3: Different Films, Moderate Budgets

There may be a ceiling on the ability of niche films to grab the market. One strategy in this case is to start with moderate budgets that have mainstream potential. For this example, you may start with a $5-million movie and move up to a much broader market. Always keep your genre in mind in addition to all the factors mentioned in Case 2.

There are many variations to putting together your comparative films and your explanations of the markets for your film. The point is that you should build on what exists. No matter what your niche market—and it may be a specialized one that has not really been explored yet—the same principles apply. Take the experience of similar films and use it to your advantage.

Even with these three cases, a discussion of the success of similarly budgeted films is in order. For example, I created a business plan for the producers of a $7-million gay/lesbian romantic comedy several years ago. Since there were no gay/lesbian films made within the $3- to $14-million budget range to use for comparison at that time, I created tables of other romantic and comedy films.

Detailed tables showing the actual results of other films with similar budgets belong in the Financing section of your plan. Here, however, you can use the summary information to build a story. Gather comparative market information to prove the size and extent of the audience for your film.

What if you do not know the budgets of the films you are going to make? Your case will be much weaker, but you can still develop a rationale. Showing the results of films with various budgets will help. The other elements of your company, as described in Chapter 3, "The Film," can bring more credence to your proposal. If you have well-known directors or actors committed to your projects, you can use their previous films to describe a segment of the market.

What if you have someone else's business plan for a $2-million film? Don't use it. Your film will have characteristics that don't match that budget and needs a knowledgeable person, such as your friendly production manager, line producer, or unit production manager (UPM), to create its budget. Make sure you are right before going to investors. At the end of the day, you have to work within this budget.

Incentives

Many states have lowered or cancelled their incentives since the eighth edition was published. If you are going to film in a state that has one, remember that, with a few exceptions, you cannot subtract from your budget the amount that you "hope" to get from the state. While states will approve a film for their incentives, in most cases, the money is not guaranteed. At the end of filming, you will be sending in a CPA report on expenses that will be checked over by their CPA. That person will then certify what amount of money you will get. To make the film, however, you need to raise the entire amount of your budget. Any amount that is paid back by the state later will make both you and your investors very happy. (More on Incentives in Chapter 9.)

MARKETING STRATEGY

Marketing strategy is usually defined as the techniques used to make the end user aware of a product. In film, you have more than one potential end user, more than one person who might queue up at the box office to buy a ticket. There is also an intermediate end user: the money person. The ticket buyer will not read your business plan. Instead, your marketing is aimed at those who might provide the financing to make those ticket purchases possible. First, we'll look at your own strategies for getting the film made. Then, we'll look at some of the marketing tactics that distributors and producers may use for the film.

Experts often talk about the four Ps of marketing: product, price, place, and promotion. We have already touched on the first three in this chapter. In the Markets section of your business plan, you also don't want to forget promotion. However, do not confuse what you will do and what the distributor will do.

Market Research

As cognizant as investors or distributors might be about the emergence of a particular genre or market, they may not know the true scope. One step in promoting your projects is to do your own research and obtain as much information—especially data—as possible to bolster your contentions. Whether you are raising money for one film or a group of them, gathering data on the feasibility of your project is important. Part of that information is contained in your description of the market segment. However, you need to go a step further and get real facts and figures. You don't need to be close to Hollywood or New York with the proliferation of resources on the Internet. Chances are that whether you are in Cincinnati, Ohio, or Branson, Missouri, there are events that bring the "Hollywoodites" to you.

Reading—A Lost Art

The most difficult idea to get across to many filmmakers is that they need to become voracious readers. Many creative folks are too busy doing their own thing to take time out to read. Even seasoned professionals say, "But I don't have time." This is a big mistake. There is a lot of information available to you if you will take the time and trouble to find it.

With the advent of the Internet, much of the information is free. The major domestic entertainment trades that are good sources of information—deadline.com, hollywoodreporter.com, Indiewire.com, variety.com, and thewrap.com—are free. You can get useful information for your business without subscribing. In addition, *Variety* and *The Hollywood Reporter* currently have weekend or monthly print editions still in print. I also go to the U.K. publication screendaily.com every day to keep track of European and Asian news. While full articles require a subscription, you still can get valuable information from the parts of articles that are free.

The trades have the news articles that tell you who is doing what with whom and how much it is going to cost. If you follow these sources carefully, you can pull out some data and facts on the production costs of films and descriptions of how the producers found their financing nestled among the reviews, press releases, and gossip, which can help your business plan. Several of them, plus other trades that may not be online, do have daily print copies at the major markets and film festivals like AFM, Cannes, Sundance, and Tribeca.

Another benefit of reading the trades is that you learn who the movers and shakers are. When you are at any networking event, it is helpful to recognize a person's name. If you watch network/cable interview shows, you also will be surprised how many people you recognize when you are at a festival.

In addition to the industry publications, you can find a lot of information in regular monthly magazines that have no direct connection to the film industry. Interviews with producers or directors of independent films and articles with business statistics are often published in such non-entertainment publications as *Forbes* and *Vanity Fair*. Local daily newspapers also carry interviews in their entertainment and business sections. The proliferation of sites on the Internet has made this information far more accessible. I find following these and the above publications on Twitter, Facebook, and LinkedIn useful for saving time. (For discussions about sources of data and how to use it go to Chapter 10, "The Financials" and Chapter 11, "Sample Business Plan for a Fictional Company.")

Libraries

Times definitely have changed. The entire marketing research section was originally titled "Libraries and Computer Sources." Even I do most of my research on the Internet. Like reading, however, another lost art appears to be the ability to do research in a library. If you are a student, you have free access to information that can't be found—or at least can't be found for free—on the Internet. In addition to the film school libraries, your local library may subscribe to data services that will help.

Networking

My first Sundance Film Festival was also my first entertainment industry event. Until then I had worked in "real business," creating business plans and corporate strategies. Although I had mixed and mingled at meetings before, I had never tried to "work a town." I knew no one and had a general feeling of nausea as I got off the plane. On the shuttle to Park City, Utah, everyone was silent. Finally, I asked a gentleman sitting behind me if it was his first trip. He and his friend turned out to be film commissioners. That night I went with them to the opening night gathering and met more people. The next day, I chatted with those people and learned a lot about how they had financed their films and other salient information. Had I not spoken to the first two people, I might never have met the rest. The concept of networking this way can be very scary, but you can do it.

Why do you want to network? Your best sources of information may come from attending seminars, college classes, luncheons, industry meetings, festivals, and markets. Besides listening to whatever public speaking occurs, you should go up and introduce yourself to the speakers and mix with the other people in the room. Let others know who you are and what you do. You don't have to be in Los Angeles or New York. Many states and cities have filmmaker and digital groups, their own festivals, and other networking events. Always check with your local film commissioner to learn about events in your area, and take advantage of these events.

There is no better source of information for you than other independent filmmakers. Whenever you have a chance to meet filmmakers, politely "grill' them for advice. People like to talk about their experiences, themselves, and, especially, their successes. (If this were not the case, I would not be able to get well-known filmmakers to talk to my classes and seminars.) You will learn more from someone who has done what you are interested in doing than from all the books in the world.

Promoting Yourself and Your Projects

We make our own opportunities, as every overnight success will tell you. By doing all that market research, you have prepared yourself for two things:

1. Quantifying your market segment
2. Approaching others with your project

At the beginning of this chapter, we talked about the market segment and how it is time to focus on marketing yourself and your project. As noted before, your goal is to find the money or links to the money. There are entire books that focus on this subject, so I am providing you with just the basic information.

Arm Yourself with Ammunition

A good promoter will prepare certain materials before seeking out contacts. Business cards, sales sheets, press kits, and director's reels are among the promotional materials you might use. Some filmmakers have even made a short version of their film, often on their websites, for promotion. For first-time filmmakers with no other footage to show, making a short video of yourself talking about the virtues of your film may be the way to go.

Whether your aim is to sell a single film or to obtain financing for your company's group of films, the first step is to evoke interest. Making contacts is your objective, wherever you are. Earlier we talked about networking as a means of gathering information. Another purpose is to unearth those money sources, wherever they are.

People with similar interests tend to congregate in the same places; therefore, entertainment-related gatherings are your most likely place for success.

Film Markets and Festivals

Knowing how to attend and network at film markets is critical. You do not want to be carrying around business plans, handing them to everyone who says, "I can get you a deal." That is why you bother with the materials described earlier. Those are the items you hand to people initially. Common sense will stand you in good stead in attending markets. There is no trick to meeting and greeting. Just get out there and shake hands.

When you attend a market, always remember that a distributor's main goal in being there is to sell product. When you want to introduce yourself, here are guidelines for you to follow:

- *Be prepared:* Bring your short-term promotional materials and bone up on who is who before you go. Let your fingers do some walking through the trades.
- *Be aware:* Distribution companies usually focus on certain types of films. Look at their posters and at the items listed in their market catalogs. Try to match your films to their inventory. After all, the distributor is your shortest route to those foreign buyers and presales.
- *Be inquisitive:* Ask questions of everyone you meet—in an office, in the lobby, on the street. Try to discover the person's qualifications before spilling your guts about your plans and projects, however.
- *Be considerate:* In introducing yourself to distributors, pick slack times. Very early in the day and at the end of the day are best. Whenever you reach a distributor's display room, notice if buyers are there. If they are, go back later.
- *Be succinct:* Keep the discussion short and sweet. Your objective is to get a meeting at a later time. You want your "prey" to feel relaxed and be attentive. Try for a meeting at the distributor's office.
- *Be dubious:* Lots of people are milling around screenings, hotel lobbies, and expo halls pretending to be something they are not. It may be a big rush for someone to tell you that they were the "real" investor behind *The Visitor* (when they had nothing to do with it) and are interested in financing your film for $2 million (when they have no money). Listen carefully, take cards, and try to verify the facts afterward. Do not give your scripts or proposals to anyone unless you can validate their credentials.

There is more detail about pitching in Chapter 13, "Other People's Money."

Advice on Submitting to Film Festivals

Christopher Holland is the author of *Film Festival Secrets: A Handbook for Independent Filmmakers*. He has shared this list of "10 Simple Secrets for Saving Money on Film Festival Submissions." For more information, go to www.filmfestivalsecrets.com.

1. Don't treat festivals as an afterthought when creating your film's budget.
2. Make sure your film is done. Really done. *(Test screenings will help.)*
3. Think it through. *(Set some goals, and do the research!)*
4. Submit early. *(You could submit to twice as many fests this way.)*
5. Look for bargains. *(I'll tell you how.)*
6. Network at festivals to find visiting programmers looking for films like yours.
7. When you ask for discounts from a film festival, offer something they want in return. *(Like a film that speaks directly to their audience, or the promise of cast/crew in attendance.)*
8. Turn yesterday's festival success into today's festival invitations.
9. Put your marketing house in order. *(A great website tells festivals you'll be a good marketing partner.)*
10. Decide ahead of time when you're going to stop paying to submit.

Advice on Attending Film Markets

Joe Majestic formed Majestic World Entertainment in 2007 as a film, multimedia development, and distribution company. Previous to that, in 2003, he co-founded the Ilya Salkind Company, where he served as vice president of production. He was a contributing architect of the company's initial slate of film and television properties. In 2008, he partnered in Monterrey Pictures Entertainment. He left that company in 2009 to focus on film development and sales as President of Majestic. In 2011, he also founded film and television production company Hurricane Film Partners, LLC. Having worked with Joe as a consultant since 2003, I asked him to lend his advice on both attending and being an exhibitor at the American Film Market. In addition, check the market's website for its section "How to Work the AFM" (https://americanfilmmarket.com/how-to-work-the-afm/).

LL: How did you first start working the market?
Joe: I first attended the AFM with a visitor's badge. I suggest that filmmakers go ahead and get a badge, go around the film market,

get all the materials, and network. It took me five years of having a badge full time as an attendee, because I didn't have a mentor or work with a distribution company. I had to learn by trial and error.

LL: Who are the companies that rent offices in the Lowe's Hotel during the market?
Joe: Any production or distribution company that wants to sell products to the more than 1,500 accredited buyers that come from countries around the world can obtain office space at the AFM.

LL: What are some of the activities you suggest for filmmakers attending for the first time?
Joe: People don't realize what a valuable tool the market is. Make a plan. I have seen many filmmakers waste their time by not scheduling their days. Do research. Get the attendee guide that comes with your badge. It tells you which companies are in each room. Then get the special AFM edition of *Variety* or the *Hollywood Reporter* that lists what each company is selling. Individual companies often have specific genres they sell, and you want to know who would be the most likely company to be interested in your film. You also can look them up on the Internet.

LL: How do you approach the distributors?
Joe: They are unlikely to speak to you on day one or two or on the last day when they are packing up. Spend the first couple of days gathering information. The middle to near the end is best, as the market tends to be slower. They will talk to you if you have a project and are seriously packaging it. Ask their advice. They will give it, because they need product.

LL: Can you just walk into an office?
Joe: Filmmakers think they can go in all the offices just because they have a badge. Technically, you should be invited. Remember that their main goal is to sell to buyers who will have appointments. Try to contact sellers in advance. If you have an appointment, the exhibitor can give you a guest pass to the office floors. You won't be allowed onto any of those floors without either a badge or pass. If you don't have an appointment in advance, ask the office assistant for one. That person will probably say, "Contact us after the market." Try to hold out for a meeting at the market. Be clear. Say that you are

packaging your film project and give a specific genre and budget. Don't get expansive with mixed genre descriptions. Ask them what talent they would like to see attached to the film. If people look too busy, try for at least a brief introduction. If not, call them after the market. Say something like, "Congratulations on your great AFM. I went by your office several times and you were too busy. I'd like to send you information on my film _______________ budgeted at ______________. I have found that it is better to call before sending an email and/or materials."

LL: Why are you meeting them?
Joe: You probably will be looking for a distributor to either help you do presales on a film to be made or to obtain a distribution guarantee to help you raise money from other sources.

LL: What made you decide to pay for office space?
Joe: My company, Majestic World Entertainment, had several projects to rep for sales. Having learned how the market works, it was time. I already had worked with Hector Grob of Monando Film Distribution, who has 25 years in film distribution going back to working with the Salkinds on the *Superman* movies. I met him while working with Ilya, and whenever he was in town during AFM I spent time at the market with him. It is important to work with someone who has experience in selling at international markets. If you are interested in being a sales representative, try to meet other sellers and buyers when you are initially at the market. Everyone has a badge. You can talk to people in elevators, on the terrace, at the pool, or at the bar in the lobby.

LL: What should I do if I need to hire someone with market experience?
Joe: The staff at AFM is extremely helpful. They will guide you through the details of obtaining and setting up an office and recommend people to work with you. You need a good assistant to set up meetings and work the phones.

LL: How many films do you need to have for sale?
Joe: You could have one film, although more is better. We were selling three horror films for our clients. General wisdom is that you should have no more than ten films.

LL: What materials should you have to give to buyers?
Joe: 1. Similar to the list above, the three most important pieces of information are cast, budget, and genre. Male actors are most important in obtaining foreign financing. Know what your actors are worth vis-à-vis your budget. Don't get an actor who was worth $250,000 last year and is now worth $25,000. As I said before, be specific about the genre. Don't say "sci-fi action drama." Just say, "action." There is also "contained action," which is a low-budget action film. 2. Promo teaser. You don't need a scene from the actual movie. Shoot a short one-and-a-half- to two-minute section from the script. You need a visual for buyers, since it isn't a radio show. We had promos for all our films. Also, quality counts. You can have unknown actors and inexpensive surroundings, but the look of your two minutes has to be good. We did presales as a result of the whole package. In addition, we already had talent attached. That isn't a requirement, but attached talent gives your project more value.

LL: How do presales work?
Joe: Generally, the buyer gives you 20 percent down of the price they are paying for their specific territory and the rest on delivery of the film. You should have all the legal documents available for this transaction. Have them drawn up by an entertainment attorney familiar with distribution and markets. Don't write your own. Your attorney will probably be available for meetings also. Usually, an attorney with clients at the market will be there himself.

LL: Is it important to have someone in your office that speaks multiple languages?
Joe: No. It is nice, but the buyers will always have someone who speaks English. They are buying from you and want your product.

LL: I know that you previously went to Cannes. Is there additional advice for that market?
Joe: Cannes is very expensive. The offices are twice as much, and all other expenses are three to four times more expensive than going to AFM. If a film project isn't completely packaged with a first-class promo, don't spend the money. Don't go there just to get experience.

LL: Assuming you have the project and promo, are there ways to save money?
Joe: American filmmakers can become members of the American Pavilion. You will have a headquarters and exhibition space, although you won't have an office. You will be able to go to the various Cannes offices and network. The Pavilion provides an array of business services, seminars, networking events, and parties. More networking is done at parties in Cannes than at AFM. For the parties given by major companies, you need to be invited, of course. The best parties are at the beginning of both markets. Other countries have pavilions also. They are all lined up together.

SOCIAL MEDIA AND SELF-MARKETING

An important component for any film, especially the opening weekend of the film, is word-of-mouth. Without incurring additional costs, it is possible for a filmmaker to implement a marketing strategy that is complementary to that of the distributor. Or, in the absence of having a distributor, create word-of-mouth. You can get a "buzz" by contacting grassroots organizations with a process referred to as *viral marketing*. Many special-interest groups have email lists and will be happy to send out information on a film that attracts them. It is a strategy that encourages individuals to pass on an email or video marketing message to others, creating the potential for exponential growth in the message's exposure. Don't forget to include your hometown newspapers in this activity. An important component for any film, especially the opening weekend of the film, is word-of-mouth.

For inspirational films, it may also be appropriate to schedule free showings in a church, synagogue, or other spiritual gathering place. By having such screenings, which often are free to the participants, you create word-of-mouth before a film opens on local screens. For other films, you can promote the film on websites devoted to the genre. For example, there are quite a few sites devoted to horror films. When you think about the "affiliate groups," make them aware that your films will open. For example, in a business plan that had a story about a writer, I added: "Particularly relevant to [name deleted] are the hundreds of writer's groups that meet live and/or online. In the age of the Internet, they all have email lists."

No matter how big an Internet site is or how fast it has grown, it could fall out of favor by the time this edition is published. Originally, Friendster (2002) and My Space (2004) seemed unbeatable; since then, we have Facebook, LinkedIn, Twitter, and Instagram, with many others snapping at their heels. None are immune to change.

Self-marketing is an area in which it is good to think outside the box. Explore what is best for your film. Remember, however, that anything you describe in your business plan is a type of promise to the investor. Do not say that you will do something for which you have to spend money that you don't have. Never ever use the word *guarantee*.

The entire discussion of Social Media and Self-marketing that I currently use in business plans can be found in Chapter 11, "Sample Business Plan for a Fictional Company." Much of it is boilerplate; however, I recommend updating the data and adding information that fits your film.

6

Distribution

Theatrical and Managing the Changing Landscape

There is never a bad time to release a good film—and there is never a good time to release a bad film.

—TOM ORTENBERG, CEO, BRIARCLIFF ENTERTAINMENT

We all know that the home entertainment business for film is going through another major paradigm shift. By the time it gets on an even keel, theatrical distribution will still be paramount for independent films. Of course, before the audience can buy a movie ticket, rent a disc, download, or stream, the movie has to get off the filmmaker's desk and into the movie theaters. This method of circulation is called *distribution*. Simply put, it is the business of selling the film to various media.

This chapter looks at distribution strategies in general, glances briefly at studio distribution, and examines independent distribution in more depth. Nevertheless, it is not intended to replace the many books on film distribution that you can read for more detailed knowledge. While we will look at types of deals, I am not a lawyer or a distributor. When making any deal, you need one of each.

WHAT IS DISTRIBUTION?

When writing your business plan, you will need to explain the distribution system in general. As with other elements of the plan, you

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should proceed on the assumption that your reader does not know how the system works. Wrong assumptions on either side could block the progress of your films.

The "rights" of a film stem from the ownership of the copyright, which endows the legal use of the film to the copyright holder. Having secured a formal copyright, the producer contractually licenses or rents the film to a distributor for a specific length of time. The producer can relinquish all control of the film by shifting the entire copyright to the distributor in perpetuity, or they can license a specific right, such as domestic, foreign, home video (DVD/Bluray, downloading, streaming), television/cable, satellite, tablet, cell phone, and wristwatch (or any other device brought to market since the book was published), to the distributor for a specific length of time. In return, the distributor collects the rental monies or ancillary fees and remits the producer's share.

The following is from a sample domestic distribution contract. Although it is boilerplate (the starting point for negotiations), the following section is not likely to change. Pay attention to the phrases in parenthesis.

> *The "Rights" consist of the sole and exclusive right, license, and privilege under copyright (including all extended and renewal terms thereof) to distribute, exhibit, market, reissue, advertise, publicize, and otherwise exploit the Picture and the literary material upon which they are based, the picture, sound, music and all other physical elements thereof, and trailers in any and all media and by any and all means (whether now known or hereafter developed, discovered, invented, or created) throughout the Territory.*

WHAT IS A DISTRIBUTOR?

Long before Carl Laemmle produced his first maverick film, middlemen existed (as did agents, attorneys, and litigation). These intermediaries bought low and sold high even then. Among the most maligned of all entrepreneurs, middlemen are still harshly criticized for doing their job.

History does not tell us when the term *distributor* began to be used. All industries have intermediaries. In other industries, they buy inventory at discount prices, add a price markup, and resell at a higher price. In this sense, these intermediaries are considered just another one of the channels for getting the product to the market. Unlike film distributors, they are not involved in making artistic decisions about the product, changing the name for better marketing, or postproduction.

Motion picture distributors also are middlemen, and they are a curious lot. They are viewed either as people of tremendous skill, nourishing the growth of business, or as flimflam artists reaping obscene profits. Like politicians, distributors are sometimes seen as a necessary evil. On the other hand, they perform an important function without which the average filmmaker would not thrive.

Distributors have tremendous power, and in independent film, their impact is magnified. Studios normally have committees and different levels of people making decisions. In an independent distribution company, one person, with no one to answer to, may determine the entire course of your film. The distributor may negotiate a contract that gives him the ability to influence script changes, casting decisions, final edits, and marketing strategies; in addition, distributors often are intimately involved in the financing of the film.

They have this power by virtue of the distribution agreement. The specifics of the distribution deal and the timing of all money disbursements depend on the agreement that is finally negotiated. As a new filmmaker, you have little or no leverage for changing this agreement. Even an experienced filmmaker seldom can exact any substantive changes in the standard contract. One can debate fees. In the end, however, even though each deal is different, the basic contents stay the same. The distributor must be a salesperson, an entrepreneur, a skillful negotiator, a raconteur, and must have a sixth sense about matching the buyer with the product. For that reason, a filmmaker should never sign a contract until her own attorney approves it.

Armed with the rights, distributors go about the business of relicensing the film to the various media. The U.S. theatrical box office is the backbone in the chain of revenues for a film. All ancillary results theoretically are driven by the domestic theatrical release. Some products are designed to skip that step and go directly to home video or foreign markets, but the value of a film in any other media and territories is generally greater with a good theatrical release. Even a small theatrical release can increase the value to buyers of an otherwise unknown film.

STUDIO DISTRIBUTION

How It Works

The major studios (and the larger production companies) each have their own distribution divisions. They not only release their own films, but also occasionally acquire other films. All the marketing and other distribution decisions are made in-house. The distribution division sends out promotional and advertising materials, arranges screenings of films, and makes deals with domestic and foreign distributors. Because of their size and the box office capability of their films, the studios naturally have a lot of clout in getting their films onto theater screens.

When it comes to foreign markets, studios have offices around the world, either singly or with other studios, to distribute their films in other countries. Often, a studio will partner with a local distributor and the release will bear the names of both companies. The studio always retains the copyright, which it licenses to the foreign distributor for a specific length of time.

Based on the formulas we saw in Table 4.1, the studio's distribution arm receives its share of the box office grosses from the exhibitor and passes them to the in-house accounting system. The studio charges distribution fees back against the film as if its distribution division were a separate company. These fees can range from 45 to 65 percent of the total film rentals. In addition, the studio takes the entire fixed cost of the distribution division (overhead) and applies a portion of it to each film. Overhead fees pay for running the division and cover expenses that are not covered by other fees. Before the accountants are done, the studio will also take a portion of the overhead from the production side of the studio and add it to the total cost of the film.

The formula in Table 4.1 in Chapter 4 shows a "net profit" model for a studio film. Each studio has a standard method in its contracts for determining revenues, expenses, and profits. These formulas are nearly impossible to change, even by influential filmmakers. Typically, the producer is paid a percentage of the net profits in addition to receiving a salary. With studio films, it is fair to say that the chances of the net profit being greater than zero are rarer than with independent films. The studios have more films to cross collateralize (using the profits from one film to offset the losses from another) and more places to bury unreasonable costs, although many contracts now prohibit films from being cross-collateralized.

The Advantages

There are many advantages to studio distribution. The studio has the ability to put 4,000-plus prints of a film in circulation on the opening weekend. Its own channels of publicity and advertising are manifold. The studio has the financial resources to inundate television and the press with ads, and it has significant clout in getting placements for producers, directors, and actors on early-morning and late-night national interview television shows. For example, NBCUniversal (which is owned by Comcast) controls or influences its own television/cable networks, consisting of shows like *Today*, *Morning Joe*, *Closing Bell*, *Noticias Telemundo*, *Mad Money with Jim Cramer*, *The Tonight Show with Jimmy Fallon*, and *Saturday Night Live*, as well as several sports networks and other entertainment properties, and new streaming service Peacock.

As noted earlier, in previous years the studios have been able to monopolize the chain movie theaters. Some have moved back into theater ownership. Be that as it may, with the success of independent films, exhibitors insist that they do not bow to studio pressure. They can only afford to have films in their houses that fill theater seats. If the audience does not come to see a particular film, the exhibitor must look for another that will be more popular. Consequently, more screens become available to independent films. As small films have received acclaim, they have continually moved into wider distribution and have gotten bookings in major chains that would not have played them previously.

INDEPENDENT DISTRIBUTION

The Players, They Are a-Changin'

In 1994, neither this author nor Bob Dylan could have foreseen what would be going on now. As the first edition of this book was being written in 1997, many would-be seers said that independents would disappear. While studios appeared to hope that was true, the intervening years have shown a total change, in which studios have tried to emulate the success of independents with lower-budgeted films.

The Majors acquired independent companies and made them into specialty divisions as the quickest way into the lower-budget market. Most of the specialty divisions of the studios—Focus Features, Paramount Vantage (the former Paramount Classics is a division), and Warner Independent Pictures—eventually were closed and/or became labels. Warner Bros. absorbed Picturehouse and New Line, with Picturehouse disappearing and New Line becoming merely a studio brand. Fox Searchlight simply became Searchlight after the Disney purchase and is no longer an independent producer. Focus Films became part of Universal in 2016 but also continues as a distributor of independent films. Sony Classics remains one of the few specialty divisions with autonomous control over its product. Still, an independent film picked up for distribution by a studio remains a film that was independently made. Meanwhile, new independent companies continue to appear.

Too Many Films?

The theatrical marketplace is crowded. In 2018, a total of 758 films were released. Film by Studio members of the MPAA released 127 films and non-members released another 631, according to the Business Strategies database. Of the Indie films, the major studios released 13; Sony Pictures Classics released 12, and Amazon Studios released 4. Not all films released by studios did well; likewise, not all big-budget films released by studios were successful either. The idea still persists, however, that too many filmmakers are making too many bad films and have a 90 to 99 percent chance of failure. This assertion has been around since I entered the business in 1988, and surely before. No one really knows. Every year, Sundance and other large festivals have more than 3,000 film entries. Clearly, there are many more films made than will ever see the light of day in a theater or make back their production costs. We don't necessarily know the budgets or profit/loss results for all the films distributed. There also are films, both studio and independent, which are sent into the wilds of the ancillary business without any theatrical presence. Will this information stop you from making a film? I hope not.

How It Works

Watching an independent distributor bring a film to its audience is seeing a true master of multitasking at work. More than just a functionary for getting your picture out, the independent distributor can perform one or more additional roles, including participating in creative decisions and contributing to the film's financial resources. For most independent filmmakers, the independent distributor is the only game in town and deserves an extensive look.

Independent Companies

Similar to our definition for independent films, the independent distributor is a company that is not a division of a major studio. By definition, they release independent films. These companies may both make films and distribute them, pick up finished films for distribution, or have a deal with a smaller distributor for specialized marketing, which now may include streaming. There are many indie distributors throughout the world. In this section, we are focusing on companies that are U.S.-based.

Even independent companies that are highly capitalized and releasing successful films come and go. Artisan Entertainment, which released *The Blair Witch Project* in the 1990s, is a good example. In 1987, a consortium headed by investment firms Bain Capital and Richland, Gordon and Company bought Live Entertainment, and the new company became Artisan. That company, in which one of the Co-Presidents was Bill Block, slowly grew until 1999, when the success of *The Blair Witch Project* single-handedly moved the company into the front ranks of independent distributors. Meanwhile, an investor purchased Cinepix Film Properties and changed the name to Lionsgate Films. In 2000, Lionsgate bought Trimark Pictures, which Artisan had previously coveted. At least two of Artisan's investors wanted to cash out, and in a bidding war, Lionsgate bought the company, taking an experienced distributor off the market.

Why do you care about all these financial machinations? First of all, you need to know that the distribution landscape is always changing. Secondly, it is important to know the history and personnel of the company with which you want to do business. As you can see in the above, I've mentioned again an executive from Chapter 4.

How have they acted in the past? Are they likely to be dealmakers who are more interested in selling the company for a profit than being distributors for your film? Or are they hands-on film lovers who are likely to be around for the long haul?

Did someone say independent distributors were dead? They did, but they were wrong once again. There are always new companies being formed, merged into other companies, or just giving up the ghost. Just like production companies throughout the 22 years since the publication of the first edition of *Filmmakers and Financing*, there has never been a lack of new distributors.

This discussion of new companies includes production companies that have bought ongoing distributors. It does not include all that have come into the film market in the last four years. Nor are the first ones more important than the last on the list. Tom Ortenberg, who previously led Liongate's film division and was CEO of Open Road Films among other companies, founded Briarcliff Entertainment Group in 2018. The Orchard, which was new in the last edition, was rebranded as 1091 Media in 2019. Neon and Bleecker Street formed DECAL as a joint home entertainment distribution company. In a joint venture with Annapurna Films, MGM relaunched United Artists Releasing, announcing it 100 years to the day that D. W. Griffith originally had formed United Artists. Distribution executive Bob Berney and his wife bought back Picturehouse in 2019. Originally founded in 2005 in partnership with New Line Cinema, it was part of the New Line Cinema package acquired by Turner Broadcasting in 1994. Turner became part of Warner Media in 2007, and in 2008 New Line was merged with Warner Bros. Pictures. Phase 4 Films founder Berry Meyerwitz and Jeff Packman, president of Lionsgate Films, formed Quiver distribution. Dekanalog, another new company, was formed to acquire titles from film markets with an emphasis on presenting international titles for U.S. audiences and releasing restored classics. And before Hasbro bought eOne Entertainment, that company bought Sierra-Affinity. Open Road Films declared Chapter 11 bankruptcy in September 2018. In 2021, Raven Capital Management concluded a purchase of the company, including rights to 45 released film titles, related contracts, and other assets. It is unclear if Open Road will continue as a distributor.

Among Indie distributors who are ongoing are IFC, Roadside Attractions, IDP/Samuel Goldwyn, Magnolia (and its offshoot for genre films, Magnet Releasing), Participant Media, Oscilloscope

Pictures, GKIDS, Music Box Films, Kino Lorber, Drafthouse, Zeitgeist, First Run, Greenwich Entertainment, and Screen Media. I also want to mention three frequent distributors from other countries that release films every year in the North American domestic market: Eros and Yash Raj (India) and China Lion (exclusive deal with AMC, and now owned by China's Dalian Wanda Group). This list is not meant to include everyone. I always feel that I should put the date (August 2021) on the list because, as mentioned previously, there will be companies being formed, purchased, or just giving up the ghost by the time you read this book. Dating the list is particularly important during the current economic challenges. The overall picture for the past 30 years has continued to be true. As one company merges, becomes a studio brand, or just disappears altogether, others quickly come in to fill the distribution void. Did someone say independent distributors were dead? They did, but they were wrong.

Do your own research to see who is doing what. Since the landscape is constantly changing in this dynamic industry, the independent filmmaker must function in a fluid environment. The small independent of today could be the Weinstein Company of tomorrow. Always look at how your potential distributor tends to distribute a film. The larger producer-distributors, such as Lionsgate or ErosStyx, have the ability to put a film on 1,000 plus screens. Of course, that doesn't mean they will. On the other hand, some of the smaller companies prefer to put a film on only one to three theatrical screens as a prelude to a home video. It is always important to have an attorney carefully read your contract. Some filmmakers have found that, after being picked up at a festival, their contract didn't require a theatrical release.

Domestic Versus Foreign

The domestic territory generally comprises just the United States, but it might also be considered to include Canada and, many times, Puerto Rico and other Caribbean islands. Many of the independent distributors consider the United States and Canada to be one North American package and prefer not to have them separated beforehand. For one thing, the distributor may have output deals with Canada. If the opportunity for Canadian financing arises, therefore, producers must be careful. If the Canadian investors are going to take some or all of the Canadian territory for themselves, the producer might have a problem finding a distributor for the U.S. market.

Domestic rights refer not only to theatrical distribution but also to all other media, such as DVD, cable, and streaming. A producer who secures an advance from one of these media for production financing makes the deal a little less attractive to the distributor because the rights have been fractionalized, or split up. Any source of future revenue taken out of the potential money pie before a distributor is found makes an eventual distribution deal tougher for the producer to close. Most distributors make a substantial investment in print and advertising (P&A) costs. Although they may recoup these amounts from the theatrical marketplace, it is not likely to cover their distribution fees. Therefore, they prefer that other revenue sources be available to them.

Being a domestic distributor may mean that a company does not sell foreign rights; however, no rule says that a domestic distributor cannot venture into foreign waters. While distributors at the festivals used to pick up films for North American distribution only, they often now include all English-speaking territories. Or they pick up worldwide rights and sell off the other territories to subdistributors.

There are also U.S.-based distributors that specialize in foreign only. These companies deal with networks of subdistributors all around the world. It is sometimes confusing for producers to distinguish between a distributor and a foreign sales agent. If a distribution company is granted the rights to the film for the foreign markets, that company, whether it is 1 person or 20, is the distributor. The company may be referred to as a foreign sales agent also. There is no fundamental difference, just one of semantics. The Independent Film and Television Alliance (IFTA) publishes an annual directory of their members. In addition, there are sources on the Web.

Streaming rights are a question. What you have to know is that you do not want to license your film to anyone on the Internet before you have a contract with traditional domestic and international distributors. Whether or not they will do anything with those rights, the distributors want them available. Of course, that doesn't mean you have to include those rights. Generally, the producer retains ownership of the copyright and only grants someone a percentage of the receipts for obtaining distribution contracts for a particular territory and/or medium. A typical term for granted rights is seven years, although some distributors will want ten years.

To Video on Demand or Not

With the growth of new releasing platforms, the paradigm for releasing is changing. For example, a day-and-date release on video on demand (VOD) at the same time as a theatrical release, or even before it, is starting to gain traction. We still have only anecdotal reports on VOD revenues for a few films, making it dangerous to make predictions for investors. There are several questions that need to be answered. How much does this type of pretheatrical release affect the box office revenue? For the same number of audience views, are we exchanging the price of the ticket for the lesser revenue from a download? For many filmmakers, their only goal is to see the film made and seen by others. I have found that some filmmakers feel that protecting the investor's money is not a priority. In reality, you have an obligation to your investor to provide them with the best opportunity to not only make back their investment but also to potentially make a profit.

Tom Bernard, co-president of Sony Pictures Classics, who told *thewrap.com*, "If your movie can play through all the windows that start with the theatrical release, nine times out of ten it will be much more successful than the VOD/theater box office." An important concept here is "the future," which is often stated as a time when VOD will be a primary release platform. Are we almost there? It's too soon to tell.

A Deal Is a Deal

What is a typical deal? There is no such animal; no two deals are ever exactly the same. Distributors will take as much as they can get, and it is the producer's job to give away as little as possible. Do not under any circumstances enter into one of these agreements without the advice of an entertainment attorney experienced in film. Some distributors will try to get you to sign an agreement before their fees are specified or without any agreement for theatrical distribution. Their business is to be persuasive, and they are good at it. The attorney knows what needs to be in the agreement before you sign it, and they can be equally persuasive.

The attorney's film experience is important. When I was first advising filmmakers, I would tell them to get an entertainment attorney. Sometimes they would find someone who worked in another area of entertainment but not film. Distribution deals in this business are different from other areas of the entertainment industry, however, and you want your attorney to be familiar with it. The other mistake that filmmakers often make is using their father's corporate attorney to negotiate their film contract. The filmmaker has to pay for the attorney's learning curve (lawyers charge by the hour) and ends up with a bad deal, or worst case, no deal at all.

The distributor's fees vary from territory to territory or medium. This amount can be as low as 15 percent (for a "hired gun") or as high as 50 percent of the revenues from the film. Although most contracts treat domestic and foreign revenues separately, general wisdom says that the overall average for an indie distributor's fees is 35 percent or under. Take time to add up the total fees. If they come to more than 35 percent, you probably don't want to sign. How much the distributor wants to take depends on the company's participation in the entire film package. The distributor may do the following:

- Get a finished picture.
- Provide P&A money.
- Be rented.
- Raise equity or presale financing.
- Provide a minimum guarantee.
- Pay an advance.

There are no hard-and-fast rules. A lot depends on how much risk the distribution company is taking, whether or not it puts in production money, and how badly it wants the film. The amount of risk is primarily related to the amount of money the distribution company pays out of its pocket. The more upfront expenses it has to assume, the greater the percentage of incoming revenues it will seek. These percentages apply only to the revenues generated by the distributor's own deals; if that company is only making foreign sales for you, then it takes a percentage of foreign revenues only.

Do not assume knowledge about another film's agreement and promise the same deal to your investor. Often clients want me to give examples of purchase prices in their business plans. In that case, it is important to note for the investors that the prices announced in the press may be advances against future revenue streams or total buyout prices with no further remuneration to the filmmakers and their investors. For example, an article may say that a film was picked up for $8 million. However, there may be a small or no advance, with the rest contingent on a percentage of the North American box office. If the box office is low, then the producers and investors will never see the full $8 million. Always remember the words of John Pierson, a long-time filmmaker and producer's rep, who said, "Get it up front. That's your bond."

The good news is that, with the caveat noted above, there are good stories to tell as a hook for the investors. Sometimes a producer, director, or producer's representative will give useful financial details in an interview. At the 2004 Sundance Film Festival, the $400,000 *Napoleon Dynamite* was offered $3 to $4 million in advance with a guarantee of a 1,200-screen release. The following year at Sundance, Paramount paid a total of $9 million for *Hustle & Flow*, which was budgeted at $3.5 million. Then the big prize went to *Little Miss Sunshine*, which sold for $10.5 million in 2006. However, the brakes were put on buying sprees at all of the festivals in 2009 and 2010 after several big purchases with upfront fees of $8 to $10 million in 2007 and 2008 failed to deliver profits. The film business, along with the rest of the world, was going through the beginning of a recession. Selling, however, was better through 2018.

With economic instability and the pandemic ongoing, at the 2021 Sundance Film Festival Amazon Studios paid $25 million for the film *Coda* and Searchlight paid $12 million for the documentary *Summer Of Soul (…Or, When The Revolution Could Not Be Televised)*. And the golden age of documentaries continues. Seven of the 18 total sales reported at the end of the festival were docs.

Print and Ad Money

The first step in distributing a film used to be printing copies made from the master negative. If you are buying this book in 2021, you could be asking, "What is a print?" The answer is that at one time all films were shipped to theaters on reels of film stock. A high-profile studio film opening on as many as 3,000 to 4,000 screens in multiple markets (a "wide" release) could have an initial marketing expense of $3.5 million to $6 million, accompanied by a very high advertising program. The smaller independent distributors would start with anywhere from 1 to 50 prints and move the prints from city to city.

On the digital side, the studios, who had been instrumental in subsidizing the conversion to digital of the majority of the theater screens and projectors, stopped collecting a "Virtual Print Fee" for each screen converted. Fully outfitting a single screen with the necessary equipment costs a minimum of $70,000, more for 3D. That fee is on its way out. Exhibitors will have ownership and responsibility for their equipment. On the other hand, they will also be freed from some of the restrictions imposed by their Virtual Print Fee arrangements. Now that we have reached one of the most important digital transitions in the 21st century, we will have to see what innovations come next. The good news is that exhibitors can decide what is best for their customers, and at what prices.

Independent films typically have a "platform" release. In this case, the film is given initial publicity by opening in a few regional or limited local theaters to build positive movie patron awareness throughout the country. The time between a limited opening and its release in the balance of the country may be several weeks. This kept the cost of striking 35mm prints to a minimum. Using this strategy, smaller films can be successful at the box office with as few as two or three prints that are moved from theater to theater. In the new digital system, each time the film hits a new screen the fee mounts. With a successful film on an escalating number of screens, the distribution cost could run from $1 to $2 million.

Presumably, all screens have been converted. As mentioned earlier, only 2 percent of global screens are still analog. While a small number to the large film companies, for an independent filmmaker with a low-budget film, over 1,000 screens is a large number. Since a similar number of nondigital screens existed when the last edition of this book was published, you know that 35mm films will still have a home.

Distributors plan their release schedules not only with certain target audiences in mind but also with awareness of which theaters—specialty or multiplex—will draw that audience. If a film is going to a multiplex, there probably isn't a question about digital versus 35mm.

Distributor's Fees

Distributor fees for an independent film are forecast at 35 percent of total worldwide revenue when there is no deal in place. It also is the top percentage that any deal should include. This money is the distributor's profit as opposed to the money for print and ad (P&A) dollars, which represent out-of-pocket costs. These days, that total is too high and should be closer to 30 percent; however, it always is best to use the highest figure. In comparison, studio-made films are charged a fee between 55 and 65 percent.

Many distributors encourage producers to provide their own P&A because this limits their risk even more. The distributor's fee then will run from 10 to 22.5 percent, with the most common fees being 15 to 17.5 percent. These deals—often informally called "rent-a-distributor" or "hired gun"—usually have an escalator clause to give the distributor an incentive. For example, the fee might be 15 percent until net revenues to the producer equal the cost of the film or some multiple of the cost of the film, at which time the distribution fees escalate to 17.5 percent. On the other hand, some distributors just negotiate a flat fee for working this way.

There are varied opinions as to whether it is practical for a producer to pay P&A costs. By putting up the money, the producer lessens the amount that the distributor will receive from the total revenues. On the other hand, many believe that the lower fees also lower the effort that the distributor puts out in releasing and/or publicizing the films. On several panels, I have had distributor's agree, "The higher the fee, the harder they work." The producer may also be cast in the role of monitoring the value of the distribution process; without experience, how will you be able to judge? How to handle the P&A question is one issue you do not have to decide for yourself, as long as you have an attorney who is familiar with distribution. In addition, having to ask an investor for several million dollars in addition to the production costs may help you decide to forgo this choice.

Distributor as Financier

Chapter 9, "The Financial Plan," discusses financing in detail, but let's look here at the situation that arises when the distribution company is the provider of funds. If the distribution company produces a minimum guarantee, it is taking on greater risk, and therefore the fees are higher. Sometimes the deal may give the distributor an equity participation in the film on the back end. The distribution fee is taken off the top, expense reimbursements are second, and then the revenues are split on some percentage basis. The distributor is now on the hook for providing a minimum amount of money no matter what the film does. If the company has provided a bankable guarantee for the producer, the distributor has to make good on the bank loan.

DISTRIBUTOR STRATEGIES

The marketing of the film to the general public is the distributor's job. They makes decisions regarding the representation of the film in terms of genre, the placement of advertisements in various media, the sales approach for exhibitors and foreign buyers, and the "hype" (word-of-mouth, promotional events, alliances with special-interest groups, and so on), all of which are critical to a film's success. Because marketing is part of the distribution company's area of expertise, it usually is unwilling to give the filmmaker a say in the sales strategy, the poster design, or how the film is portrayed.

This comes as a shock to many filmmakers, who assume that they are going to have significant input or even a vote on how the posters look and where the film is opened. Many producers and directors expect a studio to ignore them, but they are under the impression that small distributors run their businesses as cooperative ventures.

Look at this from the distributor's point of view. Too many people involved in the decision-making process could be a nightmare. Formulating a marketing plan by committee could result in the proverbial camel. Artistic people tend to feel that they know the best way to present their project—after all, it is their baby, and they know it more intimately than anyone else. And how hard could advertising really be?

Franklin Delano Roosevelt once said, "If I were starting life all over again, I would go into the advertising business; it has risen with ever-growing rapidity to the dignity of an art." We are all specialists, and marketing is the forte of the distributor. The filmmaker's task is to check out the distributor by researching other films the company has sold and the methods they used in the process. It is hoped that the distributor and the filmmaker will meet each other's standards and that a marriage will be made. Doing your own research to find the best distributor for you should head off a divorce later down the line.

What the Distributor Looks For

In acquiring a project, the distributor looks at many of the same elements discussed in Chapter 3, "The Film":

- Uniqueness of storyline
- Genre
- Ability of the cast members to attract audiences or buyers on their names alone
- Past successes of the producers or director
- Name tie-in from another medium, such as a best-selling novel
- Special audience segment for the type, or genre, of film
- Attached money

Being able to sell a film involves a mix of elements, although the story is always the first concern. The people to whom the distributors sell must see something in the film that will appeal to their audiences. This varies from country to country and depends on the perspective of the buyer. No two buyers necessarily think the same. It is difficult to define why one distributor will buy a particular film, yet the distributor in the next room at the American Film Market (AFM) will not. It often boils down to a gut feeling—a notion that the distributor knows how to sell and profit from the movie. Every company operates in its own particular niche, but on any given day, some distributors are likely to find your film appealing.

As a producer, you cannot count on miracles or on someone's gut feelings, however. Your best bet is to make your product and your approach as strong as possible. The more components that you bring to the table with the film, the more ammunition your distributor has. Negotiating is their business, but they need something to bargain with.

To complicate your life even more, the definition of a *saleable commodity* can change from year to year or from market to market. While distributors are in the thick of the battle getting the latest information, the rest of us might be a year behind. This situation makes meeting and talking to distributors crucial. One year, when I was new to this business, I arrived at the AFM with a client to promote his already finished film. The director had convinced a well-known actress to do a 15-minute wraparound (inserting a well-known person into the film purely to make it more saleable).

She had been popular at previous markets. Unfortunately, the most recent European market had seen a glut of films with this person, and when we arrived at AFM to make our pitch, there were yawns all around. The distributors knew she was old news because it is their business to know. We had not thought to check beforehand to see if the star's popularity had changed.

Approaching a distribution company with a finished film has advantages. The distributor knows what you can do and how it will look on the screen. The company's risk level is lowered, and its financial output is less. A finished film also puts you in a stronger negotiating position. Many distributors say that they prefer even partially completed films to scripts because they can see the film's quality.

Festivals are another way to secure distribution. If you can get your film accepted at one of the primary festivals (Sundance, Tribeca, Toronto, and Cannes), you have a chance of attracting distribution. Individually, those festivals tend to attract more distributors than other festivals. Being at a competitive festival is good. You will find the psychology of the herd at work. If an audience likes a film or if one distributor becomes interested, all of a sudden a distributor feeding frenzy can start and prices will go up.

Methods for Releasing Films

Few people invent new release strategies; they just refine the old tried-and-true ones over time. Some are in fashion, and some are out of fashion. When I first started in the business, the late Peter Myers, then senior vice president of Twentieth Century Fox Entertainment, told me that there were essentially two ways to distribute a film—fast and slow. That says it in a nutshell. All of the distribution books that you read (and you should learn as much as you can) will give names to procedures that are variations of fast and slow. I've added another speed, moderate, for our discussion.

Fast

The fastest way to release a film is to release it wide. Studios use this strategy for releasing many of their films by opening on thousands of screens simultaneously around the country. The wide release allows for a big opening weekend, which could have one of two outcomes.

First, suppose a lot of people go to see the film, like it, and tell their friends. Assume the film opens on 4,000-plus screens. The average mall theater seats around 500 people, and the film shows six times a day. You used to have 5 to 12 million people leaving the theater on a Saturday and telling their friends to see the film. Now they tweet (hopefully out in the lobby) the same day or night. The film develops excellent "legs," which means it stays on a high number of screens. The studios and independent distributors doing a wide opening often use the results of the opening weekend as a measure of how much effort to put into promoting the film in the ensuing weeks. If critics' reviews (and let's assume audience reviews) are poor, a big-budget film can plunge 60 percent its second weekend. Keep in mind that with budgets near $100 million and P&A higher, the film may not end up profitable even though the worldwide revenue dollars are over $300 million.

Moderate

There is no standard definition for this type. It used to be that a moderate opening for an indie film would be around 1,000 screens. Looking at films with budgets between $20 million and $60 million released in the first half of 2016, the average opening appears to be 1,100 to 2,500 screens. Films with budgets less than $10 million generally follow more of the old platform release pattern. The film starts in 10 to 40 selected theaters and moves on in some sort of pattern. A particular film may work best in one market because of the makeup of the population or because the film was shot there. On the other hand, the distributor may use a pattern of 10 to 12 theaters across the country to get a feel for his next moves if the film is doing well.

Films with difficult themes or at least an unknown audience often open in New York City or Los Angeles. The cosmopolitan nature and the size of the population in those cities are an advantage. With good reviews, a film will continue to move through the country in one of several fashions. It might move to contiguous states, open in successive theaters based on a certain schedule, or cascade into the markets that are most likely to produce revenue. Whatever method is used, the film will continue to open in more and more theaters. Eventually, the number of theaters will decrease, but the film will remain in distribution as long as it attracts an audience.

These methods have several advantages. They give unique films special handling, and they allow a popular genre, small-budget film to move at the limit of its advertising budget. For example, if your film has a Native American theme, you can open in a moderately large city that also has a significant Native American population, such as Seattle or Albuquerque. In this instance, the film plays to a special-interest audience in a town where the initial box office dollars probably will give you a good start.

The goal of moderate-speed distribution is to realize a sizeable opening audience (relative to the budget and theme of the film) and good reviews, and then use the money and reviews to continue distribution. Clearly, no one expects a $3-million film to sell $17 or $20 million in tickets during the first weekend. The distributor may start with a few screens and fund additional releases more out of the revenues from the first few theaters. Advertising works the same way. Ads in a major city newspaper can run anywhere from $1,000 to $10,000. As a low-budgeted film earns money, it finances the advertising in the cities to follow. For example, Radius opened *It Follow*, with a total box office of $160,089. Some press reports were that it already was a failure. The distributor, using true platform releasing had the film on 1,635 screens on April 3rd. By the end of its theatrical run, the film had $14.7 million, which is a good start for a $1-million budget. It is hard to determine if all the online back and forth about the early critical results helped bring audiences to the theater, but it clearly didn't hurt. Nevertheless, had the initial audience not liked the film, it is likely the total screens and days in distribution might have been lower. When a genre like horror has millions of fans, the audiences tend to be very particular.

Slow

The difference between distributing at slow or moderate speeds is not necessarily the type of sequencing but the budget of the distributor. A very small distribution company may be able to afford only one print. Therefore, the film will start in one theater and the distributor will "bicycle" it from theater to theater. Low-budget and "no-budget" films are promoted with this kind of marketing budget—exceedingly small. If a film attracts a larger audience than expected, they may sell the distribution rights to another independent with greater funds. I've seen a small company pick up a film at the Sundance festival and "flip" it to a larger company for a profit before the week is over.

"Four-walling" is another tactic that sometimes works with lower-budget films. In this case, the distributor rents a theater for a flat weekly fee and takes all the receipts. The gamble is that the total box office dollars will be significantly greater than the guaranteed minimum to the exhibitor. To double-check the receipts, you may have to stand at the box office and count the "house" as people buy tickets. Four-walling is used infrequently now, although occasionally a producer will self-distribute and revive this strategy.

There are numerous alternative distributors that scour the various festivals looking for films to pick up. Some promise direct-to-digital others direct-to-VOD. Whether you or the distributor pays for the distribution, the costs vary. (I'm not talking about streamers like Netflix and Amazon Prime here. They are discussed in the next chapter.) They take the same rights retentions as traditional distributors; however, there is no industry "normal" by which to judge how much of the revenue you and your investors will receive. In addition, depending on the company, there often is small print that keeps them from having to give you tracking information about your film. Always check a company as much as you can, and do not sign *anything* without showing it to an attorney first. The biggest problem with any distribution that skips the traditional theatrical beginning is that your film is unlikely to show a profit. If you have written a business plan using data for theatrically-released films (and there are no databases for non-theatrical films), it is worthless. You need to make the best effort for a theatrical release and then go to ancillary releasing.

Self-Distribution

When no distributor wants your product, there is self-distribution. I generally advise clients against self-distribution. Many don't have enough (or often any) previous business expertise to understand the dynamics. Sometimes filmmakers have no choice. No distributor wants the film. The filmmaker wants to gain better ancillary deals by exhibiting the film in a few theaters. Occasionally, the distributor runs out of money and can't afford to live up to an agreement for theatrical distribution. Investors will be very upset if the film is never seen anywhere. However, even a small theatrical distribution usually will mollify them.

There are several ways to approach self-distribution. Many filmmakers will put extra money into their budgets for marketing. If any of these funds haven't been spent, they can be used to get the film out. If the film is appropriate for a specialty theater, you may be able to screen the film for very little cost during a theater's down time. Localized publicity, such as flyers or the theater's newsletter, may get enough people into the theater to interest another distributor in picking it up. Or the original distributor may suddenly find that money is available that hadn't been accessible before.

Be aware. The exhibitors have been in business a long time and are experienced negotiators. You are not. Trying to work with them yourself puts you at a disadvantage. They are going to offer you a deal that benefits them, not you. Distributors may be difficult, but they know what the best deal is and how to negotiate it. If you want to do this yourself, learn the rules first.

Do not confuse self-distribution with self-marketing, as described in Chapter 5, "The Markets." When no one picked up *What the Bleep Do We Know?* the film's investor paid for initial releasing. Once it was clear that there was a substantial audience for the film, the Samuel Goldwyn Company picked it up. The free screenings that were done for spiritual groups helped build word-of-mouth for the film. If you want to put a film on theater screens yourself, it will cost money; there are many free ways to promote the film.

If you are determined from the beginning to distribute a film yourself and are raising money from investors, you must tell them. Either they or someone else will have to put up the print and ad money. If you make the film first without the distribution funds, you may not find other investors for the additional money. The other problem is forecasting the revenues, as all of your comps for profitable films are going to be ones that have been distributed by professionals.

FILMMAKER STRATEGIES

David Versus Goliath

Many filmmakers let fate determine which way they will go in terms of distribution: studio or independent. This decision has no right or wrong answers, only options. The studio brings with it deep pockets, backup advice from experienced producers, strong marketing, and the ability to retain screens. Independent distributors bring an intimate knowledge of the low-budget market, the ability to disseminate films carefully over time, and a willingness to take a chance. Weigh your options.

There is wisdom to the thought, "Just get the film made." Over the years, though, I have come to believe that raising money and making the film may actually be the easy part. Getting a good distribution deal for the film and financial deal for yourself and your investors is where the real work begins.

One filmmaker's meat is another's poison. Before going into any negotiations, be clear on your goals. The distribution decision is the major reason that you went through the exercise of listing your wants and desires in Chapter 2, "The Company." You may seek advice and counsel from others, but in the end, you must make your own decisions.

The studio's backup system is a safety net for the new filmmaker. There are experienced producers on the lot, and executives are often dispatched to location to solve problems. This might be an advantage or a disadvantage. The independent filmmaker, on the other hand, usually completes the film before finding a distributor and thus has far more freedom during the filmmaking process. Distributors generally do not have extra people to hang around the set and tell you how to direct or produce.

The nature of independent distribution supports smaller-budget films. In the studios, it is hard to make a film with a smaller budget. They've got union salaries, overheads, and extra costs galore. Independent distributors have to run a tighter ship. Certainly, when looking for financing, their goal is a small budget. The size of the budgets for studio films usually leads to less imaginative and less chancy films being made. The independent system, meanwhile, embraces new and eclectic films. Studios maintain large bureaucracies, which make reaching a decision very difficult and time consuming. The less cumbersome independent process enables quicker decisions because there are fewer chefs in the kitchen.

The studio's financial resources generally favor generous salaries for producers, directors, and cast. With independent films, above-the-line money is often cut to lower the budget to make it doable. Most studios assume a certain level of budget overrun with pictures and have the resources to support it. Conversely, private equity investors expect the budget you give them to be the final number. Underestimating can be dangerous because investors may not make up the shortfall. (More on this subject in Chapter 9.)

Studio distribution, as we have seen, is generally "get 'em out fast and wide." Historically, the studios have had neither the time nor the inclination to pamper a film through its release. It goes out everywhere with a lot of publicity. In addition, the studios have a short attention span. Films that fail to find their audiences quickly enough are pulled to make room for other titles that might have broader appeal. Independent distributors, on the other hand, often have the knowledge and patience to give special care to eclectic films. Many are geared to let a film find its audience slowly and methodically. Of course, there are some independent distributors whose forte are the mass-appeal genres. Most independents, though, have an expertise for releasing films with smaller budgets and lesser-known names.

Historically, the studios' desire to share in the small-film market used to last for only a brief time. Studios have gone through cycles of acquiring smaller films, then forgetting about them. By buying indie companies, the studios manage to keep a hand in the niche market. Many of these specialty divisions have become labels, however. For independent companies, the niche markets are their business.

Earlier, we noted that your chances of a net profit on a studio film are low. There is a greater chance of having a real net profit at the end of the day with an independent film, although it is not guaranteed. The best policy in the movie business usually is to get what you can in the beginning—just in case.

The Control Factor

Filmmakers are well aware of the fact that studios retain the right to change anything they please—title, director's cut, and so on—and sometimes they assume that independent distributors will not want control over these things. Wrong! All distributors want to control the title and the cut. The only way to have total control over your film is to finance and distribute it yourself.

With the studios, the filmmaker's lack of control over projects is the stuff of which legends are made. Once your project goes into the system, it may be the last time you recognize it. If you are the writer, the finished picture may bear little resemblance to your original. Normally, there is far more control in independent filmmaking, but absolute control is a myth. An independent distributor will not allow you to have your way with everything. Novice filmmakers often are surprised at their lack of control. If only to protect themselves, distributors feel that they need these rights. Their biggest concern is to have a saleable product, and, especially with neophyte producers and directors, they have no idea what they may be getting. A film that is too long, that drags in various places, or that includes scenes that were not approved in the original script will be a problem. Most independent distributors would rather deal with a finished film. That way, they know what they are getting before making an agreement, and they can request certain changes before obtaining the film. The latter is why turning over a finished film is no guarantee for the filmmaker of retaining the elusive "final cut."

Be Aware

When going into a distribution negotiation meeting, know what items are important to you. Talk to your attorney and get a feel for your deal-breakers—that is, the points on which you will not negotiate. No matter what someone says to you verbally, written agreements are what count. For example, if having a hand in the marketing is important to you, try to have it included in the contract. Be advised that many distributors will not concede this item. They may listen to what you have to say, but they want the final decision.

Learn from the experiences of others. One novice filmmaker sent his distributor 40 minutes of finished film and 45 minutes of dailies. Although the distributor had said that they wouldn't change a frame, they used the dailies to change the film to meet their standards. In addition, they took a frame from a scene that was not in the finished film to use for the poster. This allowed the distributor to promote the film as belonging to a different genre than it actually did. Will the average distributor do this? Probably not, but it is your responsibility to check out the people you will be dealing with to see how they have handled other filmmakers' projects.

In the final analysis, you must enter into the distribution agreement with care. Make sure your rights are spelled out. If you see the term *standard agreement*, ask for a definition. Finally—and I cannot say this often enough—get the advice of an attorney who specializes in independent film distribution before signing anything.

Deliverables

While there isn't room in this book to go into all the aspects of distribution, I want to mention the delivery items. When you see the initial distribution contract and a small advance, remain calm. You have additional expenses. The filmmaker is responsible for delivering certain items to the distributor—another reason for having that detail-oriented attorney. Your lawyer will know whether or not those items are normally the expense of the filmmaker. They will include such things as type of print, M&E (music and effects) tracks, music cue sheets, continuity script, MPAA rating certificate, E&O (errors and omissions), insurance policy, copyright certificate, still photographs, and copies of all contracts and agreements. This is not a complete list but gives you an example. Refer to Robert Seigel's "Distribution Deal Points" download on the book's companion website.

WHAT DO YOU TELL INVESTORS?

The salient facts are here, but you must decide how much explanation to include in your plan. Always keep your description short and to the point. The Distribution section of your business plan should run two or three pages at most.

On the other hand, do say something useful. Unless they are professional movie investors, your investors know even less than you do about distribution; as with other subjects, you have to dispel any wrong impressions they might have. Many investors think that their production financing gives them control of the distributor, too. In addition, some have been known to assume that the distributor will repay them all the production costs upfront before the film is released. These notions may prevent you from finding a distributor; in that case, no one will ever see your film.

Before you propose to take charge of all the marketing and promotional strategies yourself or decide to self-distribute your films, ask yourself a question: Who is going to make decisions? The idea of making the decisions yourself may sound great—it will give you control—but there may well be pitfalls. Remember: If you do not know how to drive a car, you're either not going to get far or crash.

Getting a distribution deal is never a given. I make a point of saying that the specifics of the distribution deal and the timing of all money disbursements depend on the agreement that is finally negotiated. In addition, the timing of the revenue and the percentage amount of the distributor's fees differ depending on the revenue source. You must always remind investors that you are making estimates based on general industry formulas.

If you leave investors with the impression that distribution automatically comes with making the film, you may end up with a bigger problem than you ever imagined. I have seen many business plans that have a single statement—"We will get a distributor"—as the entire Distribution section. As you should realize by now, this approach is not the best. Never leave your investors in the dark, but don't attempt to talk about something you haven't looked into yourself. Do your research before writing your plan and explain the essentials.

By the way, attorneys will warn you that a phrase like "We expect to negotiate with a distributor" can create some difficulties for you down the road. Instead of "expect to" (or, worst of all, "will"), say that you "aim" or "intend" to get distribution. Then you will be in good shape to give confidence to investors and shield yourself from later legal problems.

7

Distribution

Streaming and the Wild West of Non-theatrical

I often say digital is the democratization of entertainment consumption … The omnipresent availability of digital content anywhere and everywhere allows the consumer to be in charge.

—BILL SONDHEIM,
Cinedigm Entertainment Group President

Streaming rose to new heights during the pandemic, challenging the traditional release model. The true power of the platform and the rest of non-theatrical releasing will be seen, however, when theaters are fully open again.

What do I mean by *non-theatrical*? The preceding chapters all had a relationship to theatrical releasing. With releasing methods that don't include movie theaters, "Where is the money?" Perhaps a better way to state it is, "Who gets the money?"

A BIT OF HISTORY

Netflix was the original 800-lb gorilla in this marketplace. It began letting subscribers stream films directly in 2007. They were soon joined by Amazon and, eventually, Hulu and a few other standalone companies. During the pandemic, however, studios and a lot of other companies started their own streaming services with

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SVOD (streaming VOD), TVOD (television), PVOD (premium rentals) and PEST (premium sales), which the Digital Entertainment Group does not count as part of their data. "That segment of the business, which some industry pundits say helped the transactional market grow for the first time in a decade last year, has continued its appeal," said Michael Bonner, president of Universal Pictures Home Entertainment, on a DEG panel. "The story on SVOD services I think is really well told, and we've seen a lot of consumers come over through those subscriber numbers, but I don't think there's been much focus on consumers who've been coming into the transactional end of the business," added Jim Wuthrich, president of Home Entertainment and Content Licensing at WarnerMedia. "Our estimate is there's $1 billion of consumer spend that's not captured in the numbers [being presented]," Bonner said. "And those actional business—revenue from consumers who rent or buy titles either digitally or physically—has proved resilient, even though it has dropped from the pandemic highs of last year."

As indicated in Chapter 6, people still buy physical discs. That may change, however, with younger generations used to streaming. Time will tell. It was thought that DVDs would already have disappeared by now. There also was a theory that a consolidation of theaters would result in a golden age of independent streaming content—I can remember when teenagers were going to be watching films on their cell phones. Yet they still go to theaters in groups.

What Netflix co-CEO Ted Sarandos said at Cannes 2015 still stands: "All the films we do at Netflix will be profitable to the producer; there will be a premium to the budget. There is no backend, because there is no incremental revenue, we are earning off that." It is unclear what that means. When I watch a movie on Netflix, I know it is recorded somewhere. I'll bet a clever accountant has an algorithm to show how much that means in dollars. Nevertheless, it means nothing to a filmmaker whose film they may have bought, since there is no backend. Netflix does, though, do limited theatrical releases on a film to make it eligible for an Oscar.

The important question for us is how mighty will Netflix be after theaters reopen? The service ended the 2019 quarter with 209.1 million subscribers worldwide, up from 192.9 million in the previous year. Even Sarandos and co-CEO Reed Hastings agreed in a shareholder letter that the pandemic distorted the streamer's growth.

But how does Amazon's bid for MGM affect returns to filmmakers. Entertainment executives say that the Amazon deal really is about its much touted library of 4,000 films and 17,000 television shows from many decades. Those may even be of more value to a company like Amazon than its theatrical star assets, like the Bond and Rocky franchises, when it comes to retaining customers. "It's not about Bond; it's about all the other stuff they have," said analyst Rich Greenfield of Lightshed Partners. At the same time, Amazon Studios was busy bidding for theatrical companies in order to have "artist driven content" on the platform, Jennifer Salke, head of Amazon Studios, told screendaily.com. An over-the-top (OTT) streaming service is one that gives you access to video-on-demand (VOD) content with a monthly or annual subscription. With this subscription, you get to watch thousands of titles at no additional cost. HBO Max and Disney+ are two of the new kids on the block. Both services introduced vast back catalogs, but HBO has an advantage in viewers. Disney's films included were mostly for young viewers.

Distributors to whom I have spoken could not speculate on what financial remuneration is planned beyond the budget. Even if we did know, it is unlikely that the total would appeal to equity investors. For both companies, we have no database objective for the revenues and costs for individual films that have skipped the traditional box office distribution model and gone directly to streaming. Even if both companies were paying a percent of that money, we can't do a forecast for a business plan. I doubt that this situation will change in the next four or five years.

"The film industry should not create an internal competition between cinema and streaming but strengthen the film in a world where our viewers and fans have an overabundance of choices on how to spend their time," said Philipp Hoffmann, managing director and founder of Rushlake Media. "We do believe in creating a win–win model and that this will ultimately help the theatrical community to rebuild an even more successful and sustainable exhibition business." Elissa Federoff, president of Neon Distribution, noted, "The great thing about being an indie—we get to play with all of it."

What is fair and what will happen is an ongoing discussion. What makes it more complicated is the number of companies that are merging. In the end though, they do not have the final say—the consumers do.

WHAT CAN YOU TELL INVESTORS?

These changes may look inviting for the independent filmmaker; but, for our purposes currently, they have nothing to do with raising money from equity investors. These streamers keep everything and do not report data. Even if they reported it, at this point there is no third party to verify the data.

OTHER NON-THEATRICAL MEDIA

YouTube

YouTube, which made its debut in 2005, was founded by three former PayPal employees. It allows users to upload and share videos. Google bought it in November 2006 for $1.65 billion. While much of their site is dedicated to shorter videos, in November 2008, YouTube reached an agreement with MGM, Lionsgate Entertainment, and CBS that will allow the companies to post full-length films and television shows on the site, accompanied by advertisements. This agreement was expanded to a "Movie Channel," which handles movies from studios and other distributors to provide feature films for download at a fee to the customer as they come into the rest of the home video market; however, it is not promoted on YouTube's homepage. There also is the ability to upload your own content to YouTube. The content making high revenues, however, mostly involves people who entertain through talking, singing, acting, buying clothes, etc., not feature films.

Television

Television was the original "second screen." Now that term refers to electronic devices with even smaller screens. There appears to be no limit to how many of these devices we will have. Still, most of the reported data is limited to what people download from television. According to the MPAA's former CEO Christopher Dodd, teens and young adults are spending more and more time on their devices. By all accounts, YouTube is a must-have service for teens and young adults. What's more, a majority of those consumers say they can live entirely without cable or satellite television. They find the content on TV less interesting, and the technology format less versatile.

Direct-to-DVD/Blu-Ray/Foreign

Sales of direct-to-DVD and Blu-ray films continue. Premier releasing into this market remains mainly a market for studios, releasing new versions of franchise films or a sequel to a film that has a known genre market but may not do well theatrically. It has been particularly lucrative for companies like The Walt Disney Company, which capitalizes on its family-film themes.

Independents continue to have less success in the direct-to business, and you have to try to be aware of the life expectancy of any company with which you might be negotiating.

WHAT CAN YOU TELL INVESTORS?

The short answer is, "Not much." Clearly, things are changing. It is the timing that is the problem. If you are planning to distribute your own films directly through the Internet or any other new media technology, there currently is not enough money from Internet downloads for indie films.

Nevertheless, keep track of what is happening. Put your own Internet browser to good use and follow all the companies and sites mentioned earlier. I will end with the same sentences that I wrote in 2013. All the above information is presented for your use. Proceed with caution! I still agree with director Michael Apted, president of the Director's Guild of America in 2009, when he said, "All the talk is the Internet and all the deals we did for the future. In a sense, that's sort of fog. The real money and the real deals are in traditional media."

NON-THEATRICAL BUSINESS MODELS

A distributor whom I respect told me in 2009 that the thing I had left out of the previous edition was that the digital wave was heading for the shore like a tsunami and that it was going to change the fundamentals of distribution. The effect keeps building, but it has yet to kill theatrical. We keep hearing that once the market is "fully developed" it will be a boon for independent filmmakers. We have to ask, though, how long before the prophesied boon will be of more monetary value to independents than films that have been released theatrically first?

8

Risk Factors

Truth in Advertising

If you tell the truth, you don't have to remember anything.

—MARK TWAIN

Every business plan requires a statement of risk in which you tell investors what a high-risk investment this is. Make it clear that nothing is guaranteed. No entrepreneur likes a risk statement, but it is for your protection. In a limited liability company (LLC), your attorney will insert one whether you like it or not. You are well advised to do this in any proposal for funds. With a risk statement included in your business plan, investors cannot later claim that they did not know that the investment was unpredictable. Even though it seems obvious to you, and probably to them, assume nothing and state the facts anyway. If things should go awry and people lose money, they tend to sue.

A risk statement can be a very short statement or a long explanation. Sometimes, I see risk statements as long as 14 pages in business plans that I haven't written. This is excessive for a business plan but appropriate for the legal document.

SHORT STATEMENT

I always put a short statement like the following in the Executive Summary:

> *Investment in the film industry is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture,*

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since the revenues derived from the production and distribution of a motion picture depend primarily upon its acceptance by the public, which cannot be predicted. See the "Risk Factors" section of the Investor Offering Memorandum for further particulars.

LONG VERSION

I also put the following long statement before the Financial section. Some attorneys will feel that the short statement is enough. If you have an attorney putting together the Investor Agreement, ask her. If you are handing out the business plan separately from the legal document, include the following statement. You don't need to copy this page, as it is downloadable from both the book's companion website and http://www.moviemoney.com.

Risk Factors

Investment in the film industry is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture, since the revenues derived from the production and distribution of a motion picture depend primarily upon its acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends upon the quality and acceptance of other competing films released into the marketplace at or near the same time, general economic factors, and other tangible and intangible factors, all of which can change and cannot be predicted with certainty.

The entertainment industry in general, and the motion picture industry in particular, are continuing to undergo significant changes, primarily due to technological developments. Although these developments have resulted in the availability of alternative and competing forms of leisure time entertainment, such technological developments have also resulted in the creation of additional revenue sources through licensing of rights to such new media, and potentially could lead to future reductions in the costs of producing and distributing motion pictures. In addition, the theatrical success of a motion picture remains a crucial factor in generating revenues in other media such as cable/television, DVD/Blu-ray discs, and downloading. Due to the rapid growth of technology, shifting consumer tastes, and the popularity and availability of other forms of entertainment, it is impossible to predict the overall effect these factors will have on the potential revenue from and profitability of feature-length motion pictures.

The Company itself is in the organizational stage and is subject to all the risks incident to the creation and development of a new business, including the absence of a history of operations and minimal net worth. In order *to prosper, the success of [the name of your film here] will depend partly upon the ability of management to produce a film of exceptional quality at a lower cost that can compete in appeal with higher-budgeted films of the same genre. In order to minimize this risk, management plans to participate as much as possible throughout the process and will aim to mitigate financial risks where possible. Fulfilling this goal depends on the timing of investor financing, the ability to obtain distribution contracts with satisfactory terms, and the continued participation of the current management.*

9 The Financial Plan

How It Works

It's very important that every movie I do makes money because I want the people that had the faith in me to get their money back.

—DIRECTOR QUENTIN TARANTINO

Shuffle a pack of playing cards. Now spread them out face down and pick one card. If it is the ace of spades, you win; if it is not, you lose. Your chances of getting the right card are 1 out of 52. These odds are better than the odds of finding independent money for your film. Do not be discouraged, though. Many filmmakers face these odds each year—and win.

Film is probably the worst investment anyone could ever make. It is considered risky and capricious. If risks were measured on a scale of 1 to 10, movies would rate a 15. One might as well go to Las Vegas and throw the dice—in fact, those odds are probably better. Why would anyone invest in films, then? From a purely financial standpoint, it is a gamble for which there may be a big payoff. In addition, there are many subjective reasons for investing in films, such as personal ideals, creative participation, and being part of the glitter and glamour. The specific people and firms that are likely to fund films change, but the modus operandi remains the same. Some of the different sources of financing will be relevant for your situation, others will not. Some are dynamic; some are static. As studio executives and production companies go through cycles, so do forms of financing.

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By this point, you are well on your way to a finished proposal. You have explained the basic information—your company, your film(s), the industry, the market, and the distribution process. You have your goals and objectives well in hand. Now here is the kicker. Popular agent lore is that if a script is not interesting after the first ten pages, it gets thrown onto the "forget it" pile. Something similar can be said of investors and business plans. Investors typically read the Executive Summary first. Next they go to the text and tables in the Financing section. If they are still interested, they read all the delicious text between the two. This does not mean that all the in-between material is irrelevant, just that the primary emphasis is on the story and how the numbers look.

When thinking about investors, most people picture a singularly rich person who swoops in and says, "Here's an extra $10 million I found in my drawer. Go make a film—no strings attached." Or they imagine a country suddenly passing a law guaranteeing you 100 percent of your film costs just for showing up. This is the stuff of which movie plots are made. They are not impossible scenarios, but improbable ones. You may get lucky early on, but it is more likely that there will be false starts, dashed hopes, and months or years of frustration.

As the saying goes, "If it were easy, everyone would be doing it." There are almost as many ways to finance a movie as there are people reading this edition. The truth is that finding the sources of the financing is hard work. If you think otherwise, forget it. We will look at specific methods, but note that the full financing of your movie may be a combination of several methods.

With a business plan for a new filmmaker or company, there is an additional struggle. Creating a feeling of confidence is not easy, whether you are asking a money source to invest in one film or several. Any anxiety on the part of the investor about your lack of experience is only magnified when committing to finance an entire company. Besides making successful films, you have to be able to run that company. The investor will be looking with great care, therefore, at the production team.

This chapter examines some of the specific sources of money: single investors (rich people), presales, coproduction and below-the-line deals, negative pickups, limited partnerships, and limited liability companies. In addition, it takes a brief look at bank loans. It gives you general knowledge of how film financing works; the intention is to make a complex subject easy to understand and to give you material for your business plan. It is not meant to be the complete and final word on the subject. For your own knowledge, do additional research on the specific financing techniques that you plan to use.

BEFORE YOU START

In your Financial Plan section, you will discuss how your films will find financing, but you should do this without restating this entire chapter. Only certain financial strategies will be appropriate for your particular projects or for the type of investor you are going after. Too much irrelevant information will only confuse your reader. Before you start writing, here are guidelines to follow:

- Seek reality
- Find the best fit
- Be careful what you promise
- Be careful what they promise
- Be able to explain it

Seek Reality

The way that one person financed a film yesterday may not be relevant to you today. This statement may appear to contradict what was said earlier about learning from other filmmakers, but it does not. Sometimes a certain formula will not work on someone different from your first investor. You may not find money sources in the same place that your friend did. Who you approach and what they want to know will differ from investor to investor.

Find the Best Fit

Filmmakers often believe that all money is equal; it isn't. Each source sets different requirements or conditions for the delivery of funds. You will be able to live with some of these, but not with others. For example, there may be too many fingers in the pie. Three intermediaries later, you will be paying out large sums to finders. Or prospective investors may have requirements that don't make getting the money worthwhile. There may be content, length of time, or rate of return demands you cannot meet. Worse, at the 11th hour, Ms. Investor may inform you that her husband (who has no acting experience) must play the lead in the film. Don't be discouraged. The right source for you is out there somewhere; seek until you find it.

Be Careful What You Promise

Making statements of absolute fact about financial conditions may be dangerous. An investor will hold you to whatever you promise. You might say, for example, "We intend to seek presales in order to recover at least some of the production financing upfront." That is not a promise, only a statement of intent. On the other hand, saying to people, "We will obtain presale commitments" is a promise. Unless you have commitments already in hand, you may be making a promise that you cannot keep. The fact that at the 2021 Cannes Film Festival STXfilms reportedly paid $75 million-plus for *Greenland: Migration* does not mean your film is likely to attract the same high price.

In the discussion, point out that we don't always know what the actual deal is in reference to the figures quoted. I have seen investors refuse to approve a distribution deal because they assumed that "normal" purchase prices were twice the negative cost of the film. The typical verbiage that I use is:

> *Deals at festivals vary greatly. The prices announced in the press may depend on specific boxoffice results, be advances against future revenue streams, or be total buyout prices with no further remuneration to the filmmakers and their investors. For most of the publicized dollar amounts, the negotiated agreement is not made public.*

Be Careful What They Promise

Always take the stance that you have to see it to believe it. People do not have to be con artists to lead you astray; many just like to hear themselves talk. At cocktail parties, I have heard investment bankers who never met my clients saying they financed *The Blair Witch Project*. Call the filmmaker and check that information.

If a money source (finder or actual) is saying, "The check is in the mail," your mantra should be, "Do not spend any money until the cash is in the production account." This warning applies to family and friends as well as bank executives. Check the paperwork along with a CPA and attorney. Look carefully at the fine print for how much cash this source is keeping. Do they have the resources to meet your needs, or are they making a promise on behalf of some other entity that has never heard of you and probably never will?

Recently, a client told me that she wanted to work with a presumed investor who had financed many films and needed to spend $50 million before the end of the year. My first question was: Did you check the Internet? I was not being rude. She had never asked him what films or checked him out. While my client was thinking it over, I did an Internet search. I finally found a website for the gentleman in question. The information was the college he had attended and that he financed films. This was 15 years after he graduated, but there was no information about the intervening years or all those films. One could assume that if he had to get rid of that much money, he was laundering it for someone or had recently robbed a bank. Of course, my assumption was that the money did not exist. Clearly, he had not been involved with any films. Such searches only take a few minutes of your time but can save you a lot of grief later.

Be Able to Explain It

If you cannot explain a financing scheme, do not include it. To my constant amazement, I often receive business plans to critique that are based on a complicated financing structure, usually in a foreign country, that the producer does not understand; nor has he ever found someone who has successfully used it. Experienced professionals, not just inexperienced filmmakers, will base entire companies on such schemes. Frankly, many of them are fictional to begin with.

Be especially wary if an intermediary wants a substantial amount of money in advance. A finder gets paid when you have the money in the bank, not before.

WHO ARE THEY?

Investors are gamblers, no matter what their reasons, and film is one of the biggest gambles you can find. Why do they finance films?

An investor may just be looking to hit the jackpot and is likely to invest in any kind of film; or she could just be looking for a reasonable profit. On the other hand, she might like a film that promotes a favorite interest, such as one that is political, social, or inspirational. The nature of an entrepreneur is to accomplish a certain goal. The hardest job for you may be overcoming your own emotional involvement in the project when attempting to see things dispassionately from the investor's point of view.

Family and Friends

The first string of the investment team has often been family and friends. Raising development money and the negative cost of films under $1 million is very difficult. Professional investors do not see enough of a return on such small investments. Mom and Uncle Harry are more likely to be willing to give you a chance. In the 1990s, parents might help out with a $10,000 loan on their credit card. However, it is now harder to find anyone with that much room on their credit cards, thanks to the financial meltdown in 2008 and the ongoing 2020 to 2021 pandemic.

I have been at a lot of panels where company executives will tell you that family and friends are the *only* source of money for low-budget films. This statement is false. Many films have been made with all the money coming from total strangers. I prefer strangers, as filmmakers don't want to ask family and friends to sign legal agreements. You must have a legal agreement with family members who invest in your film. I have had more than one client whose first film was made with a family member who later sued them. Their film either never got made or was a tremendous success. In the former case, the relatives thought my clients had spent the money on a vacation; and in the latter case, the family investors did not own any production points and sued my clients for their profit from the film.

Entrepreneurs

Private money for independent films comes most often from individuals or companies who are in businesses other than entertainment. Entrepreneurial types who have made a killing in almost any industry may feel the lure of film. It takes a high roller at heart to start a firm and prosper with it. You can try the annual Forbes

400 for a listing of billionaires; however, you may have to travel to Hong Kong or Taiwan to speak with them. You don't have to go that far for what you need. There probably are investors closer to home.

Investors have all sorts of reasons for taking this risk. Whatever their reasons for investing, these groups are not seeking to lose money. Filmmakers will give up on making a film because they go through the process of making a plan and then see how realistic chances of success are.

There have always been wealthy people attracted by Hollywood. Many of them invested with studios in the early years. One of the first investors in DreamWorks Pictures in 1994 was Paul Allen, co-founder of Microsoft. Over the past 30 years, a growing number of billionaires from various industries, such as communications, real estate, Internet, sports, finance, and others, have made pacts with experienced producers to start independent production and distribution companies. Phillip Anschutz, founder of Qwest Communications and also businesses in other industries, started Walden Media. He also bought United Artists, Regal Cinemas, and Edwards Cinemas, which became Regal Entertainment Group in 2017 and then merged with Cineworld in the same year, forming the world's second-largest cinema group after AMC, up until theaters were forced to close during the pandemic. At the time of writing, the effects of these closures remain to be seen. Jeff Skoll, a co-founder of eBay, founded Participant Media, which has invested in both studio and independent films. Mark Cuban and Todd Wagner, the founders of early Internet site broadcast.com, formed Magnolia Pictures and bought the Landmark Theaters. Gary Gilbert, co-founder of Quicken Loans and co-owner of the NBA's Cleveland Cavaliers, set up Gilbert Films. Sidney Kimmel, a founder of Jones Apparel Group, formed Sidney Kimmel Entertainment. The late Adam Yauch of the Beastie Boys formed Oscilloscope Laboratories.

The sons and daughters of the rich also have been successful in the film business. Teddy Schwarzman, the son of Blackstone chairman and CEO Stephen Schwarzman, founded Black Bear Pictures. Allison Ellison, daughter of Oracle billionaire Larry Ellison, founded Annapurna Pictures. Bill Pohlad, the son of the owner of the Minnesota Twins, formed River Road Entertainment. Gigi Pritzker, heiress of the Chicago Pritzker fortune, formed Odd Lot Entertainment, which became MWM Studios in 2015.

All the people mentioned in the preceding paragraphs came into the business with a commitment to film but had various reasons for doing so. Some of them have a commitment to make films that will have an impact on social or other global issues, others want to develop new technology frontiers, and others just love films. However, none of them intend to be spending their money foolishly.

WHERE ARE THEY?

How do you find them? I wish I could tell you. One thing I do know is that these are people who recognize that film operates on a different risk level than the businesses that made them or their relatives rich. While other industries have investor groups, the high level of risk for film may not match their rules. Before you approach anyone, you not only need to be aware of what is happening in the business where they make money but what the general financial picture for the country is as well.

I often use the meltdown in 2008 to 2009 as an example. When there are severe financial or other problems for the country as a whole (i.e. war, COVID-19), the stock market is unsteady, and people pull their money out of it. Finders working with real estate investor groups used to approach me about film, thinking that they could sell the idea to their syndicates. They couldn't. As a group, real estate investors are putting their funds into projects that carry less risk than film. But, for a brief moment during and after 2009, however, films looked like a better risk than real estate and individuals from those groups did become my client's investors. As that industry rebounded, their money went back into the market.

The current situation is different though, having COVID-19 as an additional factor to the overall financial picture. Many investors still see not only a volatile market but are also unsure how long the industry will still be under mandates due to the virus. Consequently, they have not put their money back in stock. Being "gamblers," $10,000 or more for a point in a film seems to fill the need to invest until they feel more confident about their traditional investment paths. Wise independent filmmakers have taken the opportunity to raise production money from these investors and start preproduction. While theaters are slowly opening at the end of 2021, anyone buying this book in 2025 would be looking at a completely different investor landscape.

Your own backyard is the first place to look for financing. Few filmmakers are born in Los Angeles; they migrate there. Nor are all of the investors living in Los Angeles. They are born and live in Ohio, Michigan, Iowa, Santa Fe, and so on. At least those are areas where many of my clients have found investors. (Don't call me for a list; it is proprietary company information.) You may find untapped markets of entrepreneurs from very unglamorous local businesses. Your best chance is in an area where there is not a lot of competition from other filmmakers—if there still is such a place. The entire financing deal can be conducted without anyone living in Tinsel Town.

Not to leave out the rest of the world. In other countries, it is the same. The first time I went to the Galway Film Festival as a participant in a consulting program, filmmakers said there were not any nearby business owners to contact. I mentioned that coming in from the nearest airport, I saw Ferrari, Mercedes, and Tesla dealerships. Those were good places to start.

Belonging to a faith-based, college alumni, social, or other group is a good place to start to find investors. In 2006, filmmakers Alex and Stephen Kendrick raised the $100,000 budget for *Facing the Giants* through donations from church members, including family and friends. The film earned $21.2 million worldwide and, in doing so, it made studios and distributors realize that faith-based films could appeal to large populations of people who might not all belong to the same group.

Throwing a party is another strategy that I have seen some producers use to find interested investors. Since I am not an attorney, check the details with yours before proceeding. I have paraphrased some of the rules set out by Morrie Warshawski in his book *The Fundraising Houseparty* (available at http://www.warshawski.com). Although Morrie focuses on raising money for nonprofit events, the same principles can be used for film fund-raising:

- Potential investors receive an invitation to come to a private home.
- The invitation makes it clear that this is a meeting to launch a film.
- Participants arrive and are served some refreshments.
- The host or hostess explains why they personally feel it is a worthwhile project.

- Participants sit through a brief presentation—appearances by actors in the films, script reading, and so on.
- A peer (we might say shill) in the audience—someone articulate, respected, and enthusiastic—stands up and explains why she wants to be part of the project.
- Once you have established an individual's interest, you can contact her later with your documents about investing.

WHAT YOU GET

They take a portion of the profits in exchange for their capital. Until you take in partners, you own the whole pie. As partners come in, you start to slice the pie into little pieces, and as the old saying goes, "Them that has the gold makes the rules." Again, everything that follows should be done in concert with your attorney.

Equity investors will want at least a 50 percent share of a film's profits. Some may even want a higher percentage. No matter how many years you spent writing the scripts or how many hours you spent talking deals, it is their money. Before you start complaining, be glad your investors don't want 80 percent. Venture capital companies and professional film investors often require that much equity to put in seed money and buyout provision.

Filmmakers have a bad habit of promising "points" (industry lingo for a percent of profits) to people for their efforts in making introductions to potential actors, directors, and other experts necessary in the film process. Directors and stars too expensive for the film's budget often are given points as a deferment of part of their salary. These points all come out of the filmmaker's share of the profits unless an agreement is reached with investors. Besides points, filmmakers like to give away credits, especially executive producer. Save it. If you have one investor for the entire budget, he may want the title of executive producer (and deserves it). Some may want to remain anonymous so that all the other filmmakers wanting money don't contact them. In addition, be careful about the producer title. When your film is nominated for the Best Picture Oscar (I never said you couldn't indulge yourself with some fantasy), only three people can be listed according to the 2007 Academy of Motion Picture rules.

Reasonable Risk

Entrepreneurs often want money from investors with no strings attached as a reward for their creative genius. They do not want to be responsible for how the money is spent or for whether investors realize a gain. No doubt, you are a genius. But do not expect to get financing without showing the investor what kind of risk they are taking.

I often speak with filmmakers who say, "Investors are supposed to take a risk. I'm not going to waste all this time negotiating deals and signing documents. Big guys in New York are interested." You can probably guess what happens. The filmmakers never hear from the "big guys," never get the first film made, and go back to their day jobs. The moral here is not that people in New York are unreliable. Serious investors, whether they are in New York or Des Moines, will seldom make a final decision based on flash and dash. They want to see substance and detail. Even if someone likes your project, chances are you will hear, "Come back when you have a business plan."

The Big Payoff

The low-budget, big-return films are the hooks that lure many high rollers into the film business. Films like *Whiplash*, *Get Out*, and the *God's Not Dead* franchise can be irresistible. Very few other ventures, outside of Las Vegas, offer the potential of a 500 to 1,000 percent return on investment. As a filmmaker, you must be ready to show prospective investors that the chance of making a killing may outweigh the risk of losing their money. Remember, though, that you can never promise a risk-free investment. And you do not want to tell them, you *expect* to earn $25 million worldwide for your $1 million-budgeted film.

When all is said and done, it is the projected bottom line that builds the investor's confidence. You need to find similar films and track their dollar returns. Whether you are looking at a single film or a company, you must project your revenues and expenses, box office grosses and rentals, and cash flows over the next three to five years. (You will learn about forecasting in the next chapter and through doing the exercises provided in the financial files on the book's companion website.)

TYPES OF FINANCING

Crowdfunding for Donations

The original crowdfunding (sometimes called crowd sourcing) is a method of raising limited amounts of money without being governed by SEC (Securities and Exchange Commission) regulations. People donate to your film in return for nonmonetary rewards, such as a DVD, T-shirts, or a ticket to the Sundance Film Festival premiere. The donors do not have any ownership in your film. It doesn't require a Private Placement Memorandum (PPM) or excessive paperwork and should not be confused with the updated traditional investment version of crowdfunding described under the Jump Start Act of 2012, discussed later in this chapter.

In this method of fund-raising, you create a website on an established platform. These started in 2009 with Kickstarter (kickstarter.com) and Indiegogo (indegogo.com). They are best used for development money, postproduction money, or to finance a microbudget film. You have to research the sites and pick the one that is best for you.

To give you an example of the difference in various sites, Kickstarter had you set a funding goal that must be met within a set time frame (usually up to 60 days), or all monies are returned to the donors. If the funding goal was raised, Kickstarter applied a 5 percent fee to the total amount and an additional 3 percent plus 20 cents per pledge for third party processing. Indiegogo also had you set a funding goal, but you did not have to get to your goal. They charged 5 percent on the money you raise plus 3 to 5 percent for PayPal and 3 percent plus 30 cents per pledge for credit cards. For current information, please check both sites.

The big question, though, is how do all those potential donors know about you and your project? You have to work the social websites, friends, family, and any forms of communication that you can think of to let them know. There are terrific stories on the Internet from people who have raised money. They do have another thing in common, though. It is a lot of work!

You need to have a carefully orchestrated campaign with compelling marketing hooks. Veteran filmmaker Bill Plympton has raised money ($100,000 to $200,000) for films on Kickstarter three times. He told deadline.com, "Before (Kickstarter), I'd have to go out to Hollywood and do pitch sessions. That's very frustrating.

They don't get it. I just said 'Why don't I go to my fans? They're the proper place to go (to raise money).' I really think it's the wave of the future." Keep in mind that entrepreneurs in many other businesses now use such sites, making it very hard to rise above the crowd and be noticed.

Over the years, however, there also have been several stories in the press of donors suing because they did not get their promised gift. I have seen people picketing outside Sundance movies because they weren't given that promised seat in the theater or a credit on the film. Be very clear about your offers and deliver them. You don't want people standing outside a screening of your film calling you a liar, or worse.

Crowdfunding for Equity Investment

On May 16, 2016, the SEC rules for Title III of the Jumpstart Our Business Startups (JOBS) Act formally launched a new type of crowdfunding. As a filmmaker, you must work with an attorney who is familiar with these rules in setting up your plans and documents. Also check sites like this one for updates: https://www.sec.gov/files/regulationa-2020.pdf.

The purpose of the act was to expand equity crowdfunding to include non-accredited investor participation:

- Startups and small businesses can raise up to $1 million in a period of a year.
- Investors making <$100,000 per year can invest the greater of $2,000 or 5 percent of annual income.
- Investors making >$100,000 per year can invest up to 10 percent of their annual income.
- Offerings must be made via Broker-Dealer or Portal Intermediary.
- Significant disclosures are required for companies to help provide transparency.

Disclosures by Companies

Consistent with Title III of the JOBS Act, the proposed rules would require companies conducting a crowdfunding offering to file certain information with the SEC, provide it to investors and the relevant intermediary facilitating the crowdfunding offering, and make it available to potential investors.

In its offering documents, among the things the company would be required to disclose, are:

- Information about officers and directors as well as owners of 20 percent or more of the company.
- A description of the company's business and the use of proceeds from the offering.
- The price to the public of the securities being offered, the target offering amount, the deadline to reach the target offering amount, and whether the company will accept investments in excess of the target offering amount.
- Certain related-party transactions.
- A description of the financial condition of the company.
- Financial statements of the company that, depending on the amount offered and sold during a 12-month period, would have to be accompanied by a copy of the company's tax returns or reviewed or audited by an independent public accountant or auditor.

Companies would be required to amend the offering document to reflect material changes and provide updates on the company's progress toward reaching the target offering amount. Companies relying on the crowdfunding exemption to offer and sell securities would be required to file an annual report with the SEC and provide it to investors.

Presales

There are two main activities at markets like AFM and Cannes: seeking presales for as-yet-unmade films in order to finance production and selling finished films. We are concerned here with the former. The seller (you or your U.S. distributor) has a booth or room and entices the buyers from each territory and medium (theatrical, DVD/Blu-ray, VOD, satellite, broadcast, and so on) to buy the ancillary rights (domestic or foreign) to your film in advance. (This is also called a *prebuy*.) In return, you receive a commitment and guarantee from those initial buyers. The guarantee includes a promise from that company to pay a specific amount upon delivery of the completed film. If deemed credible by one of several entertainment banks that accept such "paper," the contract can be banked. Then the bank will advance you a sum, minus their discount amount.

In exchange for the presale contract, the buyer obtains the right to keep the revenue (rentals) from that territory and might also seek equity participation. The agreement can be for a certain length of time, a revenue cap, or both. The time period can be anywhere from 5 to 15 years, with 7 being customary. The biggest issue on a presale is to try to have name talent attached—or at least talent that has marketability in the territory that the presale is coming from. The presale will not be in the form of a check but a loan guarantee to take to a bank. Since a presale will not generally cover the entire budget, you may have to have equity for the balance of the budget.

Many filmmakers are under the impression that "in perpetuity" (forever) enters into this negotiation. These terms are not unheard of, but they are more likely to surface if you are transferring the copyright, or ownership, of the film. There is nothing to keep people with money in their hands from demanding as much as they can get. The buyer tries to make the length of time as long as possible, and the seller tries to make it as short as possible. Be careful of the stance you take.

The "revenue cap" is a certain amount of money in sales, up to which the buyer gets to keep all the money. When negotiating these terms, buyers try to estimate the highest amount that the movie will make and then try to make that amount the cap. After the revenue cap is reached, the seller may start receiving a percent of the revenue or may renegotiate the deal.

You now know how presales work. I have stopped putting "We will look for presales" into business plans unless the filmmakers are experienced and dealing with budgets of $20 million or more.

There also is a significant number of prebuy contracts done at film festivals. As with the markets, what companies will spend to prebuy a film may depend on the economy. Lately, even during the pandemic, there has been an upswing in companies not only taking territories but also putting up the entire budget and essentially taking control of the film.

Advances

In the past, cable, home video, and television syndication companies were major sources of production financing. Through advances, they funded all or part of a film's production in exchange for equity participation and the rights to distribute the film in their particular medium. Although advances do not occur as frequently as they did in the early 1990s, particularly in home entertainment, they are still occasionally a source of production financing. As noted earlier, most domestic distributors prefer not to see fractionalized rights.

How much effect the tremendous growth in streaming will have over time is not a forecast I am going to make.

Advantages and Disadvantages

The primary advantage of presales and advances is that they offer you the chance to make your film. This source of money continues to be a workable one for new filmmakers. In addition, if you manage to reach your production goal over several territories, it lessens the impact that someone else can have on your film. Presumably, the fewer territories that you presell or from which you receive advances, the more money you will be able to keep on the back end after distribution.

There are two disadvantages to this source of funding. First, you sacrifice future profits in order to make the film. Selling your film in advance puts you at a negotiating disadvantage. Companies that use presale strategies often give away much of the upside cash flow and profit potential from hit movies. Second, not all paper is bankable. You have to do a lot of research before accepting this kind of contract. Things change quickly, particularly in difficult economic times.

Federal Incentive

In 2004, Congress passed the American Jobs Creation Act Section 181. It provided an incentive for film and television productions. It allowed the owner(s) of a production to take a deduction of 100 percent as a loss in the year or years the money is spent. This included direct investors only, not passive investors (i.e. LLC participants). The last extension of the Act was in 2015 for money spent in 2014. Currently, no one is actively trying to have the bill reactivated.

Section 199

Congress also adopted "Section 199 Manufacturer's Deduction" in 2005 to stimulate and preserve manufacturing jobs in the United States. Film production businesses are considered "manufacturing businesses" under the definition. From 2010, manufacturing businesses can deduct from their qualified production activities income an amount equal to 9 percent of such income. For example, if $100 were received after 2010, then the taxable income would be $91. There have been revisions to the bill in 199A since. The bad news is that, even for a tax rule, Section 199A is incredibly complex. Business Strategies recommends checking with a knowledgeable CPA about the current status of the deduction.

State Film Incentives

State film incentives vary from rebates, tax credits for the film company, transferable tax credits (for local individuals/companies, enabling them to deduct all or a portion of their investment in the film), and other refunds of expenses. What line items are covered (salaries, below-the-line production spending) and the amount of the incentives (normally expressed as a percentage of the costs covered) differ from state to state. Over time, state governments increase, decrease, or let their incentives "sunset." If you know in which state you want to film, go to their website to check all the details of the incentives. Print off the files and go over them with your line producer/unit production manager (UPM) and your attorney to see if the fit is good for you.

A checklist of items to consider:

1. When will the incentive be paid? Most states do an accounting at the end of production before agreeing to a specific dollar amount; therefore, you need to raise your entire budget before you start filming.
2. How much of the film has to be produced in the state to qualify?
3. If bringing crew from another part of the country is necessary, how does that cost mesh with the amount of incentive you hope to receive?
4. What has been the experience of other filmmakers dealing with the state's incentive regulations? Filmmakers usually

are more comfortable speaking with other filmmakers than they are with consultants who they may equate with "corporate executives."

Negative Pickup

In the days when film companies had more cash, there were many negative pickups. The premise is that a studio or independent production company promises to pay the cost of the film negative (production costs) upon delivery of the completed picture. This agreement is taken to the bank, which then provides cash for production at a discount to the total value of the agreement. A discount is a reduction in the stated value of the note.

The Catch-22 here is that the bank has to believe that the studio or distributor will be able to pay off the loan upon delivery of the film (often a year from the date of the agreement). In the past, this was not as difficult to do as it may be now. In the late 1980s, banks could count on the Majors, a few of the mini-Majors, and a very small number of distributors to make good on negative pickups. The entire situation changed in 2009 and continues today. The financial problems of many of the large production companies are well known. In addition, the financial problems—in the past complete collapse—of some financial institutions created an even more dismal picture. Nothing can be taken for granted. Although there are still companies that will give you negative pickups, this is not a financing strategy that I would count on. As with distribution deals, show the documents for your negative pickup to a bank to see if the deal is acceptable.

Advantages and Disadvantages

One advantage of negative pickups is that the film is made without giving away a share of the company to someone else. In addition, a negative pickup with a major studio or distributor removes the angst of searching for a distributor. Technically, they are still independent films as the filmmaker makes all decisions to "final print."

On the other hand, the standard negative pickup agreement contains two loopholes that favor the distributor. First, the agreement has a built-in escape clause that says, in effect, "You must deliver the film we were promised." Any change in the script, even if it seems minor to you—the chicken was supposed to cross the road but did not—can cause cancellation of the contract. Second, the contract also states that the finished film has to meet the distributor's standards of quality. Even if the movie is, shot-for-shot, the same as the script, the distributor can always say that the film's quality is not up to standards.

Limited Liability Companies

The most commonly used structure for independent film finance is the limited liability company ("LLC"). LLCs are a hybrid combination of the partnership and corporate structures. The investors are the "members" of the LLC. Members are similar to shareholders in a corporation in many ways. The producer is usually the "manager" of the LLC. The manager runs the day-to-day operations of the LLC and makes all decisions regarding the picture without interference from the members. The members generally recoup their investment and share in the profits derived from the exploitation of the picture as generally outlined in the offering document and operating agreement of the LLC. As a general rule, the members of the LLC have no personal liability and are protected by the "shield" of the entity. Theoretically, the worst thing that can happen is that they lose their investment. An LLC member can participate in the entity's management without risking loss of limited liability.

For federal tax purposes, the LLC generally is taxed in a similar fashion to a partnership, where the profits and losses are "passed through" to the investors/members and are incorporated into their personal tax returns. The same is true in most states—the operative word here being *most*. Before creating an LLC in a given state it would be a good idea to look into how the entity is taxed in that state.

The most important thing to know is: DO NOT WRITE YOUR OWN LLC OR OFFERING DOCUMENTS. Can I say that too often? When you hire an attorney, be sure that they are someone with experience with both film and the particular form of Investor Offering that you are using. You do not want to pay for an attorney's learning experience.

When pass-through of revenue is of primary concern, strict conformance to IRS and state revenue accounting criteria should be considered before the LLC is chosen over other organizational structures. With new tax credit laws and programs (both state and federal) appearing on a regular basis, you also may need to consult with a CPA familiar with Internal Revenue Service (IRS) statements. (**Ed. Note:** Attorney Michael Saleman, www.movielaw.net, contributed to this section.)

Bank Loans

Bank loans are not associated with independent business plans generally. However, this discussion focuses on what you will tell potential investors if bank financing is available for your project.

Banks are in the business of renting money for a fee. They have no interest in the brilliance of your potential films; they do not care that you are a nice person and have a sparkling reputation. By law, commercial banks (the ones that give you checking accounts) can only lend money based on measurable risk, and the only credit they can take is the collateral, or the assets being offered to secure the loan. The contracts that have already been discussed—negative pickups, distribution agreements, and presales—are such collateral (assets offered to offset the bank's risk). The bank does not have to worry about when you deliver the film or how the box office performs; it is the distributor who has that worry.

The cost of the loan is tied to the prime rate, which is the rate of interest that banks pay to borrow from the Federal Reserve. It is a floating number that may fluctuate significantly. Home lending rates, also based on the prime rate, are a good example. When the prime rate falls, everyone rushes to refinance his or her mortgages. In most commercial lending, loans to "low-risk" firms (e.g., major studios) can be 0.5 to 1 percent above the prime rate. On the other hand, a small production company, which represents a higher risk, would pay up to 3 percent above prime. Let's say that the bank is going to charge 2 percent points above prime, and that prime is 9 percent. The total would be 11 percent. On a $1-million loan, therefore, the bank removes $110,000 ($1 million multiplied by 0.11). To hedge their risk, the bank also retains another 1 or 2 percent in case the prime rate goes up. If the bank charges 1 percent, another $10,000 is added to their retained amount. Now you are down to $880,000 for the film. The bank is not through with you yet, however. It also charges you for its attorneys' fees, which can range from $15,000 for a simple contract to six figures if several companies are involved. Of course, you will still have to pay your own legal fees.

Once again, we come back to the subject of attorneys. The one who represents you must know the ins and outs of all these contracts, so you should hire an experienced entertainment attorney. Costs go up drastically if your attorney is charging you an hourly rate to learn how the entertainment industry works. General corporate attorneys may mean well but they can be an expensive choice.

Advantages and Disadvantages

The first advantage of bank loans is that the producer is not personally liable for the loan; the bank can't take your house. A company is established for the production of the film, which is its only asset. In addition, many producers prefer to pay back a loan rather than give up equity. On the downside, the process to obtain a loan is expensive, and several parties and miles of paperwork are involved. Also, if the distributor defaults on the loan, the bank takes possession of the film.

Completion Guarantors

Misunderstood by neophyte filmmakers is the role of the completion guarantor. This is not the person you go to for the rest of your production money; the guarantor's role is to provide an assurance that the film will be completed and delivered to the distributor. The contract with the producer or distributor allows the guarantor to take over the film to complete it, if need be. For the bond itself, the guarantor charges a fee based on the film's budget. The charges have been flexible over the past few years, depending on the state of the completion business. The bond is not issued until after funding is in place, however, and this fact is often difficult to explain to investors. To make matters worse, small films have trouble getting bonded anyway. The risk is too great for most guarantors to bond low-budget films. In the past few years, several of the biggest bond companies lost their financing from insurance companies when high-budget films failed. The active companies had their hands full with major productions, leaving them little time or inclination to consider your $1-million film. New companies have come into the market, making the completion bond more accessible for some smaller films. However, their staying power depends on the insurance companies that back them.

In many business plans for low-budget films, I no longer mention a bond, as I know they have no chance of getting one. Bonders seem to be constantly going in and out of the market and changing their requirements. Check the market before deciding what to say in your business plan. One suggestion is that you say you will try to seek a bond. If you say that you "expect" to get a bond, it implies a promise to the investor. Never promise what you don't already have, whether it is a financial document, an actor, or a director.

A completion bond is always desirable to protect both you and your investors financially. Accidents and bad weather can happen, but investors have the right to decide what exposure they want to have. As always, honesty is the best policy with your investors and yourself.

International Investors

We hear a lot about European and Japanese investments in the American film community. In the early to mid-1990s, most of the foreign money went to studios or the formation of large production companies with experienced studio executives; $100 million was a favorite start-up amount. From the late 1990s to 2002, German investment funds grew like crazy. Investors looking for prestige, profits, and extraordinary tax breaks began funding as much big-budget output as they could. Some funds existed to fund studio films; others financed independent companies. As some high-budget films failed and the economy started to collapse worldwide, many of these funds closed. However, new ones came along to take their place. Any detail presented here would be out of date before you bought the book.

Generally, this money doesn't go to novice filmmakers. In tracking foreign money, you often run into finders who claim to have a special relationship with foreign money. Some do, many do not. Remember to check these people out. A finder should be paid a percentage of the money you receive from the investor, and only after the cash is in your bank account, as in any interaction with an intermediary. And, at the beginning of this journey, ask how many people there are between the finder and the money. If that person is going through two other people to obtain the money, have them agree to split one fee. For example, if your finder's fee is 5 percent, then all three split that money; otherwise, you are paying 15 percent in finders' fees. Naturally, this is always your choice. But don't get backed into a corner to pay out three times what you intended simply because you didn't get the facts straight upfront. And I can't stress enough, *do not* give them any money in advance.

There also was a scam popular in the film industry about getting money from one of the "top 100 Chinese banks." The money finder would advance money from you and then use that, along with money from other people, to pretend to pay a loan to people down the line. Those filmmakers would then be "proof" that he was honest. This would keep going until no one was getting money, and the finder was on a plane to the Maldives, which doesn't have an extradition treaty with the U.S. Be careful. There are reports that it is returning.

International Co-productions

International co-production deals are the result of treaty agreements between countries. Qualifying films are permitted to benefit from various government incentives provided by the country in which production will take place. However, co-production agreements are not a charity event. Unlike most of the rest of the world, the United States government does not have co-production treaties. You must find a production company in another country that has co-production deals with the country in which you want to make your films. For example, clients who have wanted to film in South Africa have partnered with a company in the UK, which has a co-production treaty with the country.

A number of requirements may be imposed on the film by government treaty, including the following:

- A producer must be a resident of the host country.
- A certain percentage of above-the-line talent must come from the host country.
- A certain percentage of the technical crew must be residents of that country.
- Distribution must be done by a company located in the host country.
- A percentage of the revenues from the film must remain in that country.

Advantages and Disadvantages

The first advantage of co-production is that the total budget may be smaller because of the advantages of filming in a cheaper locale. Second, because of the readjusted budget, you will have to find a smaller amount of hard cash. The right deal will cover most, if not all, of your below-the-line costs. Many films would still be only a gleam in the producer's eye if part of the actual cash burden had not been removed by a co-production deal. In terms of disadvantages, you will still need to have hard cash for the above-the-line payroll—that is, the cast, director, writer, and production office staff. No film is made without these people, and they will not take IOUs, although some take deferred salaries. Another disadvantage is that finding enough skilled personnel in a host country could be a problem. If you end up having to fly key technical people from the United States to another country, you may end up with a budget burden that offsets the advantages of the co-production deal.

WHAT DO YOU TELL INVESTORS?

A section on financing assumptions is required as part of your business plan package. Give investors only relevant information, not everything in this chapter. Based on the assumption that your readers are not film sophisticates, you should explain what constitutes a presale agreement, a negative pickup, or whatever form of financing you will pursue. Be prepared to answer investors' questions.

They may ask you about the forms of financing that you have not included. You should be conversant enough with the pros and cons of various strategies to explain your choices intelligently. As mentioned earlier, it is unproductive to include financing methods that you do not plan to use. If you plan to use a limited partnership, for example, the business plan will be part of the offering; otherwise, there is no reason to discuss this form of financing. To do so would be to create a red herring for investors, confusing them with a nonexistent choice.

Along the same lines, you should be careful about considering options that may no longer exist. On June 23, 2016, the United Kingdom voted to leave the European Union. A transition period was not started until January 31, 2020. It ended on December 31, 2020, and as of January 1, 2021, the new rules governing the new relationship between the EU and UK took effect. Financing patterns, like everything else in our culture, can be in or out of vogue from year to year, often depending on the economic climate and politics.

In Chapter 13, "Other People's Money," we discuss more about investors, who they are, and what they want. In Chapter 14, "Rick's Story *Fini*," director Rick Pamplin shares his experiences with investors and the making and distributing of *Movie Money CONFIDENTIAL*.

10

The Financials

Forecasting Without Fear

It is a capital mistake to theorize before one has data.

—SHERLOCK HOLMES TO DR. WATSON

BEING IN THE PREDICTION BUSINESS

When I first started in the film business, several accountants insisted that I couldn't predict the future. I said, "Yes, but it is a lot of fun trying." The truth is that we don't know the future. Then why do we attempt to forecast? No one can afford to run a country, school, or film business without having an educated guess about what will happen based on current and past results. Math is just a device to organize this data into a rational picture. Whether you are planning one film or a slate, only when you have a clear picture of future results can you proceed with a feeling of confidence. In the past 187 years since moving images were shown on a zoetrope (moving drum for animation created by a British mathematician), little has changed except the technology and net profits. In the beginning, there was no sound. Now actors talk, and we have the Internet.

For filmmakers, predicting the revenue and costs associated with films to be made is a necessity. As long as you have a good rationale, you can't let fear stand in the way. Will you be right? Only the future can tell us. Chances are that audiences, critics, and other forces out of your control will interfere. Yet you need to have

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a rational basis for going ahead with the project and asking other people for money. This chapter reviews how to find data, what to do with it after you find it, and how to create your own financial forecasts.

"I can't do math" is a statement I have heard for years from students. In reality, they can but just don't want to. For some, their idea of a business plan is a synopsis of their film and, possibly, an idea of who wants to see it. Although important, these items are the given quantities on one side of the equation for estimating revenues and costs. Remember the investors? They are going to read the Executive Summary first and then go quickly to the financials. Money is the glue that holds these building blocks together. As I indicated on page 1, the math is simple. What you will learn is how to analyze the answers.

A filmmaker recently asked me whether my business plans only showed films making a profit, no matter how low. The short answer is "Yes." Before investors hand over hard cash, they want to believe that your project will be profitable. A Mark Twain quote that I used to use at the beginning of this chapter is, "Get your facts: then distort them as you please." In rethinking the quote, I became concerned about the phrase "as you please." Partially, this is true. However, keep in mind that whatever the forecast, it has to look reasonable to "the person who has the gold."

Forecasting is an art, albeit not a precise one. Sophisticated business writers like to say that the one sure thing about a prediction is that it will be wrong; they may be right. The value of a forecast is as a guide for making decisions; the better informed the forecaster, the closer to actual events the forecast will be. By researching history, obtaining the best data possible, looking for relationships among the data you find, and making assumptions about the future based on those relationships, you hopefully have a rational basis for your forecasts.

When writing your business plan, you have to decide which films and their data tell your story best. The most recent data may be a year or two behind because of the flow of revenues. Rather than putting whatever spin on these statistics appeals to you, a few more years of *historical* information is needed. Remember our discussions about investors in the previous chapter? They value two things most of all: facts and common sense. Your goal is to show that the independent film market is robust and that profits can be made.

Anyone Can Do It

Sometimes the questions are complicated, and the answers are simple.
—Dr. Seuss

There is no mystery to forecasting revenues and expenses. You do not have to be an accountant or hold an MBA. You do not need previous knowledge of regression analysis or internal rate of return. This jargon is used by financial whiz kids to speak to one another; life can go on without it. You can use numbers from the most credible sources and create projections that look feasible. You will take the elements that seem to influence the outcome of a film—genre, stars, director, distribution, revenues, and costs—and analyze how much you think each will influence the resulting revenue. The only math skills you will need are adding, subtracting, multiplying, and dividing, as well as an elementary understanding of ratios. Mix these skills with some good judgment and you have a forecast. If you can balance your checkbook, you can create a forecast. If you actually can't balance your checkbook (which is different than just not bothering to do it), hire someone else to do the analysis.

The word *trend* is another word that seems to bother filmmakers. You will see it a lot in the online instructions on forecasting. If I asked you if your genre was currently popular with audiences, you would have an answer. If I asked if that genre was one of those trending currently, you might or might not recognize it as the same question. It is simply showing a tendency in what the audience may like. In forecasting, we use ratios to show the tendency of revenues and costs to go up, down, or remain the same over three years. The book's companion website takes you through easy steps to calculate the trends.

FINDING THE DATA

What Are Comparative Films?

Forecasting requires that you use films that reasonably can be compared by genre, theme, budget, and release date. Due to inflation, audience tastes, numbers of screens, and other film business trends, the industry standard has been to include in your forecast five to seven years, including the current one. I have always used the five most previous years plus the current year.

What makes a comparative (comp) film is a combination of factors. First of all, making an independently financed film does not mean that you can only use independent films. For low budgets, most of the films within a reasonable budget range are likely to be independent. The current acceleration of studios buying independent companies may change that more than it did in the past, of course. Nevertheless, if you are forecasting a film with a budget of $1 million, few, if any, comparatives would be studio films. On the other hand, a film with a budget of $40 million is going to have more of a mix. The more independent films you can use, the better. What you are trying to show, however, is what films with a mix of certain genres and themes have done, whether or not they were made independently.

Secondly, what is a reasonable budget range? With a $2-million budget, I would like all comp films to be at $8 million or below. To find enough films, however, you may have to move the upper limit of budgets that you are using. In recent years, I have had to go to $10 million depending on the genre of the film. Nevertheless, as talented as you may be, try not to use a $20-million film in this comparison. Production quality and cast become more important the higher you go. With the increase in making a film totally digitally, the concept of having a budget that includes a transfer to 35mm is important. What if you are shooting on 16mm film? What will your film look like when it is transferred to other formats and shown on the big screen? When comparing your film to other movies, remember that the audience doesn't care what technical format you used to make the film, they care about what the film looks like and who is in it.

On a statistical basis, I feel that at least four to five films per year are required over the three years for which worldwide data are available. Since it takes up to two years for all the worldwide data to be in a credible database, in 2021, I am using films released in 2016 to 2018 for the worldwide data. For the two current years, I use domestic box office and budget information (depending on useable data) for 2019 to 2021. If you are reading this book three years from now, you will have to assess the situation. (Note that different assumptions have always applied to documentaries, animated films, and large format, as fewer usable films are released any year. These are discussed in Chapter 12, "Breaking the Rules.") Now that you have decided your time span and budgets, you can then start looking for films that fit.

Matching Your Film

Do they all have to be just like your film? Films can be similar in genre and subthemes; however, it is unlikely that at any budget you will find 15 films "just like yours." After all, we want your film to be unique. Start with your overall genre. You may have a crime drama, for example. The film also could have action, romance, gay themes, coming-of-age, or a host of other themes.

The goal is to use films that relate to at least one of these. To fill out your list, budget is also a consideration. Since you are likely to be asked by an investor why you used certain films, have a reason for each film that you use. All you can do is your best to have a rationale for each film. There isn't a rule as to what will seem reasonable to a given investor.

The data that you gather about previously released films will serve two purposes: (1) show the profits of films recently released and (2) supply a basis for estimating the revenues *and* total costs for your films. The first part of your numerical story consists of showing what has happened with films that have already been produced and released. You use these examples to build a case for the ultimate success of your film. Select recent films that have a relation to your planned production in terms of genre, budget, or other common factors.

Genre is a common way to group films; however, use whatever characteristic you feel links these films together. But whatever your rationale for grouping films, use budget clusters that make sense. The films you include in your business plan depend on what is available. It is your choice whether to include films that have lost money. There is no database that includes all the films ever made, so you can't have a "fair" sampling no matter what you do. However, if you use only three films with extraordinary results for your projection of a $4-million horror film—for example, *Get Out*, *Split*, and *Happy Death Day*—you are being unrealistic due their exceptional results; and you may be recognized as such by your potential investors. Of course, with those films, you can't use *Crazy Rich Asians* either. What? You think I am being facetious because it doesn't relate in budget or genre. You would be surprised at the comparatives I see in the business plans that filmmakers ask me to critique. You can use higher budgeted films in the Markets section, where you want to show the popularity of a specific target market. Returning to our earlier example, for the comps, though, there will be other crime and romantic drama films that will be reasonable (notice how often that word pops up) to use, as the story lines and budget ranges will better fit your particular movie.

Where Do You Find Information?

The first step is to see what films you will want to use. I always use imdb.com, which has keywords that will show you films that compare by different genres and subgenres. For example, Crime is a genre, and *murder* and *bank heist* are keywords, as are many others not included in the "main" genres that you can click when using the "Titles" category on the home page. It is the best way to know what films might be available.

Once you have picked the films you want, including budgets can be another question. Hopefully, most of the films you use will have budgets from the same source. Often you have to go to other sites. Since I recommend checking the total box office grosses at boxofficemojo.com, I would look there first. Otherwise, check for interviews with filmmakers and reviews in the trade and other press that are free on the Internet for your research. The film festivals are another place where you can gather extensive financial information. Many producers and directors of independent films attend, and they will usually answer questions about not only the cost of their films but also the source of their financing. People often feel more comfortable about revealing proprietary data when face to face.

For the total domestic box office data, only use boxofficemojo.com. Since the box office dollars include Canada and Puerto Rico, I refer to the grosses as domestic or North American rather than United States. Revenues for ancillary dollars, both domestic and foreign, and foreign box office, as well as the amount of the P&A costs are harder to find. If you see this information on the Internet for free, the chances are that it is wrong. You need to have a *credible* source for the data to withstand any challenge from an investor. To find all the data you will need for your three years of worldwide numbers, you will need to buy the information. The source I have always recommended is the Baseline database, which was bought by Gracenote and then by The Nielsen Company (https://www.gracenote.com/studio-system). Don't be put off by the word "studio." Fill out the form and say you need the Film Revenue and Cost Estimates (FRCEs) for films. Someone from Sales will contact you. The other site I recommend is Nash Information Services (https://www.nashinfoservices.com/).

When forecasting, you always want to be conservative, so you would use the average return of dollars. You have to go with the best information you can get. Whatever tact you take, heed this warning: **DO NOT INVENT NUMBERS**. If lying does not bother you, getting caught in a lie will. Then the game will be over. If telling the truth isn't reason enough, you may have investors check some of your sources, which will be listed underneath your tables. Or, as I have seen many times, some friend of theirs will claim he saw "something somewhere that was another number." Worse yet, your potential investor may have a relative or friend in the film business who can check the data. All sources will not necessarily have the same information; however, you want to be able to point to your sources as the most credible you could find.

ANALYZING THOSE PESKY NUMBERS

Did I say "without fear" in the chapter title? You must analyze the data before putting them into your proposal. Be strong. You can do it. When collecting and analyzing, keep in mind another favorite quote from Mark Twain: "There are three kinds of lies: lies, damned lies, and statistics." The discussion of financing and your presentation of comparative films, projections, and cash flows is the single most important section of your business plan. The filmmaker's job is to be honest and use common sense.

I have said it before, but filmmakers have convinced me that I cannot say it too often. This analysis is your job, not the investor's. Do not expect the investor to accidentally happen upon useful information while browsing through the 15 or 20 pages that you have photocopied or downloaded from a website. It is your duty to find useful information and present it in an easily understandable way. Tables 11.3 through 11.6 included with the sample business plan (see Chapter 11, "Sample Business Plan for a Fictional

Company") are examples of methods for presenting comparative films. The films listed in these tables are fictional but are based on the results of real films. These sample tables include the following items:

1. *Domestic theatrical rentals*: Domestic rentals are the portion of the North American theatrical box office that reverts back to the distributor (or producer). (The tables in the trades include Canadian box office figures in this total.) The term *domestic theatrical rentals* is the industry standard and should be used even though the word is used with discs also. As mentioned earlier, when working with numbers, you should avoid factoring a film with exceptional revenue returns into the forecast. It will make your averages too high. Include an asterisk for a footnote that reads: Due to its exceptional results, [name of film] has not been used in the forecast. You still have the benefit of using it to show the investor that, just as on any given day any team can win, it is theoretically possible for any film to be a breakout hit.
2. *Domestic ancillary revenue*: The ancillary revenue includes all non-theatrical sources, such as DVD/Blu-ray, streaming, cable, free television, syndicated television, pay-per-view, and digital. Distributors have been trying various formulations of revenue sharing as opposed to paying per unit. In addition, there are ongoing changes in the newer ancillary forms. However, new standards have not been set, and it is too early to know their effect on independent film.

   Premium window rental and sales results currently are not included in industry reporting; however, the market competition may cause a change going forward. If and when specific numbers do not exist for individual films, you may find information in *The Film Entrepreneur* newsletter.
3. *Foreign theatrical revenue*: The distributor is responsible for collecting money from other countries. In the United States, the industry assumes that the North American box office drives all the other windows. If a picture does not perform well in domestic theaters, all other theatrical and ancillary venues may be worth less money. On the other

hand, some films that have only moderate results in the United States do much better overseas. In addition, it is more frequent than previously for an independent film to be released in either multiple countries at the same time or overseas before the United States.

To make the picture even murkier, there are films that do very well at the domestic box office and in domestic ancillary revenues but have virtually no foreign revenues that are recorded. Depending on the gross profit of those films, they can still be used. The type of film and the stars often have a lot to do with these results. For example, Tyler Perry's *Madea* films historically made big profits in domestic theatrical and home entertainment releases; however, the databases show little foreign revenue for them.

4. *Foreign ancillary revenue*: Foreign ancillary presents a great opportunity. Television and cable companies often buy exclusive product. The potential revenues for English-language films, even small ones, in other countries remain much stronger than for foreign-language films in the United States. Markets have opened up in Eastern Europe and Asia. Although China took big-budget action studio films, they seldom picked up domestic lower-budget independent ones. During the pandemic, though, China effectively has stopped picking up the studio films. As more theaters open, however, that situation will change. Independent film companies, however, have established alliances with Chinese companies for production domestically. For example, Chinese private-equity firm Hony Capital and Huayi Bros. Media Corp invested in STX Entertainment; however, in 2019 STX merged with India's Eros International. China's Dalian Wanda Group bought AMC Theaters, North America's second largest theater chain, but had dropped most of them by May 2019.
5. *Total revenue*: Rentals plus domestic ancillary plus foreign equal total revenue. The foreign dollars are assumed to have the exhibitor portion removed and, therefore, can be added to the domestic dollars to find total revenue. Always be sure that you are comparing apples to apples.
6. *Negative cost, P&A, and total costs*: We have already discussed finding the production, or negative costs, of the

film. These are not the total costs, however, as P&A are an important expense. It is necessary to include these costs to get a total profit picture. As films stay in distribution, the P&A costs grow. Therefore, if you are forecasting the initial release cost, indicate it. The most credible source for this type of information is still Baseline.

7. *Gross profit (loss)*: Gross profit (loss) equals the revenue minus the direct expenses before the company's operating expenses. In this case, direct expenses are the negative and P&A costs. They relate directly to your film, as compared to the company overhead costs, which exist whether a film is in production or not. Notice the parentheses around the word *loss*. When preparing financial statements, use parentheses rather than minus signs to indicate negative numbers. Both words can be written on the profit line. However, if there isn't a projected profit, you may want to rethink the whole idea.

FORECASTING WITHOUT FEAR

Now we come to your film. Here are two guidelines for projecting your revenues. First, be conservative. A generally accepted business principle is to forecast your income on the low end and your expenses on the high end. Probably, all filmmakers who have ever done a budget have padded it to be sure that they did not run out of money. You want to take the opposite path for revenues. If you are making a $3.5-million horror film, you would be fooling yourself to assume that the film will gross $95.3 million worldwide, as *Truth or Dare* did.

Second, be honest. As long as the data of your historical films are as accurate as possible and the films you choose are comparable to those you plan to make, you should be all right. The type of comment I've heard most often from filmmakers with an inspirational film is, "Include *The Passion of the Christ* as an average film." Yes, here we are in 2021 and filmmakers with inspirational dramas want to include an extraordinarily successful movie from 2004 in the comparatives. Instead, I would suggest discussing it in your analysis as an example of an *iconic* film with an exceptional result as a hook for the investor.

Assumptions

Before opening a new Excel table, you should write down your assumptions. Unless you have concrete reasons for the forecasted revenues in your tables, people may assume that you invented them. There has to be a thought process leading to these numbers. Since you have just written 15 or 20 pages for the preceding sections, you have already gone through the thought process. In most cases, the crucial elements have already been mentioned, and the list is a recap for your benefit and for the investor's. Do not expect readers to remember the specifics from the body of the business plan; you are not playing a game of hide and seek with the investor.

Explain your assumptions at the end of your Financing section, directly before the tables, to be sure that the reader knows how you came to your conclusions. If you do not do this, it may look like you have no rationale. Review the assumptions in the sample business plan both in the book and the files you have downloaded from the companion website before continuing.

Revenue and Expenses (Income Statement)

The *Projected Income Statements* (Tables 11.7 through 11.9), also known as the Statement of Revenues and Expenses, show the profit for each film. Likewise, the *Summary Projected Income Statement* (Table 11.1) indicates the bottom line for the company. In a one-film plan, you will have two tables of comparative films and Table 11.3 will show your net profit.

As I say in a preamble to the sample business plan, whether you are doing a business plan for one film or a company, the methodology is the same. In a one-film plan, you won't have summary tables. On the book's companion website, you will find a complete Financing section for one film using *Len's Big Thrill* from Chapter 11, as well as a sample business plan for one film.

The sample shows a straightforward production company in which all the income is from films. Unless you are a very experienced filmmaker who already has owned a film company, I suggest that you don't diversify yet with other divisions.

Looking at our numbers, you can take the average or the median (the point above and below which half the films fall) of all the films, or you can give more weight to the more recent films. (Do not panic. The "how-to" is contained in the downloadable files.) It depends on whether you feel that the genre is gaining more audience approval or has been drawing the same amount of box office dollars for the past few years. You have to look at the available data and use good judgment.

Note that these tables show worldwide results. As you will not have these for the two most recent years, you want to include a table for each film (Tables 11.4 and 11.6) that shows the box office and budgets only for those years. The net profit (loss) line is the sum of the company's revenues and expenses. Commonly, the phrase "before taxes" is added to indicate that this is a preliminary income forecast. Do not let these phrases throw you. An accountant can easily prepare these statements for you.

Cash Flow Statement

A cash flow statement shows the timing of incoming revenue and outgoing cash. The dollars will not come in all in one week or one month. Table 11.10 shows the cash flows for the individual films, and the summary is given in Table 11.2. Notice that in the columns for the tables, I have used generic terms—Year 1, Year 2, Year 3, and so on. If you are looking for the production money, your year starts when that money is in the bank. To specify the first year—for example, 2023—could create a problem. What if you are still wandering around two years later looking for money? Finding money and getting the cash in your bank account is hard; no need to announce it to your current prospect.

In addition, each year is further divided into quarters. This seems to make the most sense for showing cash flow. I would shy away from individual months. There is no way to actually track each month. Unless you have the distributor's monthly accounts for various films in front of you, there is no way to track such data accurately. You have to give your investor a readable document, even if you aren't crazy about the idea. Use my formula. I retest it with each new edition.

In the sample cash flow statements, all of the production money is outgoing in Year 1. I have assumed one year from the beginning of production to the end of postproduction. (The exceptions in this cash flow scenario are animated and large format films, which are discussed in Chapter 12.) I use six months (two quarters) before I indicate the release of the film.

An independent filmmaker won't know the actual timing in advance unless she is doing her own distribution. There is no average length of time between end of postproduction and the release date for an independent film. Even if you already have a distribution agreement in place, you won't know. (I am assuming that vertically integrated companies like Lionsgate aren't buying this book to find out how to calculate cash flows.)

In order to make the table readable, I skip the two quarters before distribution starts and make it clear that the plan is not promising a specific interval. Note there is the following comment at the bottom of the table: "For reference only. How and when monies are actually distributed depends on the contract with the distributor."

The first rentals are shown during the quarter in which distribution begins. Throughout the year, we track domestic grosses week to week to find trends in the number of theaters and the amount of grosses. Going through that exercise will reveal a pattern that you can use.

For foreign revenues, all sources are grouped into one number. Not all films are released the same way. Some countries actually legislate the time period; in other cases, the distributor negotiates it. Some films go directly to home video, which is a more popular distribution method in Europe and Asia. Trying to figure this out country by country would be excessive. The timing has been very fluid lately, so it is a good idea to research the topic to keep current. The films go into foreign release in the third quarter of Year 2, approximately seven months after the domestic release date.

The total line is the sum of the incoming cash minus the outgoing cash. Do not panic over minus totals. While your film is being made, there is no revenue. The amount of eventual profit is the deciding factor. In companies, the minus total may last longer than in a one-film plan. As in Table 11.2, depending on how often you plan to start preproduction on the next film, the costs for the next film coming in, as well as the P&A money spent by the distributor, may keep a negative number in the cumulative total for several years. In a multipicture company, the cash flow statement allows you to see whether you will have enough money coming in to keep production going.

Overhead (Administrative) Expenses

This table is used only for a business plan with multiple films. It is meant to show you what line items you may have to use. These differ from film to film, city to city, and country to country. While the films are clearly fake, I don't want to take the chance that the reader will copy the dollars in my overhead sample. You must research what those costs are in your community. In addition, add anything that is specific for you and leave out line items that don't relate to your film. The total for your overhead expenses is then adjusted by the net profits for each of your films.

An ongoing company has its past history to report, along with a statement of its present position. Your accountant will do the serious reports for you, such as Sources and Uses of Funds, Balance Sheet, and so on. These go into your Financing section along with the other tables. As new companies have less to report, don't worry. Just report what there is. There may or may not be a bank account worth mentioning. Present information that must be included in the business plan, even for a very small company.

If you are setting up a company, you will have ongoing expenses, though far less than those of the studios, of course. These general administrative costs include salaries that are not attributable to a specific film budget as well as all of the company's tools of the trade—office equipment, telephone charges, entertainment costs, and so on. Your company may have fewer people or no salaried employees at all. Before Year 1, there are generally start-up expenses. You may rent an office, option a script, buy a computer, or scout locations in the Dardanelles. Any expenses that are necessary to get your company going are shown in this table. Even if you wait for investment funds before doing any start-up, list these costs separately. Some of them—like the computer—are one-time costs.

Like everything else, administrative costs are projected over the time period of the business plan. Look ahead to the number of films that you plan to make three or four years down the road. You may need additional office staff, more office space, or increased development money. Everyone knows that these numbers are guesstimates; however, as a general rule, you should include all the expenses you can think of. On the other hand, do not give yourself a salary of $1 million. I see this item in a lot of companies that never get funded. Because you are partners with the investor, your salary should be moderate.

What If I Only Have One Film?

No matter how often I mention it in the book, filmmakers often don't understand that the biggest difference between doing a one-film plan and a slate of films is more films and tables. A one-film plan has the same text sections with perhaps less text in each one. As a filmmaker (producer, director), you are the manager of a small company. The other big difference is that any expenses need to be in the budget of the film rather than a separate overhead. Don't overburden this poor film with your car and house payments. Include only those things that belong in a film budget. You will be splitting those massive (let's be positive) profits with your investors.

The layout is the same for one film as for multiple films, but fortunately you have less number crunching. Your first table will be comparative films for the past three years (or four if you need them) for which you have worldwide numbers. Your second table will be the two years for which you only have U.S. box office and budgets. Then you have an income statement (without the overhead) and a cash flow statement, which will be similar to that for any of the individual films in the sample business plan.

THE NEXT STEP

Review Chapter 1, "The Executive Summary," and then study the sample business plan in Chapter 11. Work through the sample with the downloadable files in the book's companion website (see page ix). Feel free to use this format as a guide in writing your own plan.

Have fun, and good luck!

11

Sample Business Plan For a Fictional Company

The sample business plan in this chapter shows the forecasts and cash flows for a company planning to produce three films. Due to space considerations, it is not practical to include separate business plans for both a single film and a company plan. They both follow the same format, but with some modifications. All of the costs for a one-film plan should be included in the budget, and summary tables are not necessary. Of course, the reader also has to modify the text that is shown in the book to relate to one film. For more information and detail on how to create the forecasts and cash flow, please refer to the "Financial Worksheet Instructions" on the companion website for this book.

If you plan on accessing a state or country film incentive, include it after the section on Strategy but *before* Financial Assumptions. Tax incentives for films are not included in the sample business plan. Whether in the United States or other countries, incentives change on a regular basis. In some cases, they may be discontinued altogether or simply run out of funds to apply for after a period of time. Be sure to tell investors to check with their own tax advisors to see how a specific incentive would affect them. In addition, do not subtract potential incentives from your total budget. In the case of most U.S. state incentives and many of those in other countries, there is an accounting done by the governing body at the end of production before the actual dollars are awarded. The statement that you qualify for an incentive is not a guarantee on the amount of money you will receive.

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SAMPLE BUSINESS PLAN FOR CRAZED CONSULTANT PRODUCTIONS

This document and the information contained herein are provided solely for the purpose of acquainting the reader with Crazed Consultant Productions and are proprietary to that company. This business plan does not constitute an offer to sell or a solicitation of an offer to purchase securities. This business plan has been submitted on a confidential basis solely for the benefit of selected, highly qualified investors and is not for use by any other persons. By accepting delivery of this business plan, the recipient acknowledges and agrees that: (i) in the event the recipient does not wish to pursue this matter, the recipient will return this copy to Business Strategies at the address listed below as soon as practical; (ii) the recipient will not copy, fax, reproduce, or distribute this confidential business plan, in whole or in part, without permission; and (iii) all of the information contained herein will be treated as confidential material.

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1 / THE EXECUTIVE SUMMARY

Strategic Opportunity

- Revenues for independent films in 2019 were $3.3 billion.
- Independent film production in North America continues and is expected to return to or be close to those levels by 2023.
- Box office revenues worldwide are projected by PricewaterhouseCoopers to be $43.3 billion in 2025.

The Company

Crazed Consultant Productions (CCP) is a start-up enterprise engaged in the development and production of motion picture films for theatrical release. The first three films will be based on the *Leonard the Wonder Cat* books by Jane Lovable. CCP owns options on all three, with two books already in print and a third currently being written. The books have sold 25 million copies in 12 countries. The movies based on Lovable's series will star Leonard, a half-Siamese, half-American shorthair cat, whose adventures make for entertaining stories, and each of which includes a learning experience. The movies are designed to capture the interest of the entire family, building significantly on an already established base. CCP expects each film to stand on its own as a story.

The Company plans to produce three films over the next five years, with budgets ranging from $1 to $10 million. At the core of CCP are the founders, who bring to the Company successful entrepreneurial experience and in-depth expertise in motion picture production. The management team includes President and Executive Producer, Ms. Lotta Mogul; Vice President/CFO, Mr. Gimme Bucks; and Producer, Ms. Ladder Climber.

The Films

Leonard's Love: Natasha and her cat Leonard leave the big city to live in a small town, where they discover the true meaning of life.

Len's Big Thrill: Leonard charms the director during Natasha's audition for a movie and becomes a bigger star than Uggie the dog.

Leonard Meets His Muse: A dejected older Leonard can't get acting work. Will meeting the beautiful beagle starlet, Penelope, change his life?

The Industry

The future for low-budget independent films continues to look impressive, as their commercial viability has increased steadily over the past decade. Recent films such as *Finding Mrs. Feline*, *Yak Outa Mongolia*, and *My Big Fat Siamese 1* and *2* are evidence of the strength of this market segment. The independent market as a whole has expanded dramatically in the past 15 years, while the total domestic box office has increased by 45 percent. Proof of the high quality of indies is that an independent film has won the Academy Award for Best Picture in 10 of the last 11 years.

Widely recognized as a "recession-proof" business, the entertainment industry has historically prospered even during periods of decreased discretionary income. As studios cut back, equity investors have been moving into the independent film arena. Technology has dramatically changed the way films are made, allowing independently financed films to look and sound as good as those made by the Hollywood studios while remaining free of the creative restraints placed upon an industry that is notorious for fearing risks. There also is evidence, however, that being digitally connected helps to drive theater receipts. "Word of mouth no longer exists," former Motion Picture Association of America (MPAA) chief Christopher Dodd said. "It's now word of text."

The Markets

Family films appeal to the widest possible market. Films such as *Me and My Doberman*, *The Lone Maltese*, and *The Hungry Sphynx Cat* franchise have proved that the whole family will go to a movie that they can see together. For pre-schoolers, there are adorable animals, while tweens and teens get real-life situations and expertly choreographed action, and parents enjoy the insider humor. The independent market continues to prosper. As an independent company catering to the family market, CCP can distinguish itself by following a strategy of making films for this well-established and growing genre.

Distribution

The motion picture industry is highly competitive, with much of a film's success depending on the skill of its distribution strategy. As an independent producer, CCP aims to negotiate with major distributors for release of their films. The production team is committed to making the films attractive products in theatrical and other markets.

Investment Opportunity and Financial Highlights

CCP is seeking an equity investment of approximately $47.1 million for development and production of three films and an additional $1.6 million for overhead expenditures. Using a moderate revenue projection and an assumption of general industry distribution costs, we project (but do not guarantee) gross worldwide revenues of $114.9 million, with pretax producer/investor net profit of $41 million.

2 / THE COMPANY

CCP is a privately owned California corporation that was established in September 2011. Our principal purpose and business are to create theatrical motion pictures. The Company plans to develop and produce quality family-themed films portraying positive images of the household cat.

The public is ready for films with feline themes. Big-budget animal-themed films have opened in the market over the past five years. In addition, the changing balance of cat to dog owners in favor of the former is an allegory for changes in society overall. The objectives of CCP are as follows:

- To produce quality films that provide positive family entertainment with moral tales designed for both enjoyment and education.
- To make films that will celebrate the importance of the household cat and that will be exploitable to a mass audience.
- To produce three feature films in the first five years, with budgets ranging from $1 to $10 million.
- To develop scripts with outside writers.

There is a need and a hunger for more family films. We believe that we can make exciting films starting as low as $1 million without sacrificing quality. Until recently, there was a dearth of cat films. We plan to change the emphasis of movies from penguins, pigs, and dogs to cats, while providing meaningful and wholesome entertainment that will attract the entire family. In view of the growth of the family market in the past few years, the cat theme is one that has been undervalued and, consequently, underexploited.

Production Team

The primary strength of any company is in its management team. CCP's principals Lotta Mogul and Gimme Bucks have extensive experience in business and in the entertainment industry. In addition, the Company has relationships with key consultants and advisers who will be available to fill important roles on an as-needed basis. The following individuals make up the current management team and key managers.

Lotta Mogul, Executive Producer

As Executive Producer, Lotta Mogul will oversee the strategic planning and financial affairs of the Company. She previously ran Jeffcarl Studios, where she oversaw the production and distribution of over 15 films. Among her many credits are *Lord of the Litter Box*, *The Dog Who Came for Dinner*, *Fluffy Goes to College*, and the Feline Avengers franchise, which earned more than $600 million. Before moving into film, Mogul was Vice President of Marketing at Lendaq, an American multinational corporation that provides Internet-related products and services.

Gimme Bucks, Producer

With 10 years' experience in the entertainment industry, Gimme Bucks most recently produced the comic-action-thriller *Swarm of Locusts* for Forthright Entertainment. He made his directorial debut on *Cosmic Forces*, which Wondergate released in 2020. Bucks also has been a consultant to small, independent film companies.

Better Focus, Cinematographer

Better Focus is a member of the American Society of Cinematographers. He was Alpha Numerical's director of photography for several years. He won an Emmy Award for his work on *Unusual Birds of Ottumwa*, and he has been nominated twice for Academy Awards.

Ladder Climber, Co-Producer

Ladder Climber will assist in the production of our films. She began her career as an assistant to the producer of the cult film *Dogs That Bark* and has worked her way up to production manager and line producer on several films. Most recently, she served as a line producer on *The Paw* and *Thirty Miles to Azusa*.

Consultants

Samuel Torts, Attorney-at-Law, Los Angeles, CA; Winners and Losers, Certified Public Accountants, Los Angeles, CA.

3 / THE FILMS

Currently, CCP controls the rights to the first three *Leonard the Wonder Cat* books by Jane Lovable. The books will be the basis for its film projects over the next five years. In March 2018, the Company paid $10,000 for three-year options on each of the first three books and first refusal on the next three. The author will receive additional payments over the next four years as production begins. The *Leonard* series has been obtained at very inexpensive option prices due to the author's respect for Lotta Mogul's devotion to charitable cat causes. Three film projects are scheduled.

Leonard's Love

The first film will be based on the novel *Leonard's Love*, which has sold 10 million copies. The story revolves around the friendship between a girl, Natasha, and her cat, Leonard. The two leave the big city to live in a small town, where they discover the true meaning of life. Furry Catman has written the screenplay. The projected budget for *Leonard's Love* is $1 million, with CCP producing and Ultra Virtuoso directing. Virtuoso's previous credits include a low-budget feature, *My Life as a Ferret*, and two rock videos, *Feral Love* and *Hot Fluffy Ragtime*. We are currently in the development stage with this project. The initial script has been written, but we have no commitments from actors. Casting will commence once financing is in place. As a marketing plus, the upcoming movie will be advertised on the cover of the new paperback edition of the book.

Len's Big Thrill

Natasha is an actress in her late thirties still trying to get her big break in Hollywood. She lives in a small one-bedroom apartment in Marina del Rey. On a good day, she can see the ocean if she stands on the furthest corner of her narrow balcony. Her closest companion is her cat, Leonard. He has been through many auditions with Natasha, quietly sitting on the sidelines while she tries for that big break. To make matters worse, Natasha has just gotten a final notice to pay her rent or be evicted.

One day in September, Len accompanies Natasha while she auditions for yet another movie role. Getting the lead in this movie would solve her current financial problems. Restless with the wait at the audition, Leonard struts across the room. Seeing the cameraman, he looks directly into the camera and appears to smile. The director, Simon Sez, is captivated by Len's natural ease in front of a camera. He thinks the cat actually is posing. Then he gives the cat some stage directions—run across the room, jump on the chair, and pretend to sleep—that Leonard appears to follow. The cameraman, Wayne, doesn't believe it. He points out to Simon that household cats are hard to train and seldom follow verbal directions from a stranger.

When Natasha reads for her role, Simon is equally captivated by her. He wants to make a deal for both Natasha and Leonard to be in the film, but Natasha is hesitant. Simon explains that he wants to rewrite the script to feature Leonard as the cat who saves his mistress from a burning building. After years of waiting for her big break, Natasha feels that he wants to hire her only to get Leonard into the film. In addition, she thinks that Simon may be one of those directors who is more interested in a one-night stand than with her acting talent. Natasha declines the part for both of them and leaves the studio with her cat.

Simon refuses to give up. He sends flowers and calls every day. When serious attempts don't work, he tries humor. One day a fellow dressed as a Siamese cat shows up at the door with a singing telegram. The song, written by Simon, is from another cat begging her to let him play with Leonard on the set. On another day, UPS delivers a box of movie posters showing both Natasha and Leonard posing in front of a burning building. The posters are accompanied by fake online reviews about the "new" actress, Natasha, who is sure to win an Academy Award for Best Actress. Then, he has former girlfriends call her to extol his virtues and guarantee that he is one of the good guys. Finally, he calls and invites her for coffee to discuss the project.

The coffee business meeting turns into lunch that turns into dinner. Natasha realizes that she is attracted to this man; however, she worries that having a relationship with him may just be her own desire for the movie part and the paycheck. Simon assures her that his intentions are honorable. He suggests that they put any personal relationship on the back burner so that she will feel comfortable. He says that she was the best actress to test for the part. Leonard's antics would add that much more to the film. He is willing to go with the original script if Natasha wants. After thinking about it for a week, Natasha decides to go ahead with the film including the cat's part.

Despite Wayne's misgivings, Len is a natural in front of the camera. Although they hire a trainer for him, he prefers to follow Natasha's requests. As a true Siamese, he doesn't like commands. The film is a smash with audiences. Walking the red carpet turns out to be one of Len's favorite activities. Finally realizing they are in love, Natasha and Simon marry, giving Len the biggest thrill of all.

Leonard Finds His Muse

The third book in the series is currently being written by Lovable and will be published in 2022. The story features a dejected Leonard, whose films aren't drawing the audiences they had been for 6 years, starting when he was 3. In cat years that would equate to a human being 52 years old. He knew that he had a good six to eight cat years left and didn't want to leave the film business. His friend Buffy suggested that he team up with one of the younger female cat stars.

Leonard's humans, Natasha and Simon, see that he is floundering and decide to get away from Hollywood for the winter, going to their home in Boca Raton, Florida. While watching films on television, Leonard sees this amazing young beagle, Penelope. She not only is beautiful but has a commanding presence. "Times have changed," he softly meows while watching. "Girls are now protagonists in movies." Suddenly, it occurs to him. "I write a film for us to star in!" He spends January and February tapping out a script on an old Underwood typewriter that Natasha couldn't bear to get rid of.

One day in March Natasha points out a story in the local paper that Penelope will be giving an acting seminar at the local cat college. "I know she is your favorite," she tells him. "I'll call and see if they would like to have you join her." Unfortunately, the professor in charge of the event says that he does not want to include "an old has-been." Leonard is stung by those words, but Natasha points out that he has overcome far worse problems in the past. Leonard knows she is right.

Having read all Penelope's social media posts, he tries to figure out where she might go while in town. Unbeknownst to many of the other readers, he knows that there is one place that Penelope could go that she does not post for her coming-of-age followers—a gambling casino. There happens to be one less than 30 minutes from their house. Hanging out there for a week, he finally sees her enter, looking as normal as she possibly can with a friend, who he assumes is really her security. Finally getting a seat the same table, he manages to start a conversation without letting her know that he recognizes her. During a break from the table, he casually asks if she would like to get a treat at the Chewy Bar.

Chatting over their treats and cups of water, Leonard is about to tell her who he is when she blurts out, "I have to tell you how great it is to meet you. I have seen all your films." Leonard is stunned. He had no idea that she was *his* fan! Finally, he manages to tell her that he recognized her right away. Knowing she did not want to be the "famous actress sitting at the table," he had not said anything. "Thank you, so much. You of all cats knows how hard it is for a film star to just be a normal canine in public." He admits that he was there to make her acquaintance and has a script he would like her to read. "I hope you are not angry at the subterfuge," he adds. Her smile lets him know that, on the contrary, she is flattered.

After reading the script, Penelope says that she will be happy to star in the film but only if Leonard plays the part of her agent. They plan to get together in L.A. during the summer and start preproduction.

4 / THE INDUSTRY

Independent production in North America has slowly begun again despite the pandemic. In addition, new vaccines have helped both the stock market and increased confidence in the industry that theaters will return to a profitable box office level as they continue to reopen in 2022. At the same time, the streaming of films has increased, giving additional opportunities to theatrically released films. Equity investors have continued to be optimistic throughout the changes, which continue to create a "new normal."

In North America, PricewaterhouseCoopers projects the U.S. market will continue to rebound, reaching $11.3 billion by the end of 2025, per its "Global Entertainment & Media Outlook 2021–2025." The 2019 total was $10.6 billion, according to a previous report. The Company also notes that independent distributors found opportunity amid the crisis of the pandemic, as major studio releases were held back and multiplexes looked elsewhere for low-budget movies to show. Business Strategies predicts that, as in previous years, multiplexes will continue to seek quality low-budget films to fill its numerous screens, as they tend to remain in theaters longer than the big-budget films. With 85 more cinemas reopening shortly before this book goes to press, Comscore's operating data partner British research firm Gower Street estimates 77 percent of the domestic [North American] movie theaters are open. Over 80 percent of global cinemas were already in operation in June 2021.

At CinemaCon 2021, the CEO of MPAA, Charles Rivkin, and CEO of the National Association of Theater Owners, John Fithian, cited diverse audiences and the preservation of theatrical windows as key reasons for the growth. "Streaming is obviously a part of our ecosystem … Theaters have been and continue to be an important part of that ecosystem. I'm confident that audiences will continue to return to the cinema, and that theatrical and streaming will thrive together." Fithian added, "We in the movie business are about people sitting in the big auditorium … What the exact window [length of time a film is in the theater before being available for home viewing] will be is between exhibitors and distributors, but the idea is that some robust period … will exist theatrically … this is an industry where we all fight for the best business models."

Once dominated by the studio system, movie production has shifted to reflect the increasingly viable economic models for independent film. The success of independent films has been helped by the number of new production companies and smaller distributors emerging into the marketplace every day, while major U.S. studios maintain divisions dedicated to providing distribution in this market segment. Investment in film continues to be an attractive prospect despite economic instability. Recent films such as *Fighting With My Cat*, *Willy's Wombats*, and *My Big Fat Siamese: Part 3* show the health of this industry segment.

Motion Picture Production

The structure of the U.S. motion picture business has been changing over the past three decades, as studios and independent companies have been creating varied methods of financing. Although those companies historically funded production totally out of their own arrangements with banks, they now look to partner with other companies, both in the U.S. and abroad, that can assist in the overall financing of projects. The deals often take the form of domestic companies retaining the rights for distribution in all U.S. media, including theatrical, home video, television, cable, and other ancillary markets.

Major studios, the largest companies in this business, include NBC Universal (owned by Comcast Corp.), Warner Bros. (owned by Time Warner), Twentieth Century Fox Film Corporation (owned by Rupert Murdoch's 21st Century Fox), Paramount Pictures (owned by Viacom), Sony Pictures Entertainment, and The Walt Disney Company. MGM, one of the original Majors, was taken private in 2010 and now functions as an independent that both partners with other studios and finances its own movies. In most cases, the "Majors" own their own production facilities and have a worldwide distribution organization. With a large corporate hierarchy making production decisions and a large amount of corporate debt to service, the studios aim most of their films at mass audiences.

Producers who can finance films independently by any source other than a major U.S. studio have more flexibility in their creative decisions, with the ability to hire production personnel and secure other elements required for preproduction, principal photography, and postproduction on a project-by-project basis. With substantially less overhead than the studios, independents are able to be more cost-effective in the filmmaking process. Their films can be directed at both mass and niche audiences, with the target markets for each film dictating the size of its budget. Typically, an independent producer's goal is to acquire funds from equity partners, completing all financing of a film before commencement of principal photography.

How It Works

There are four typical steps in the production of a motion picture: development, preproduction, production, and postproduction. During development and preproduction, a writer may be engaged to write a screenplay, or a screenplay may be acquired and rewritten. Certain creative personnel, including director and various technical personnel, are hired, shooting schedules and locations are planned, and other steps necessary to prepare the motion picture for principal photography are completed. Production commences when principal photography begins, and generally continues for a period of not more than three months. In postproduction, the film is edited, which involves transferring the original filmed material to digital media in order to work easily with the images. Additionally, a score is mixed with dialogue, and sound effects are synchronized into the final picture and visual effects are added. The expenses associated with this four-step process for creating and finishing a film are referred to as its "negative costs." A master is then manufactured for duplication of release prints for theatrical distribution and exhibition, but expenses for further prints and advertising for the film are categorized as "P&A" and are not part of the negative costs of the production.

Theatrical Exhibition

There were 44,283 theater screens (including drive-ins) in North America in 2019, per the "2019 Theme Report" released in 2020 by the MPAA. Film revenues from all other sources are often driven by the North American domestic theatrical performance. The costs incurred with the distribution of a motion picture can vary significantly depending on the number of screens on which the film is exhibited. Although studios often open a film on 3,000 to 4,000 screens on opening weekends (depending on the budget of both the film and marketing campaign), independent distributors usually tend to open their films on fewer screens. Theatrical revenues, or "box office," are often considered an engine to drive sales in all other categories. Not only has entertainment product been recession-resistant domestically but the much stronger than expected domestic theatrical box office has continued to stimulate ancillary sales, such as home video and digital, as well as raising the value of films in foreign markets.

Television/Cable

Television exhibition includes over-the-air and wired reception for viewers, either through "free television" (national and independent broadcast stations) or a fee system (cable). The proliferation of new cable channels since the early 1990s has made cable (both basic and premium stations) one of the key revenue streams for feature films, surpassing broadcast network television over the last 20 years as the dominant "second screen" outlet for movies. "Basic" cable channels carry a broad range of programming, including licensed feature films and original and syndicated productions. "Premium" cable networks, such as HBO, Showtime, and Starz, require an additional subscription fee in exchange for commercial-free programming that includes licensed theatrical features, documentaries, and original series. Competing with cable companies are direct broadcast satellite (DBS) services, including DirecTV and Dish, which allow subscribers to watch programming via individual satellite dishes installed at their homes. Another group of providers are telecommunications companies, including Verizon's FiOS and AT&T's U-verse, that use Internet Protocol (IP) technology to beam cable channels into homes. All these systems acquire their film programming by purchasing the distribution rights from motion picture distributors. Pay-per-view (PPV) allows cable, satellite, or telecom subscribers to purchase individual films or special events, adding to the revenue stream for features.

Home Entertainment

With a record total of $25.2 billion for the year 2019, home entertainment spending was up 8.4 percent over 2018, reports The Digital Entertainment Group (DEG). Subscription streaming led the growth with a 24 percent increase, and total digital spending formats grew 18 percent, with a total of $20.4 billion. Electronic sell-through (EST) and Internet video on demand (VOD) also benefited from consumer's embrace of digital transactions.

Among other highlights:

- Overall EST spending rose 5 percent for the year. Theatrical EST sales were up more than 7 percent for the year, offsetting a full year flattening in sales of TV product.
- VOD revenue through internet services grew 10 percent in the fourth quarter and 9 percent for the year.
- Digital movie rentals, through Internet services such as FandangoNow, Redbox On Demand, Vudu, and Google Play, were up 9 percent.
- In addition, on the rental side, Netflix's legacy disc-by-mail rental business brought in an estimated $301.2 million, while the country's waning number of video rental stores—once the home entertainment sector's dominant revenue producer—collected just $250 million, a 21.1% decline from 2018, reports mediaplaynews.com.

At the same time that the DEG released its annual year-end numbers, Universal Pictures Home Entertainment shared some of its "Attitudes and Usage" study findings. The key point: Home entertainment has evolved into a true multi-platform business. Universal found that consumers are using approximately three platforms on average, the most common bundle being disc purchase, disc rental, and subscription streaming.

International Theatrical Exhibition

Much of the projected growth in the worldwide film business comes from foreign markets, as distributors and exhibitors keep finding new ways to increase the boxoffice revenue pool. More screens in Asia, Latin America, and Africa have followed the increase in multiplexes in Europe, but this growth has slowed. The world screen count is predicted to remain stable over the next eight years. Other factors include the privatization of television stations overseas, the introduction of DBS services, and increased cable penetration. The synergy between international and local product in European and Asian markets is expected to lead to future growth in screens and box office.

Future Trends

Revolutionary changes in the manner in which motion pictures are produced and distributed are now sweeping the industry, especially for independent films. The streaming of filmed entertainment to home viewers is competing with audience attendance at theaters. In addition, streaming media players, such as those made by Google, Roku, Amazon, Apple TV, and Sony, as well as the streaming features of Xbox (360 and Xbox One) and Wii, allow even those who are not tech savvy to stream content from these and similar websites directly to their HDTV screen, creating a home theater experience. Multi-use portable devices that can provide personal viewing of films (including video iPod, smartphones, and tablets) are flooding the marketplace, expanding the potential revenues from home video and other forms of selling programming for viewing. These new technologies, and others not yet devised, will grow in influence in the next five years and in the longer term as well.

5 / THE MARKET

The independent market continues to prosper. The strategy of making films in well-established genres has been shown time and time again to be an effective one. Although there is no boilerplate for making a successful film, the film's probability of success is increased with a strong story and the right elements—the right director and cast and other creative people involved. Being able to greenlight our own product, with the support of investors, allows the filmmakers to attract the appropriate talent to make the film a success and distinguish it in the marketplace.

CCP feels that its first film will create a new type of moviegoer for these theaters and a new type of commercial film for the mainstream theaters. Although we expect *Leonard's Love* to have enough universal appeal to play in the mainstream houses, at its projected budget it may begin in the specialty theaters, as the blockbuster *Sylvester Barks at Midnight* did. Because of the low budget, exhibitors may wait for our first film to prove itself before providing access to screens in the larger movie houses. In addition, smaller houses will give us a chance to expand the film on a slow basis and build awareness with the public.

Target Markets

Family-Friendly Films

Family films, like *Wonder*, *Overcomer*, and *Lion* appeal to the widest possible market, with *Leonard's Love* and its sequels having a multigenerational audience from tweens to grandparents. Young people go to movies in droves, and, if they like what they see, they go more than once. Older moviegoers go to the same films for the stories that remind them of their experiences. "Year after year, the box office tells an important story for our friends in the creative community. Family-friendly films sell," Fithian noted to a NATO convention. In a world where young people are increasingly distracted by digital devices, disappearing into status updates and selfies, tweets and texting, a family-friendly movie is a great way for parents and their children to share a fun experience together. Previously thought of only as kids' films, family-friendly movies now offer a new paradigm of family entertainment. Production and distribution companies know that wholesome entertainment can be profitable.

Cat Owners

The two most popular pets in most Western countries have been cats and dogs. In the United States, there are 76 million pet cats, and 42.7 million (34 percent) of households own at least one, according to a study by the American Pet Products Manufacturers for 2019 to 2020. The study also showed that 173 million cats and dogs lived in 81 million households. Since the pandemic caused additional people to adopt dogs and cats, the total numbers may now be higher, although there have been news reports that some people are returning dogs (and perhaps cats) to shelters now that they are not under stay-at-home orders.

The time has finally come for the cat genre film. Felines have been with us for 17 million years, but they have been underappreciated and underexploited, especially by Hollywood. Recent studies have shown that the cat has become the pet of choice. We plan to present domestic cats in their true light, as regular, everyday heroes with all the lightness and gaiety of other current animal cinema favorites, including dogs, horses, pigs, and bears. As the pet that is owned by more individuals than any other animal in the United States, a cat starring in a film will draw audiences from far and wide. In following the tradition of the dog film genre, we are also looking down the road to cable outlets. There is even talk of a cat television channel.

CCP plans to begin with a $1-million film that would benefit from exposure through the film festival circuit. The exposure of our films at festivals and limited runs in specialty theaters in target areas will create awareness of them within the general public. In addition, we plan to tie in sales of the *Leonard* books with the films.

Demographics

Moviegoers of All Ages

The *Leonard* films are designed to appeal to everyone, from children to their grandparents. They will play to younger ages better than many animated films, while still bringing in the whole family demographic. The MPAA counts all moviegoers from ages 12 to 90-plus in specific groups in their *2019 Theme Report* analysis, the most recent report when all the theaters were open. Children aged 2 to 11 accounted for 13 percent of total moviegoers; teenagers and young adults comprised 44 percent of the audience; and adults over 40 comprised the other 43 percent.

The moviegoers dubbed "tweens" (ages 8 to 12) have emerged as a force at the box office during the past several years. According to a survey by Marketing Sherpa, the buying power of this group was $200 billion as of 2015. Since the MPAA's audience data groups ages 2 to 11 together, we can't present a separate audience percentage for children and tweens.

Social Media and Self-Marketing

An important marketing component for any film, especially during its opening weekend, is word of mouth. Without incurring additional costs, it is possible for the filmmakers and their many colleagues to supplement the marketing strategy of a distribution company by working through partner companies and using the Internet to great effect with "viral" marketing.

Integral to this approach are social networks. As of March 2021, worldwide social media monthly active users totaled 29 billion on Facebook, 2 billion each on YouTube and WhatsApp, and 1 billion on Instagram. Twitter averaged 206 million daily active users and 169 million monthly users in the second quarter of 2021 according to the company's website.

Much activity takes place on these platforms regarding the movie business, involving fans, actors, and filmmakers. Fans chat to each other about highly anticipated films, many make general declarations in status updates and posts about their opinions of films and how their interests intersect with current and upcoming projects. Some users post video recordings of their instant reactions in "Lobby Reviews" and an entire industry of amateur reviewers has sprung up due to the socials. Actors, directors, and writers can build their brand and reach their audience directly, showing their personality and gathering followers who can be turned into paying customers at the box office or as streaming viewers. Twitter and the other platforms level the playing field and can be a huge advantage to independent film companies.

Filmmakers also utilize the online community as productions are developed and produced with like-minded people found via social media. It can also be valuable in leading potential audience members to websites to sign up for updates, screenings, and future films, allowing producers to capture essential audience data.

eMarketer reports that as Americans hunkered down under stay-at-home orders for much of March and April 2021, they unsurprisingly consumed more mobile media. Overall, social networking has become an "integral" and "routine" part of American lives.

6 / DISTRIBUTION

The motion picture industry is highly competitive, with much of a film's success often depending on the skill of its distribution strategy. The filmmakers' goal is to negotiate with experienced distribution companies in order to seek to maximize their bargaining strength for a potentially significant release. The filmmakers feel that Crazed Consultant Production's films have the potential to be an attractive product in this active marketplace with all distributors seeking good product.

Distribution terms between producers and distributors vary greatly. A distributor looks at several factors when evaluating a potential acquisition, such as the uniqueness of the story, theme, and the target market for the film. Since distribution terms are determined, in part, by the perceived potential of a motion picture and the relative bargaining strength of the parties, it is not possible to predict with certainty the nature of distribution arrangements. However, there are certain standard arrangements that form the basis for most distribution agreements. The distributor will generally license the film to theatrical exhibitors (i.e., theater owners) for domestic release and to specific, if not all, foreign territories for a percentage of the gross box office dollars. The initial release for most feature films is U.S. theatrical (i.e., in movie theaters). For a picture in initial release, the exhibitor, depending on the demand for the movie, will split the revenue derived from ticket purchases ("gross box office") with the distributor; revenue derived from the various theater concessions remains with the exhibitor. The percentage of boxoffice receipts remitted to the distributor is known as "film rentals" and customarily diminishes during the course of a picture's theatrical run. Although different formulas may be used to determine the splits from week to week; on average, a distributor will be able to retain about 50 percent of total box office, again depending on the performance and demand for a particular movie. In turn, the distributor will pay the motion picture producer a negotiated percentage of the film rentals less its costs for film prints and advertising.

Film rentals become part of the "distributor's gross," from which all other deals are computed. As the distributor often relicenses the picture to domestic ancillaries (i.e., cable, television, home video) and foreign theatrical and ancillaries, these monies all become part of the distributor's gross and add to the total revenue for the film in the same way as the rentals. The distribution deal with the producer includes a negotiated percentage for each revenue source, e.g., the producer's share of foreign rentals may vary from the percentage of domestic theatrical rentals.

The basic elements of a film distribution deal include the distributor's commitment to advance funds for distribution expenses (including multiple prints of the film and advertising) and the percentage of the film's income that the distributor will receive for its services. Theoretically, the distributor recoups his expenses for the cost of its print and advertising expenses first, from the initial revenue of the film. Then the distributor will split the rest of the revenue monies with the producer/investor group. The first monies coming back to the producer/investor group generally repay the investor for the total production cost, after which the producers and investors split the money according to their agreement. However, the specifics of the distribution deal and the timing of all money disbursements depend on the agreement that is finally negotiated. In addition, the timing of the revenue and the percentage amount of the distributor's fees differ depending on the revenue source.

Release Strategies

The typical method of releasing films is with domestic theatrical, which gives value to the various film "windows" (the period that has to pass after a domestic theatrical release before a film can be released in other markets). Historically, the sequencing pattern has been to license to pay-cable program distributors, foreign theatrical, home video, television networks, foreign ancillary, and U.S. television syndication. As the rate of return varies from different windows, shifts in these sequencing strategies will occur.

The business is going through a changeover between screens that play 35mm films and those that accept digital, which makes a difference in the cost of what we usually call "prints." Traditional 35mm prints typically cost $1,200 to $1,500 each. Using film prints, a high-profile studio film opening on as many as 3,000 to 4,000 screens in multiple markets (a "wide" release) can have an initial marketing expense of $3.5 million to $6 million, accompanied by a costly advertising program. The number of screens diminishes after the opening weekend as the film's popularity fades.

By contrast, independent films typically have a "platform" release. In this case, the film is given a build-up by opening initially in a few regional or limited local theaters to build positive movie patron awareness throughout the country. The time between a limited opening and its release in the balance of the country may be several weeks. This keeps the cost of striking 35mm prints to a minimum, in the range of $1 million plus, and allows for commensurately lower advertising costs. Using this strategy, smaller-budget films can be successful at the box office with as few as two or three prints initially and more being made as the demand increases. In the new digital system, the distributor pays an $800 to $900 fee per theatrical screen on which the film is exhibited. For independent films that are in the theater for at least two months, on an escalating number of screens in the platform release pattern, the overall distribution cost can still run between $1 and $2 million. As of the most recent MPAA report, there were still 2,990 non-digital movie screens in North America.

Distributors plan their release schedules not only with certain target audiences in mind but also with awareness of which theaters—specialty or multiplex—will draw that audience. Many specialty theaters remain print oriented, while multiplexes are rapidly converting to all digital. How much is spent by the distributor in total will depend on which system, and which release pattern, best serves each film.

7 / RISK FACTORS

Investment in the film industry is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture, since the revenues derived from the production and distribution of a motion picture primarily depend on its acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends on the quality and acceptance of other competing films released into the marketplace at or near the same time, general economic factors, and other tangible and intangible factors, all of which can change and cannot be predicted with certainty.

The entertainment industry in general, and the motion picture industry in particular, are continuing to undergo significant changes, primarily due to technological developments. Although these developments have resulted in the availability of alternative and competing forms of leisure time entertainment, such technological developments have also resulted in the creation of additional revenue sources through the licensing of rights to such new media, and potentially could lead to future reductions in the costs of producing and distributing motion pictures. In addition, the theatrical success of a motion picture remains a crucial factor in generating revenues in other media, such as DVD and Blu-ray discs and television. Due to the rapid growth of technology, shifting consumer tastes, and the popularity and availability of other forms of entertainment, it is impossible to predict the overall effect these factors will have on the potential revenue from and profitability of feature-length motion pictures.

The Company itself is in the organizational stage and is subject to all the risks incident to the creation and development of a new business, including the absence of a history of operations and minimal net worth. In order to prosper, the success of the Company's films will depend partly upon the ability of management to produce a film of exceptional quality at a lower cost that can compete in appeal with high-budgeted films of the same genre. In order to minimize this risk, management plans to participate as much as possible throughout the process and will aim to mitigate financial risks where possible. Fulfilling this goal depends on the timing of investor financing, the ability to obtain distribution contracts with satisfactory terms, and the continued participation of the current management.

8 / THE FINANCIAL PLAN

Strategy

The Company proposes to secure development and production film financing for the feature films in this business plan from equity investors, allowing it to maintain consistent control of the quality and production costs. As an independent, CCP can strike the best financial arrangements with various channels of distribution. This strategy allows for maximum flexibility in a rapidly changing marketplace, in which the availability of filmed entertainment is in constant flux.

Financial Assumptions

For the purposes of this business plan, several assumptions have been included in the financial scenarios and are noted accordingly. This discussion contains forward-looking statements that involve risks and uncertainties as detailed in the Risk Factors section.

1. Table 11.1, Summary Projected Income Statement, summarizes the income for the films to be produced. *Domestic Rentals* reflect the distributor's share of the box office split with the exhibitor in the United States and Canada, assuming the film has the same distributor in both countries. *Domestic Other* includes home video, pay TV, basic cable, network television, television syndication, VOD, and digital streaming. *Foreign Revenue* includes all monies returned to distributors from all venues outside the United States and Canada.
2. The film's *Budget*, often known as the "production costs," covers both "above-the-line" (producers, actors, and directors) and "below-the-line" (the rest of the crew) costs of producing a film. Marketing costs are included under Print and Advertising (P&A), often referred to as "releasing costs" or "distribution expenses." These expenses also include the costs of making copies of the release print from the master and advertising, and vary depending on the distribution plan for each title.

3. *Gross Income* represents the projected pre-tax profit after distributor's expenses have been deducted but before distributor's fees and overhead expenses are deducted.
4. *Distributor's Fees* (the distributor's share of the revenues as compared to his expenses, which represent out-of-pocket costs) are based on 35 percent of all distributor gross revenue, both domestic and foreign.
5. *Net Producer/Investor Income* represents the projected pre-tax profit prior to negotiated distributions to investors.
6. Table 11.2 shows the Summary Projected Cash Flow Based on Moderate Profit Cases, which have been brought forward from Table 11.10.
7. The films in Tables 11.3 and 11.4 are the basis for the projections shown in Tables 11.7 and 11.8. Likewise, the films in Tables 11.5 and 11.6 are the basis for the projections in Table 11.9. The rationale for the projections is explained in (8) below. The films chosen relate in theme, style, feeling, or budget to the films we propose to produce. It should be noted that these groups do not include films of which the results are known but that have lost money. In addition, there are neither databases that collect all films ever made nor budgets available for all films released. There is, therefore, a built-in bias in the data. Also, the fact that these films have garnered revenue does not constitute a guarantee of the success of these films.
8. The three revenue scenarios shown in Tables 11.7 and 11.8—low (breakeven), moderate, and high—are based on the data shown in Tables 11.3 and 11.4. Likewise, Table 11.9 is based on the comparative films in Tables 11.5 and 11.6. We have chosen films that relate in genre, theme, and/or budget to the films we propose to produce. The low scenario indicates a case in which some production costs are covered but there is no profit. The moderate scenario represents the most likely result for each film and is used for the cash flows. The high scenarios are based on the

results of extraordinarily successful films and presented for investor information only. Due to the wide variance in the results of individual films, simple averages of actual data are not realistic. Therefore, to create the moderate forecast for Tables 11.7 through 11.9, the North American box office for each film in the respective comparative tables was divided by its budget to create a ratio that was used as a guide.

9. The North American box office was used because it is a widely accepted film industry assumption that, in most cases, this result drives all the other revenue sources of a film. In order to avoid skewing the data, the films with the highest and lowest ratios in each year were deleted. The remaining revenues were added and then divided by the sum of the remaining budgets. This gave an average (or, more specifically, the mean variance) of the box office with the budgets. The ratios over the five years represented in the comparative tables showed whether the box office was trending up or down or remaining constant. The result was a number used to multiply times the budget of the proposed film in order to obtain a reasonable projection of the moderate box office result. In order to determine the expense value for the P&A, the P&A for each film in the comparative tables was divided by the budget. The ratios were determined in a similar fashion, taking out the high and low and arriving at a mean number. For the high forecast, the Company determined a likely extraordinary result for each film and its budget. The remaining revenues and P&A for the high forecasts were calculated using ratios similar to those applied to the moderate columns. In all the scenarios, and throughout these financials, "ancillary" revenues from product placement, merchandising, soundtrack, and other revenue opportunities are not included in projections.
10. *Distributor's Fees* are based on all the revenue exclusive of the exhibitor's share of the box office (50 percent). These

fees are calculated at 35 percent of the Distributor's Total Revenue (general industry assumption) for the forecast, as the Company does not have a distribution contract at this time. Note that the fees are separate from distributor's expenses (see "P&A" in #2), which are out-of-pocket costs and paid back in full.

11. The *Cash Flow* assumptions used for Table 11.10 are as follows:

    a. Film production should take approximately one year from development through postproduction, ending with the creation of a master print. The actual release date depends on finalization of distribution arrangements, which may occur either before or after the film has been completed and is an unknown variable at this time. For purposes of the cash flow, we have assumed that distribution will start within six months after completion of the film.
    b. The largest portion of print and advertising (P&A) costs will be spent in the first quarter of the film's opening.
    c. The majority of revenues generally will come back to the producers within two years after release of the film, although a smaller amount of ancillary revenues will take longer to occur and will be covered by the investor's agreement for a breakdown of the timing for industry windows.

TABLE 11.1

Crazed Consultant Productions Summary Projected Income Statement (Millions of Dollars)

		REVENUE				COSTS							
		DOMESTIC											
FILMS	BOX OFFICE	RENTALS	ANCILLARY	FOREIGN	TOTAL	BUDGET	P&A	TOTAL	DISTRIB-UTOR'S GROSS INCOME	EST. DIST. FEES	PRODUCER/ INVESTOR GROSS	COMPANY OVERHEAD	NET PROD./ INVESTOR INCOME
Leonard's Love	3.8	1.9	4.2	3.8	9.9	1.0	1.5	2.5	7.4	3.5	3.9	0.1	3.8
Len's Big Thrill	11.4	5.7	12.5	11.4	29.6	3.0	4.5	7.5	22.1	10.4	11.7	0.7	11.0
Leonard Meets His Muse	29.0	14.5	31.9	29.0	75.4	10.0	12.0	22.0	53.4	26.4	27.0	0.8	26.2
TOTAL	44.2	22.1	48.6	44.2	114.9	14.0	18.0	32.0	82.9	40.3	**42.6**	1.6	41.0

TABLE 11.2

Crazed Consultant Productions Summary Projected Cash Flow *
Based on Moderate Profit Cases (Millions of Dollars)

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5		
FILMS	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3
Leonard's Love	(0.3)	(0.3)	(0.3)	(0.1)	0.0	0.0	2.7	0.5	2.5	0.2	(1.0)								
Len's Big Thrill					(0.8)	(0.9)	(0.9)	(0.4)	0.0	0.0	8.1	1.5	7.4	0.5	(2.8)				
Leonard Meets His Muse									(2.5)	(3.0)	(3.0)	(1.5)	0.0	0.0	20.3	3.5	18.8	1.2	(6.8)
TOTAL CASH	(0.3)	(0.3)	(0.3)	(0.1)	(0.8)	(0.9)	1.8	0.1	0.0	(2.8)	4.1	0.0	7.4	0.5	17.5	3.5	18.8	1.2	(6.8)
CUMULATIVE CASH FLOW	(0.3)	(0.6)	(0.9)	(1.0)	(1.8)	(2.7)	(0.9)	(0.8)	(0.8)	(3.6)	0.5	0.5	7.9	8.4	25.9	29.4	48.2	49.4	42.6

* For reference only. How and when monies are actually distributed depends on contract with distributor.
Prints and advertising, which the distributor spends, are paid back first, then the production budget.
Prepared by Business Strategies

TABLE 11.3

Crazed Consultant Productions Gross Profits of Selected Comparative Films with Varied Genres for Two Films* with Budgets $1.0 to $12.0 Million Years 2016-2018 (Millions of Dollars)

	DOMESTIC REVENUE					COSTS			
FILMS	BOX OFFICE	RENTALS (a)	OTHER (b)	FOREIGN REVENUE (c)	TOTAL REVENUE (d)	BUDGET	P&A	TOTAL	DISTRIBUTOR'S GROSS PROFIT (e)
2016									
If Chihuahuas Could Talk	9.5	4.8	12.2	3.0	20.0	4.5	6.0	10.5	9.5
Kakapo Education	16.3	8.2	19.0	13.1	40.3	3.2	5.8	9.0	31.3
My Friend Labradoodle	13.5	6.8	15.0	2.9	24.7	5.0	5.0	10.0	14.7
Old Honey Badger and the Gun	2.3	1.2	3.5	5.1	9.8	1.8	1.0	2.8	7.0
Wrath of Brown Bears	27.1	13.6	26.8	3.2	43.6	7.0	16.0	23.0	20.6
2017		0.0							
Bad Rottweiler's Christmas	57.2	28.6	110.0	65.0	203.6	3.5	5.2	8.7	194.9
Crazy Rich Beagles	7.0	3.5	8.0	0.4	11.9	1.0	8.6	9.6	2.3
Last Phoebe in Aleppo	27.0	13.5	35.6	15.0	64.1	12.0	17.2	29.2	34.9
On the Basis of Bees	17.5	8.8	21.5	0.7	31.0	7.0	9.3	16.3	14.7
Weasel in the Window, The	14.7	7.4	18.8	4.4	30.6	3.0	4.5	7.5	23.1
2018		0.0							
Beautiful Buffy	11.0	5.5	14.4	26.4	46.3	6.0	11.0	17.0	29.3
Fighting With My Cat	89.2	44.6	81.5	69.2	195.3	9.9	18.0	27.9	167.4
Happy Goldfinch Day to You	40.0	20.0	64.0	75.0	159.0	7.0	13.0	20.0	139.0
My Hero Penelope	10.0	5.0	12.0	21.8	38.8	10.0	8.5	18.5	20.3
Raccoon Was a Spy, The	38.0	19.0	50.0	55.0	124.0	10.0	16.9	26.9	97.1

* The amounts obtained by these comparable films do not constitute a guarantees that *Leonard's Love and Len's Big Thrill* will do as well.

a) Rentals equal distributor's share of U.S. box office

b) Domestic Revenue Other includes home video, television, cable, digital streaming, and other nontheatrical sources of revenue.

c) Foreign Revenue includes both theatrical and other revenues.

d) Total Revenue equals Domestic Rentals, Domestic Other, and Foreign.

Source: Business Strategies

TABLE 11.4

Crazed Consultant Productions Selected Comparative Films with Varied Genres for Two Films* Box Office and Budget Only with Budgets $1.0 to $8.0 Million Years 2019-2021 (Millions of Dollars)

FILMS	BOX OFFICE	BUDGET
Blue Whale Pursuit	10.3	5.8
Five Turtles Apart	5.2	1.5
Grizzly Bear Book	28.4	7.0
Jelly and Jam BluJay, The	10.0	2.6
Possession of a Loon, The	4.1	1.0
Princess Peacock	12.0	3.5
Second Owl	17.0	8.0
*Whiffer Who Would Be King***	11.0	2.3

* The amounts obtained by these comparable films do not constitute a guarantee that *Leonard's Love and Len's Big Thrill* will do as well.
** Still in North American distribution as of August 29, 2021.
Note: Domestic ancillary and all foreign data generally are not available until two years after a film's initial U.S. release; therefore, this table includes U.S. domestic box office only.
Source: Business Strategies

TABLE 11.5

Crazed Consultant Productions *Leonard Meets His Muse* Gross Profits of Fictional Selected Comparative Films with Varied Genres with Budgets $8.0 to $45.0 Million Years 2016-2018 (Millions of Dollars)

	DOMESTIC REVENUE					COSTS			
FILMS	BOX OFFICE	RENTALS (A)	OTHER (B)	FOREIGN REVENUE (C)	TOTAL REVENUE (D)	BUDGET	P&A	TOTAL	DISTRIBUTOR'S GROSS PROFIT (E)
2016									
Cockatoo Solo	54.1	27.0	42.4	35.1	104.5	15.0	21.5	36.5	68.0
Halibut in the Swimming Pool, A	17.2	8.6	18.9	9.5	37.0	12.0	14.6	26.6	10.4
Lizard Color Changes	50.0	25.0	58.2	87.5	170.7	25.0	56.1	81.1	89.6
Quiet Koala A: Part 2	53.7	26.8	55.4	98	180.2	45.0	32.3	77.3	102.9
War with My Ewe, The	42.0	21.0	64.6	50.1	135.7	8.0	12.0	20.0	115.7
2017									
Dream Porpoise	78.0	39	75.5	8.0	122.5	8.0	34.0	42.0	80.5
Demon Dolphins, The	20.0	10.0	22.0	24.0	56.0	10.0	14.4	24.4	31.6
Mighty Beagles	82.0	41.0	61.5	98.4	200.9	30.0	42.0	72.0	128.9
Promising Young Orangutangs	35.0	17.5	50.0	80.0	147.5	12.0	30.7	42.7	104.8
Wolves vs The World	76.0	38.0	45.0	52.0	135.0	25.0	38.0	63.0	72.0
2018									
Bad Crocodiles for Life	38.9	19.4	41.8	30.8	92.0	28.0	33.0	61.0	31.0
Impractical Hedgehogs, The	37.8	18.9	32.9	60.0	111.8	16.0	18.0	34.0	77.8
Guardians of the Kangaroo	44.0	22.0	55.0	34.2	111.2	22.0	30.0	52.0	59.2
Once Upon a Stallion	26.0	13.0	40.0	28.0	81.0	15.0	17.0	32.0	49.0
*Snails in Disguise***	12.0	6.0	19.2	9.8	35.0	9.0	8.0	17.0	18.0

* The amounts obtained by these comparable films do not constitute a guarantee that *Leonard Meets His Muse* will do as well.
a) Rentals equal distributor's share of U.S. box office.
b) Domestic Revenue Other includes home video, television, cable, digital streaming, and other nontheatrical sources of revenue.
c) Foreign Revenue includes both theatrical and other revenues.
d) Total Revenue equals Domestic Rentals, Domestic Other, and Foreign.
e) Gross Profit before Distributor's Fee is removed.
Source: Business Strategies

TABLE 11.6

Crazed Consultant Productions *Leonard Meets His Muse* Selected Comparative Films with Varied Genres* with Budgets $6.0 to $30.0 Million U.s. Box Office and Budgets Only Years 2019-2021 (Millions of Dollars)

FILMS	BOX OFFICE	BUDGET
12 Mighty Dachshunds	50.0	8.0
Chickens Walking	56.0	20.0
Catnip House of the Living	26.5	15.4
Finding Sophie	60.0	17.0
Manatee Brothers, The	34.0	7.0
My Big Fat Siamese: Part 3	40.0	10.0
Untamed Reptiles	84.0	30.0
Willy's Wombats (a)	110.0	6.0

* The amounts obtained by these comparable films do not constitute a guarantee that *Leonard Meets His Muse* will do as well.
** Still in North American distribution as of August 29, 2021.
(a) Due to its extraordinary results, Willy's Wombats has not been used in the calculations for the forecast.
Note: Domestic ancillary and all foreign data generally are not available until two years after a film's initial U.S. release; therefore, this table includes U.S. domestic box office only.
Source: Business Strategies

TABLE 11.7

Crazed Consultant Productions *Leonard's Love* Projected Income Low, Moderate, High Results (Millions of Dollars)

	LOW	MODERATE	HIGH
U.S. BOX OFFICE	1.0	3.8	19.0
REVENUE			
Domestic Rentals (a)	0.5	1.9	9.5
Domestic Other (b)	1.0	4.2	20.9
Foreign (c)	0.8	3.8	19.0
TOTAL DISTRIBUTOR GROSS REVENUE	2.3	9.9	49.4
LESS:			
Budget Cost	1.0	1.0	1.0
Prints and Advertising	0.5	1.5	6.0
TOTAL COSTS	1.5	2.5	7.0
DISTRIBUTOR'S GROSS INCOME	0.8	7.4	42.4
Distributor's Fees (d)	0.8	3.5	17.3
NET INCOME BEFORE ALLOCATION TO PRODUCERS/INVESTORS	(0.0)	3.9	25.1

Note: Box office revenues are for reference and not included in the totals.
These projections do not constitute a guarantee that *Leonard's Love* will do as well.
(a) Box office revenues are for reference and not included in the totals. Fifty percent of the box office goes to the exhibitor and 50 percent goes to the distributor as Domestic Rentals.
(b) Domestic Other Revenue includes television/cable, home entertainment, and other nontheatrical except streaming and SVOD, for which individual film data is not available.
(c) Foreign Revenue includes both theatrical and ancillary revenues.
(d) Distributor's Fee equals 35 percent of Distributor's Gross Revenue.
Source: Business Strategies

TABLE 11.8

Projected Income Low, Moderate, High Results (Millions of Dollars)

	LOW	MODERATE	HIGH
U.S. BOX OFFICE	3.0	11.4	45.6
REVENUE			
Domestic Rentals (a)	1.5	5.7	22.8
Domestic Other (b)	3.0	12.5	50.2
Foreign (c)	2.4	11.4	45.6
TOTAL DISTRIBUTOR GROSS REVENUE	6.9	29.6	118.6
LESS:			
Budget Cost	3.0	3.0	3.0
Prints and Advertising	1.5	4.5	13.5
TOTAL COSTS	4.5	7.5	16.5
DISTRIBUTOR'S GROSS INCOME	2.4	22.1	102.1
Distributor's Fees (d)	2.4	10.4	41.5
NET INCOME BEFORE ALLOCATION TO PRODUCERS/INVESTORS	(0.0)	11.7	60.6

Note: Box office revenues are for reference and not included in the totals.
These projections do not constitute a guarantee that *Len's Big Thrill* will do as well.
(a) Box office revenues are for reference and not included in the totals. Fifty percent of the box office goes to the exhibitor and 50 percent goes to the distributor as Domestic Rentals.
(b) Domestic Other Revenue includes television/cable, home entertainment, and other nontheatrical except streaming and SVOD, for which individual film data is not available.
(c) Foreign Revenue includes both theatrical and ancillary revenues.
(d) Distributor's Fee equals 35 percent of Distributor's Gross Revenue.
Source: Business Strategies

TABLE 11.9

Crazed Consultant Productions *Leonard Meets His Muse* Projected Income Low, Moderate, High Results (Millions of Dollars)

	LOW	MODERATE	HIGH
U.S. BOX OFFICE REVENUE	10.0	29.0	80.0
Domestic Rentals (a)	5.0	14.5	40.0
Domestic Other (b)	15.0	31.9	88.0
Foreign (c)	7.0	29.0	80.0
TOTAL DISTRIBUTOR GROSS REVENUE	27.0	75.4	208.0
LESS:			
Budget Cost	10.0	10.0	10.0
Prints and Advertising	8.0	12.0	36.0
TOTAL COSTS	18.0	22.0	56.0
DISTRIBUTOR'S GROSS INCOME	9.0	53.4	152.0
Distributor's Fees (d)	9.0	26.4	72.8
NET INCOME BEFORE ALLOCATION TO PRODUCERS/INVESTORS	0.0	27.0	79.2

Note: Box office revenues are for reference and not included in the totals.
These projections do not constitute guarantee that *Leonard Meets his Muse* will do as well.
(a) Box office revenues are for reference and not included in the totals. 50 percent of the box office goes to the exhibitor and 50 percent goes to the distributor as Domestic Rentals.
(b) Domestic Other Revenue includes television/cable, home entertainment, and other nontheatrical except streaming and SVOD, for which individual film data is not available.
(c) Foreign Revenue includes both theatrical and ancillary revenues.
(d) Distributor's Fee equals 35 percent of Distributor's Gross Revenue.
Source: Business Strategies

TABLE 11.10

Crazed Consultant Productions Combined Cash Flow for Three Films * Based on Moderate Profit Cases

(Millions of Dollars)

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5		
FILMS	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3	QTR. 4	QTR. 1	QTR. 2	QTR. 3
Leonard's Love																			
Production Budget	(0.3)	(0.3)	(0.3)	(0.1)	0.0	0.0													
Prints and Ads							(1.0)	(0.5)											
Domestic Rentals							1.7	0.2											
Domestic Ancillary							2.0	1.8	0.4										
Foreign Revenue								1.5	2.1	0.2									
Distributor Fees								(2.5)			(1.0)								
Len's Big Thrill																			
Production Budget					(0.8)	(0.9)	(0.9)	(0.4)	0.0	0.0									
Prints and Ads											(3.0)	(1.5)							
Domestic Rentals											5.1	0.6							
Domestic Ancillary											6.0	5.4	1.1						
Foreign Revenue												4.6	6.3	0.5					
Distributor Fees												(7.6)			(2.8)				

Leonard Meets His Muse																			
Production Budget									(2.5)	(3.0)	(3.0)	(1.5)	0.0	0.0					
Prints and Ads															(8.0)	(4.0)			
Domestic Rentals															13.0	1.5			
Domestic Ancillary															15.3	13.7	2.9		
Foreign Revenue																11.6	15.9	1.2	0.3
Distributor Fees																(19.3)			(7.1)
TOTALS	**(0.3)**	**(0.3)**	**(0.3)**	**(0.1)**	**(0.8)**	**(0.9)**	**1.8**	**0.1**	**0.0**	**(2.8)**	**4.1**	**0.0**	**7.4**	**0.5**	**17.5**	**3.5**	**18.8**	**1.2**	**(6.8)**
CUMULATIVE TOTAL	**(3.0)**	**0.6**	**(0.9)**	**(1.0)**	**(1.8)**	**(2.7)**	**(0.9)**	**(0.8)**	**(0.8)**	**(3.6)**	**0.5**	**0.5**	**7.9**	**8.4**	**25.9**	**29.4**	**48.2**	**49.4**	**42.6**

* For reference only. How and when monies are actually distributed depends on contract with distributor.
Prints and advertising are usually paid back first, then the production budget.
Source: Business Strategies

TABLE 11.11

Crazed Consultant Productions Sample Overhead Expenses Format Five Years

NOTE: This table includes examples of the line items only. You must choose the line items that are appropriate for your company and fill in the data. One-film plans do not have overhead.

	YEAR 1				
Co-Owners	60,000	60,000	60,000	60,000	60,000
Executive in Charge of Production	70,000	70,000	70,000	70,000	70,000
Office Manager	50,000	50,000	50,000	50,000	50,000
Salaries	1,80,000	1,80,000	1,80,000	1,80,000	1,80,000
Payroll Taxes	14,400	14,400	14,400	14,400	14,400
Total Payroll	1,94,400	1,94,400	1,94,400	1,94,400	1,94,400
Travel and Entertainment	20,000	20,000	20,000	20,000	20,000
Office Rent	10,800	10,800	10,800	10,800	10,800
Office Supplies & Equipment	24,000	24,000	24,000	24,000	24,000
Publicity/Promotion/Advertising	16,000	16,000	16,000	16,000	16,000
Dues and Subscriptions	1,000	1,000	1,000	1,000	1,000
Legal Fees	18,000	18,000	18,000	18,000	18,000
Accounting Fees	15,000	15,000	15,000	15,000	15,000
Telephones (Office and cell)	15,000	15,000	15,000	15,000	15,000
Utilities	1,800	1,800	1,800	1,800	1,800

Parking Spaces	600	600	600	600	600
Security (Building)	360	360	360	360	360
Insurance	3,000	3,000	3,000	3,000	3,000
Repairs and Maintenance	2,000	2,000	2,000	2,000	2,000
Freight/Air Couriers	1,500	1,500	1,500	1,500	1,500
Other	1,500	1,500	1,500	1,500	1,500
Total Non-Payroll	1,30,560	1,30,560	1,30,560	1,30,560	1,30,560
TOTAL OVERHEAD EXPENSES	3,24,960	3,24,960	3,24,960	3,24,960	3,24,960

Note: This table is an example of the types of line items in overhead expenses only. The expenses used do not represent a real budget.

12

Breaking the Rules

Documentary, Animation, and Large Format

The secret of breaking rules in a way that works is understanding what the rules are in the first place.

—MUSICIAN RICK WAKEMAN

WHY ARE THESE FILMS DIFFERENT?

The important message in this chapter is not that we should throw out all the rules, but we should know when they need to be slightly bent to fit the situation. The business plan outline does not change for documentary, animated, and large format films. You still have the same list: Executive Summary, The Company, The Film, The Industry, The Markets, Distribution, Risk Factors, and Financial Plan. However, the specifics within some of these sections vary. Each format treated in this chapter has data areas that have to be treated differently than the "rules" laid down in the rest of the book. In addition, some of these formats differ from the others in terms of how they should be treated. This chapter takes you through how to treat each one and gives you examples for forecasting.

Many of the documentaries made in 2020 to 2021, during the pandemic, did not have the problem that was found insurmountable by other feature films in production, as dealing with interviews often involved one interviewee and a minimum number of film people. Director Alex Gibney made *Totally Under Control*, a film about the pandemic, during this period. In terms of the filming, he

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said "It was a very different and bizarre experience working on a film and not actually having to physically be in the same room ... We found technology helped us make this a bit more human, even though it was a very bizarre experience." The cinematographer for the film put together a "COVID cam" rig and dropped it on their front porch. The subjects would put it in their house and "then we would remotely completely control the entire filming." (For article go to: https://variety.com/2020/film/news/alex-gibney-totally-under-control-covid-response-1234800435.)

DOCUMENTARY FILMS

The key to getting moviegoers to buy tickets to a documentary: It "can't feel like medicine. It can't feel like homework on a Friday night".

—Matt Cowal, Co-Executive Vice President, Magnolia Pictures

History

Documentary films became mainstream early in this century. Until 2002, I didn't write any business plans for theatrical documentaries. The reason is simple: There weren't enough of them that had earned significant or sometimes worldwide revenues and worth talking about to use them in a business plan. The majority of feature-length docs were made for television. The success of *Roger & Me* in 1989 began the re-emergence of the nonfiction film as a credible theatrical release. Then throughout the 1990s and continuing to present day, theatrical docs have continued to grow in prominence and popularity with audiences.

In 1994, *Hoop Dreams* attracted a lot of attention by reaching U.S. box office receipts of $7.8 million on a budget of $800,000. The same year, *Crumb* reached a total of $3 million on a budget of $300,000. In 1997, a Best Documentary Oscar nominee, *Buena Vista Social Club*, made for $1.5 million, which grossed $6.9 million, scored at the box office and had a best-selling soundtrack album. Then Michael Moore's 2002 *Bowling for Columbine* raised the bar for documentaries by winning the Oscar for Best Feature Documentary and the Special 55th Anniversary Award at Cannes, and by earning $114.5

million worldwide. The same year, *Dogtown and the Z-Boys*, *The Kid Stays in the Picture*, *I'm Trying to Break Your Heart*, and *Standing in the Shadows of Motown* all made a splash at the box office. In 2003, *Spellbound* seemed to confound the forecasters by drawing a significant audience, as did *Step into Liquid*, *The Fog of War*, and *My Architect*. The following year, 2004, Michael Moore surprisingly—and convincingly—bettered his own record with *Fahrenheit 9/11*, which was made for $6 million and earned more than $300 million worldwide.

The genres kept changing. In 2006, another breakout in terms of monetary success was *An Inconvenient Truth* (made for a reported $1.5 million and earning $75.3 million worldwide). My student in 1992 from Chapter 2 would have been happy to see an environmental documentary that big. The same year came Kirby Dick's *This Film Is Not Yet Rated*, about the secretive decision making of the MPAA's ratings board. Speaking at Sundance the following year about having more inclusive descriptions of the ratings, Chairman Dan Glickman acknowledged that Dick's film had made an impression on himself and others.

Then in 2007, the critics said that documentaries were "dead," a phrase they uttered every few years. To paraphrase yet another Mark Twain quote, however, the reports of the box office death for theatrical docs was greatly exaggerated. In 2008, another genre broke through the barrier with *Expelled: No Intelligence Allowed*, along with perhaps the opposite end of that social discussion shored up by *Religulous*. We also saw the biographical film become a major force from 2008 to 2017, with *Amy* earning $8.4 million in 2015. Other significant docs in the last two decades have been *Exit Through the Gift Shop*, *Inside Job*, *Searching for Sugar Man*, *Bully*, and *20 Feet from Stardom*. Nevertheless, documentaries were reportedly "dead again."

But all the experts were in for another shock in 2018. "It feels like the golden age of documentary right now," said Josh Koury, a professor at Pratt Institute and a documentary filmmaker. And the genre was reborn. The three that lead this rebirth were *RBG*, *Three Identical Strangers*, and *Won't You Be My Neighbor?*, with domestic box office revenues to-date of $22.6 million, $14.0 million, and $12.1 million respectively. As distributors saw these results, they were (and still are) encouraged to give documentaries wider releases. "People are desperate for a great story because every time they turn on the news, it's the opposite," Jeff Bock, a box office analyst at

Exhibitor Relations, told the trade paper *Variety*. It is interesting that the statement still is appropriate in 2021. He continued, "More than any other genre, they have to have great word of mouth, whatever niche they are targeted to. That's the successful hallmark of any documentary."

Synopses

In feature films the director is God; in documentary films God is the director.

—Director Alfred Hitchcock.

In Chapter 3, "The Film," I make a big deal about telling the investors how the story ends. With all documentaries you are making a film about a real subject. Nevertheless, there are still two general types of storylines: historical time and real time. Historical documentaries have an ending before you start making the film. The term *historical* is less a reference to time than that you and the investors know the ending of the story. With future time, or what I usually refer to as real-time documentaries, you are recording actual events as they happen. For example, in a historical documentary, you may be curious how the latest miracle drug was discovered, tested, and won approval from the Federal Drug Administration. It involves you doing historical research. For your investors, there is a clear storyline outline plus an ending to the story. You still may discover facts along the way that weren't known before, but your synopsis will look a lot like that for a fiction film.

In a real-time documentary, you may be following a new drug trial for a specific health issue. You won't know the ending until after the study is over. While I insist on the "whole storyline including the ending" with fiction films, it is not possible to know in advance how this story will end. The synopsis will include a description of why you are making the film, what the study will include, and perhaps what you anticipate the results will be. An example for the last lines of the synopsis might be:

> *The entire process will be captured on film. This visual record of the transformations in the test subjects will prove _____. The results of this experiment in __________ may directly and indirectly affect the over 100 million people living with supposedly incurable ____________.*

Interviews

Truth is stranger than fiction, but it is because Fiction is obliged to stick to possibilities; Truth isn't.

—Mark Twain

An addendum to that quote is: "Documentary is a very powerful [way] to change reality," which Fordham University film professor Jacqueline Reich said on a 2021 panel. "But I think there's a difference between truth and objectivity. For instance, there's editing. There's sound. There's lighting. All of the things that we have right here in this report are gonna be in a documentary film as well."

Many documentaries are based on a large number of interviews. If you have already conducted some of the interviews, then list those people with their credentials. If you haven't already conducted the interviews, be careful how you mention people. I treat the contemplated list of interviews the same way as I treat listing stars in a film. You may want to include an interview with a famous baseball player in your film. If you already have an affirmative response from him, include his name in your list of interviewees. Otherwise, "people we would like to interview" is really the same as naming stars who have never heard of you. The interviews give credibility to your potential film for the investor. Whether equity or grant money, it is not a good idea to get funded by making promises you can't keep.

The bios for these interviews are listed as Attachments to the synopsis in the same way you would list actors. However, in the making of many documentaries, there are advisors who may help with structuring the film but not actually be part of it. These people I always list in the "Company" section under Advisors (different from consultants such as me and the attorney), with one line stating their current or most recent special credential. An example of such a listing is: Buffy Celery, Head of Agricultural Production and Foods Quality for QTR, Inc.

The target markets for documentaries are the same as those for fiction films, save one group. Documentary audiences themselves are the first target audience to list. For example, the paragraph I used in a recent documentary reads:

> *The golden age of documentaries continues the viability of the genre as part of the mainstream film market. Summer of Soul (... Or, When the Revolution*

> *Could Not Be Televised) sold for $12 million-plus at the 2021 Sundance Film Festival. Audiences eager to see intellectually stimulating, well-crafted fare are being drawn to theaters showing documentaries. The genre became the star of the specialty market in 2018. "People are desperate for a great story because every time they turn on the news, it's the opposite," Jeff Bock, a box office analyst at Exhibitor Relations, told the trade paper Variety. "More than any other genre, they have to have great word of mouth, whatever niche they are targeted to. That's the successful hallmark of any documentary," he added. Rather than escaping from reality, moviegoers decided to embrace it in all subjects, such as sports, family, politics, biopics, and history. Documentaries, such as Won't You Be My Neighbor?, RBG, and Three Identical Strangers are examples, having domestic box office revenues to-date of $22.6 million, $14.0 million, and $12.1 million respectively. As distributors saw these results, they were encouraged to give documentaries wider releases. Analysts also suggest that audiences' interest in reality televisions helped documentary films build their growing theatrical audience. In addition, sales agents have said that documentaries that are more cinematic, with song scores and the evolution of characters, can be pitched more easily and sold in much the same way as dramatic features. Newer distribution technologies also have made the theatrical release of a documentary an even more viable commercial commodity. As theatrical attendance increases, the value of these films rises in the home entertainment, streaming, and foreign markets.*

The rest of the market section is the same as that for fiction films. Every documentary has a subject, be it political, economic, inspirational, historic, sports related, and so on. Fiction films with the same genres or themes can be used as examples in the market section as well as to show interest in the subject, although they can't be used as comparatives for forecasting.

The discussion of audience ages depends on the subject of the documentary. The main market may be an audience over 30 if the film is political, although cable and social media have made that subject more interesting for older teens and the college-age audience. For musical, sports, and other docs it depends on who or what is being featured. For example, a film about skateboarders might draw in a younger audience, and one featuring a baseball, football, or basketball star from the 1950s or 1960s would draw in baby boomers first.

Forecasting

In the previous two chapters I made a big point of the fact that you need the worldwide numbers over the most recent three years available for 14 to 15 films to do my method of forecasting. Unfortunately, documentaries, as well as animated and large format films, are not available in large enough numbers every year to follow that rule. Due to the limited number of films and the lack of some information, you will probably have to go back more than five years to have at least ten films to compare. There is more responsibility placed on you, the filmmaker, to be sensible and logical throughout the process. I know that many of you would rather never think about numbers. However, your investors do think about numbers. Your forecast must look rational to them. Films from 1994 are not appropriate as comps in 2021.

Which documentaries to use and which not to use is a choice you will have to make. There is more flexibility in terms of genres and themes for what films you can use, but your decision-making process has to be reasonable. The first step is to look at everything in your story. If you are making a film involving political/economic/social subjects, there are a lot of choices. These subjects tend to be what many filmmakers want to explore, especially in difficult times. They reach a broader audience, particularly with all the turmoil that has been going on around the world. I can't give you a hard-and-fast rule for which documentaries to use; it has to be your choice. One of my favorite docs for which to do the financials was Jonathan Holiff's *My Father and the Man in Black*. His father was Johnny Cash's personal manager. In addition to being about a father/son relationship, the themes in the story are varied. A short review read: "From hillbilly juke joints in the Deep South to the grandeur of London's Royal Albert Hall, from ditches and jail cells all the way to the White House." This gave me a lot of latitude in choices.

Budgets

There also were films that I wanted to use based on their box office results; they were not in the database due to lack of data. Or I might not have a good reference for a doc's budget until the database provides the worldwide numbers.

Reason number one given by many documentary filmmakers for the lack of data on documentary budgets is that they have made the film over a long period of time and didn't keep records of how much money was involved. It is true that many are made with a combination of cash from grantors and in-kind contributions, but a filmmaker has to keep careful financial records. Or, reason number two, they choose not to tell us, which happens far more often than with other feature films. Therein is the biggest problem with writing a business plan around a documentary film. It has gotten somewhat better in recent years; however, in my weekly database of released indie films, it is more likely that I won't have a budget for a doc. If you are raising money from other people—whether individuals or grant organizations—you must know the budget. Even if you are using your own money, please figure out your budget ahead of time. When I first came into the business, documentary filmmakers often raised money as they went along. Those times are gone. Documentary filmmakers are expected to be professional.

The range of applicable films to use normally is very narrow with theatrical documentaries. The majority of docs that appear profitable have budgets between $150,000 and $2 million. I always counsel clients to plan on making their film for $2 million or less. Even with a moderate box office, there are many sources for revenue. Specialized films often benefit from additional marketing that is not in the normal plan for film distribution companies. In addition to the traditional distribution channels, of which Netflix and other commercial sites are now part, there tend to be more alternative and advocacy groups, both nationally and internationally, through which documentarians can sell their film.

Table Layouts

As mentioned earlier, with items (such as budget and ancillary) harder to obtain, I may go back ten years to have at least ten films. Therefore, instead of breaking the films into three years to have a trend in the ratios, I keep them in a single list, as in Table 12.1. For most documentary business plans, I have both films with worldwide numbers and those with only current domestic box office and budget on the same table. In most two-year periods, there have not been enough documentaries. If there are four or more in the two most current years, then I will have a second table similar to the one for narrative films. As with other films, the box office has to give the impression that the films will be profitable. If the budget is $3 million and the final box office is $42,000, DO NOT INCLUDE THE FILM! Investors will know that film will not be profitable.

TABLE 12.1

Crazed Consultant Productions The Sample Documentary Selected Comparative Documentary Films*
Revenues and Costs Years 2008-2006 (Millions of Dollars)

	DOMESTIC REVENUE					COSTS			
FILM: WORLDWIDE RESULTS	BOX OFFICE	RENTALS (a)	OTHER (b)	FOREIGN REVENUE (c)	TOTAL REVENUE (d)	BUDGET	P&A	TOTAL	DISTRIBUTOR'S GROSS PROFIT (e)
30 Feet From A Unicorn	10.4	5.2	2.7	2.0	9.9	0.5	1.3	1.8	8.1
*Cave of the Centaur***	49.6	24.8	24.0	2.5	51.3	2.0	10.0	12.0	40.7
Chupacabra Agents	1.5	0.8	2.5	1.6	4.9	1.0	0.5	1.5	3.4
Exiting Wolpertingers	6.0	3.0	2.1	2.5	7.6	1.6	0.6	2.2	5.4
Finding the Griffin	6.4	3.2	8.3	3.1	14.6	1.2	1.1	2.3	12.3
Hunting Snipe	3.1	1.6	3.0	4.0	8.6	1.8	1.3	3.1	5.5
Jackalope of America, The	4.3	2.2	6.4	4.9	13.5	1.0	0.9	1.9	11.6
Mermaid Neighbor	9.0	4.5	12.1	5.7	22.3	1.5	2.5	4.0	18.3
Sailors vs. Sea Serpents, The	6.9	3.5	6.0	4.8	14.3	2.0	1.6	3.6	10.7
Three Identical Gambozinos	12.0	6.0	0.9	2.0	8.9	5.0	1.9	6.9	2.0
U.S. BOX OFFICE ONLY AVAILABLE, YEARS 2019-2021									
Dullahan, The	22.8					5.0			
*Saving the Lox****	9.0					1.5			
The U.S. vs. Sasquatch	14.4					1.8			

* The revenues generated by these comparable films do not constitute a guarantee that *The Moviemoney Documentary* will do as well.
**Due to extraordinary results, *Cave of the Centaur* has not been used in the calculations for the forecast.
*** Still in North American Distribution as of May 15, 2016.
(a) Rentals equal distributor's share of U.S. box office.
(b) Domestic Revenue Other includes television/cable, home video, and all other non-theatrical sources of revenue.
(c) Foreign Revenue includes both theatrical and ancillary revenues.
(d) Total Revenue equals Domestic Rentals, Domestic Other, and Foreign.
(e) Gross Profit before distributor's fee is removed.
Sources: Business Strategies, Gracenote/Studio-system, boxofficemojo, box office.com, screendaily.com

As when making a table of other feature films, list the extraordinary films when they are appropriate (i.e., *Cave of the Centaur* in Table 12.1), but do not include them in your forecasting process. Even though it is tempting to use their high revenues, remember that your investor probably will know better. You want them to have confidence in you.

Note that fiction films are not included in a forecast for a documentary. They have a wider audience appeal and usually wider distribution. All of the revenue windows for a fiction feature are going to show higher grosses. Using them would mean that you are fooling not only yourself with an unlikely net profit number but also your investor.

On the other hand, a successful documentary that is in the same budget range as your feature film and has good results can be used in your plan. For example, *Inside Job* can fit in a low-budget film plan that deals with financial crisis, crime, and politics, themes that have become more prevalent in recent years. As we always are looking at a conservative revenue projection for our "Moderate" column, using a film that has done well with a lower net profit result is not a problem.

Finishing

Once you have set up your comparative table, you are ready to follow the forecasting method outlined in Chapter 10 and in the "Financial Worksheet Instructions" on the book's companion website. The only difference will be one average ratio to use for forecasting your revenue. Otherwise, forecast your revenues and expenses and create your cash flow with the same methodology used for narrative films.

ANIMATED FILMS

Independents

It is likely you have a budget that is far lower than that of the studios—probably between $5 million and $50 million. If you are trying to raise $150 or $200 million independently for your first animated film, I would suggest rethinking your plan. You can write the business plan but be realistic about where you are going to find the money. As with documentaries, much of the business plan for an animated film is the same as other feature films. There are specific areas that differ, however.

Industry

The changes in technology affect the making of animated films to a greater extent than other movies. While 3D was treated like the "new kid on the block" in the last edition, whether 2D or 3D is used in a film depends on the style and technology needed for the film. Of course, your budget may be the deciding factor.

I also usually put in a short animation section as either a part of the Industry section or a separate section directly following it. In either case, it should have its own heading. Below is a sample of what might be in the business plan. You would want to expand on whatever format you are using. If your film is to be in 3D, for example, then follow the animation paragraph with an explanation of 3D and examples.

> *Animation is the rapid display of a sequence of images of 2D or 3D artwork or positioned model(s). The effect is an optical illusion of motion due to the phenomenon of "persistence of vision," which can be created in several different ways. While some forms of animation can be traced to ancient times, narrative animation did not really develop much until the advent of cinematography. One of the first people to use animation in film was the Frenchman George Melies, the silent film director featured in the live-action film* Hugo. *J. Stuart Blackton made the first American animated film, a short, in 1906. The Walt Disney Company made the first feature-length U.S. animated film,* Snow White and the Seven Dwarfs, *in 1937. While many of the full-length animated films through the years have been made by studios, advances in technical methods and the ability to lower costs have brought independent companies into the animation business. Lucasfilm, Aardman Animations, and Imagi Animation Studios are just a few of the independents making animated films today.*

Note that I did not include DreamWorks Animation, which was sold to Comcast Communications in April 2016, making it part of Universal Filmed Entertainment Group, which includes Universal Pictures.

Markets

As with other genres of film, the audience is specific and knows what it likes. Techniques and storylines are discussed in other sections of the business plan. The demographics make a big difference with how you pitch animated films to investors.

Moviegoers of All Ages

Assuming that you "think market" before starting a film, there are two ways of designing animated films. Either it is made for children who adults might accompany, or it is designed for teens and older.

Many of the films are designed to appeal to everyone from children to their grandparents. Due to the paucity of G-rated live-action films, animation is often not in competition for the same audience as live-action films that are released concurrently. They can play to younger ages better than many other films while still bringing in the whole family demographic. Parents often go to check out a film before taking a very young child. Grandparents go to enjoy the activity with the rest of the family. The majority of animated film are made for entertaining the entire family, from 8 to 80, like Studio Canal's *Paddington* franchise (1 to 3). On the other hand, 2017's *Loving Vincent* (a British-Polish co-production) is an example of a PG-13 animation, and Japan's *Demon Slayer: Mugen Train* (2020) is an example of an R-rated adult animation.

The MPAA reports the attendance levels of moviegoers from 2 to 60+ in specific groups in their "Theme" report. There is a big difference between a film fit for a four-year-old and one for a preteen. For example, one animated film may be aimed primarily at children aged eight and under. Another animated film, with a slightly hipper theme and a pop music soundtrack, may entertain children but also draw in teenagers and young adults.

A part of the definition for a G-rating reads: "nothing in theme, language, nudity, sex, violence or other matters that, in the view of the Rating Board, would offend parents whose younger children view the motion picture." Despite the rating (which the MPAA makes clear is not a certificate but an opinion of a panel), some adults may feel that there may be activity in the film that is not appropriate for little Sally. Going to a film is valued, and parents are teaching their children to appreciate movies on the large cinema screen. The good news about those very young children is that they are a boon to home video companies. Their parents tend to buy discs that they can play over and over again on child-level technology.

Looking at the top ten rated films for 2019 we have to consider that more now go directly to one of the streaming channels. That list includes four P/PG films, three PG-12 films, one TV-MA (unsuitable for under 17) film, one TV-14 (unsuitable for under 14) film, and one HBO-Max film that is not rated.

Financials

Budgets

As with documentaries, you will need to go back more than five years to have enough films for a proper forecast. How far back depends on what is available in terms of budget. The business plans for animated films that I am doing in 2021 only have worldwide data through 2019. While 12 films is a better statistical sample for making a forecast, I often have to settle for 10.

There are a number of animated films every year. The majority are in the \$120 to \$200 million-plus range. As much as you might think your \$5-, \$10-, or \$20-million film compares, it doesn't. Nevertheless, the range of budgets for comparative films is much wider. In the early years of this decade, there were a number of successful animated films that were made for less than \$10 million. Unfortunately, in the last few years, there have been very few. With a lower-budget film, you may have to go as high as \$40 million when seeking titles for comparison. For a film budgeted at \$40 million, I don't go above \$95 million when choosing comparatives. I also stay in this century, as there have been too many technical improvements over the years to use films from an earlier period.

Table Layouts

The format of Table 12.2 should be used for animated films to show the worldwide revenues and expenses through the most current year available; however, there may not be enough films from the most recent two years to create a second table similar to the layouts described in Chapter 10. The forecasting for an animated film also follows the methodology in Chapter 10. Animated films do differ when creating the cash flow table though. Experienced filmmakers

TABLE 12.2

Crazed Consultant Productions
Sample Cash Flow for Animated Films
Projected Cash Flow* Based on Moderate Projection (Millions of Dollars)

	YEAR 1				YEAR 2				YEAR 3				YEAR 4		
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	QTR. 3
Budget	0.1	0.1	0.1	0.15	0.20	0.20	0.08	0.07							
Prints and Advertising											0.67	0.33			
Domestic Rentals											0.90	0.10			
Domestic Ancillaries											0.48	0.43	0.09		
Foreign Revenue												0.40	0.55	0.04	0.01
Distribution Fees												35% Of rev to this point			35% of rev Y3Q3-3

* For reference only. How and when monies are actually distributed depends on contract with distributor.
Prints and advertising are usually paid back first, then the production budget.
Note: Totals may not add due to rounding.
Source: Business Strategies

of animation with whom I have worked always have assumed two years for the production cost rather than one year. I recommend that you do the same. Otherwise, use the same formulas for calculating the spread for the prints and ads cost, domestic and foreign revenues, and distributor fees.

LARGE FORMAT FILMS

History

Large format films are made by several companies, among which are the IMAX Corporation, studios, and independent producers. They are commonly referred to as IMAX films, however, since IMAX Corporation of Canada introduced "the IMAX; Experience" at the Fuji Pavilion when the industry started at EXPO '70 in Osaka, Japan. These days, however, IMAX produces fewer of the films, but an overwhelming percentage of the "giant" screens. Warner Bros. is another studio producer, and there are independent producers discussed later in this chapter. Based on information from the IMAX Corp. as of September 30, 2020, there were 1,632 IMAX theater systems (1,542 commercial multiplexes, 13 commercial destinations, 77 institutional) operating in 82 countries and territories. The switch to digital projection came at a steep cost in image quality, with 2K projectors having roughly an order of magnitude less resolution than traditional IMAX film projectors. Maintaining the same seven-story screen size would only make this loss more noticeable, so many new theaters were instead built with significantly smaller screens.

Until 1997, these theaters were located in museums, science centers, and other educational institutions, as well as a few zoos. In 1997, IMAX introduced a smaller, less-expensive projection system that was the catalyst for commercial 35mm theater owners and operators to integrate their theaters into multiplexes. Currently, these films are 40 to 50 minutes long.

The first independent producers of these films were Greg MacGillivray and the late Jim Freeman. They began with surfing films in 1973. The cameras they used weighed 80 pounds, but they paid IMAX to make a camera with better specifications. Since that time, the MacGillivray Freeman Company has led the independent way with 20 productions. Among the other independent producers are nWave Pictures, 3D Entertainment, National Geographic Cinema Venture, and 3ality Technica.

Formats

In 2002, IMAX introduced a process to convert 35mm film to 15/70 (15 perforations/70mm process), which is their standard. Known as DMR, for "digital remastering," the process started a new wave of converting longer feature films to be shown on the larger screens. There is ongoing controversy about whether fiction features belong to a giant screen. However, that is for you to decide. Suffice it to say that the economies of scale are different.

Another controversy erupted when IMAX introduced a new digital screen to multiplex theaters in 2009. Since 2004, the size of the IMAX screens has been 76 × 98 feet (23 × 30 meters), while the new screens are 28 × 58 feet (8.5 × 18 meters). The newer systems cost $1.5 million to get up and running compared to $5 million for an "original" IMAX. The company's multiplex agreements allow the removal of the lower portion of seating in stadium-seat venues, creating the perception of greater screen size and viewing immersion. Presumably, the remastering of 35mm films boosts image resolution and brightness. Then there is the question of whether you can call them "giant screens." An IMAX representative insists that, "It isn't about a particular width and height of the screen. It's about the geometry." In the end, the audience will decide. They won't care about how much it cost to make the film, equip the theater, or remaster the film. They will care how it looks to them, and whether they should have been charged $5 more for a film that isn't on a seven-story screen.

Synopses

Films produced as large format films, as compared to the remastered films, have always been documentaries, and this rule still applies. Therefore, the synopsis for a film is essentially like those discussed in the "Documentary" analysis earlier. They are in both historical and real time. In putting together a business plan, list advisors in the company section and people appearing in the film as attachments after the synopsis.

Markets

As with other documentaries, I use the IMAX audience as the first target market to discuss. Then use other genres and themes in the films. The demographics are going to relate to the stories in the films.

Financials

That brings us to the bottom line for these films. Sources of data are few. The only films we can use for forecasting are those that appear in commercial theatrical venues. There are no numbers for films in museums.

The previously mentioned independent companies tend to finance films from the profits of their own films. Independent filmmakers generally have been funding films as they would other documentaries—with grants, corporate donations, and funds from specific groups that may have a social or business interest in the subject of the film. Obtaining financing from equity investors appears to be rare for individual filmmakers; nevertheless, we need to have a format for approaching them.

Expenses

The problem comes on the cost side—not only the budgets but also how distributors of giant-screen films calculate their fees. Since we can use only films for forecasting for which the budgets are known, there always will be films that cannot be used as comparatives. Both the budgets and the prints and ad costs are included on the Baseline website.

There is a difference in the split, however. In addition, in over 12 years of covering this part of the film industry, I have never found a written analysis of the split between the distributor and the producer. This lack of financial knowledge also makes it difficult to approach equity investors with a business plan. Anecdotally, various filmmakers and distributors have told me that the split is the opposite of what we would assume for an independent film—65 percent to the distributor and 35 percent to the producer. There is further difficulty concerning the search for accurate figures. After

TABLE 12.3

Crazed Consultant Productions ***Sample Cash Flow for Large Format Films*** **Projected Cash Flow* Based on Moderate Projection** (Millions of Dollars)

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5	
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2
Budget	0.13	0.15	0.14	0.14	0.14	0.12	0.09	0.09										
Prints and Advertising											0.53	0.13	0.25	0.09				
Domestic Rentals											0.15	0.26	0.26	0.15	0.12	0.06		
Domestic Ancillaries															0.50			0.50
Foreign Revenue														0.29	0.24	0.15	0.24	0.08
Distribution Fees																65% of total		65% of total
TOTAL																		
CUMULATIVE TOTAL																		

* For reference only. How and when monies are actually distributed depends on contract with distributor.
Prints and advertising are usually paid back first, then the production budget.
Note: Totals may not add due to rounding.
Source: Business Strategies

interviewing filmmakers and distributors at the annual conference of the Giant Screen Theater Association (GSTA) and, prior to that group, at the Large Format Cinema Association (LFCA) (in 2006, the LFCA merged with the Giant Screen Cinema Association to form GSTA), I have learned that the ongoing independent producers, MacGillivray Freeman, nWave, and others, have made profits from earlier films and, in some cases, distribute their own films. The best we can do at this time is to use this information, along with additional information that we get from other sources to present a business plan.

Table Layouts

The tables for comparative films are set up similarly to the ones for animated films. Large format films also are released in varying numbers over the years. To have 10 or 12 films to use as comparatives, you are likely to have to start looking at seven to nine years before the current year. For example, in 2021, I might have a range of 2010 to 2019. The forecast is also set up the same way as the other tables. The difference is that the distributor's fee is 65 percent of the total revenue.

An individual large format film can appear on screens off and on for several years. Table 12.3 shows the cash flow spread for a large format film. The production cost in this example is the same spread as an animated film. Whether live-action or animated film, the time consumed is likely to be similar.

The domestic revenues are based on the study of independent films released from 2011 to 2019. The data show an average of 93 percent of the domestic revenue coming in over the first year (four quarters) from the start of distribution. While revenue can keep trickling in for several years as films move from theater to theater, much of the later revenue is in small amounts and relatively inconsequential to the total profit percentage relative to the budget.

13

Other People's Money

Them That Has the Gold Makes Some of the Rules

Raising money for a movie is like hitchhiking—It could be the first ride, it could the thousandth. But you have to stay out there with your thumb out and just wait. And you also have to know when not to get into the car.

—DIRECTOR JOHN SAYLES

There are almost as many questions from investors in terms of expectations as there are investors. Whether individuals, companies, or nonprofit organizations, and no matter where they are in the world, each has their own criteria and idiosyncrasies. Specific customs of relating to individuals and doing business may be different from country to country, but investors are similar in terms of their goals. Since the business plan is a sales (not a legal) document, it is your job to learn as much as you can about your potential "customers" and focus on their needs.

HOW DO YOU FIND AN INVESTOR?

The Sayles quote above has always been one of my favorites, as it emphasizes that you may find your money immediately or it may take a very long time. If investors all were similar and lived in the same place, I wouldn't tell you where that place was. I'd be a very rich person funding films. Even *finders*—people who find money

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for films for a living—will tell you that it isn't easy. If a finder promises the money or insists on money upfront, you may want to move on to someone else.

While many filmmakers go to Los Angeles or New York to seek equity investors, they find that others are throwing business plans at people in those two centers of commerce every day. Any potential investors in those towns have already been approached by too many friends and neighbors. If you are from Fort Wayne (IN), Hibbing (MN), or Cincinnati (OH), my advice is to go back home. You have more connections there and, hopefully, less competition from other filmmakers.

WHAT DO THEY WANT?

Artistic Expression

Some investors are drawn to films that have more literary qualities than mainstream films. The definition of *literary* is in the eyes of the beholder. We used to call these art films, but *specialty* is a better term. Normally, the term is assigned to films that appear to be based on a higher level of expression and writing. Or they are experimental.

You should attempt to create realistic expectations for both you and your investor. If you are lucky, her desire to be associated with quality will outweigh the high return she wants for her investment. On the other hand, if she cannot afford more money and does not want to join with additional investors, move on. Put your energy into finding partners whose outlook and resources are a match for your project.

Filmmakers still tell me (and the investor) that their film is "just like" Merchant Ivory's *A Room with a View*. It still is held as an example of an artistic film. After all, it is based on a novel by E. M. Forster. Or perhaps *Requiem For a Dream*, which was made in 1999 (and released in 2000) for $4.5 million and earned $40.3 million worldwide. Unfortunately, they want to make their film for a similar budget but reap the revenue of *The Blair Witch Project* (see Introduction). The problem is that similar films have had P&A costs two or more times *TBWP*'s and made less money internationally due to changes in the market. Your rationale may sound good to the investor, but it isn't a good portrayal of the real market for your film.

Special Interests

If you can find an investor whose sensibilities agree with the theme of your film, you may be able to create a workable collaboration. If your story takes place in western Texas, then a good choice is to go to people in that area first. Other projects are funded by individuals because the film emphasizes a hobby or passion of theirs. As I mentioned in a previous chapter, many sports figures have become fascinated with film. Currently, I have had several clients with football-, baseball-, or soccer-themed films. The first contacts they made were with the players and owners of teams in that sport.

The line between business and altruism can be a thin one. Still, few people will become involved in a feature film without considering its commercial possibilities. Jeff Skoll, for example, who was the first president of eBay and named the wealthiest Canadian by Forbes, formed Participant Media to make films on current social and political topics with the express purpose of inspiring social change. In many cases, the company even co-distributes with its focus on social media. However, the company still looks at the viability of the project beyond its societal interests.

Nonprofit organizations have funded all or part of for-profit films that fit with their particular mandate. The increase in the success of inspirational films with themes of good versus evil and redemption has brought more charity-based religious and nondenominational organizations into the market. Having been involved with writing several business plans for filmmakers who were seeking money from such organizations, I can assure you that most look at the project as a whole, not only as their special interest.

Big Returns

People do invest in films with the primary purpose of making money. Independent films that are more mainstream in terms of story and demographic appeal are likely to interest investors to whom a big pay day is the biggest attraction. Like a gambler in Vegas, this type of investor is playing the odds. Through the years, several well-known poker players have become producers and investors in films.

PITCHING YOUR PROJECT

The "Elevator" Pitch

In one seminar, a filmmaker asked me what kind of pitch you do if you are not in an elevator. The term *elevator pitch* is not meant to be taken literally. The idea is that you may be in a close environment like an elevator where you have 30 to 45 seconds to make your pitch before the elevator gets from the first floor to the second floor, or the valet brings the car from the garage. You may be at AFM waiting for the elevator and standing next to you is Adam Fogelson, Chairman of STXfilms. What will you say? Plan now. Don't wait until you are in the elevator or standing on the curb to think of something. Develop and rehearse it. Try it out on other people. You want to make a good impression, as well as create interest. In terms of the business plan, it is also the logline that you will put in the Executive Summary. This does not mean something like "It is *Avengers: Endgame* meets *Moonlight*." You want a well-honed sentence or two that summarizes the idea of your film in a way that will interest him and make him want to speak or read about it further.

At the most basic level, an elevator pitch is a sales tool that helps you get the investor immediately interested in your film and gets you a meeting with them. Avoid the cookie cutter "insert your name here" templates that you'll find on the Internet. You want your pitch to stand out and be unique. On the other hand, the listener has to understand what you are talking about. Make it both sensational and simple at the same time. Make it concise, clear, and very short.

The elevator pitch is like the logline. Leave out wasteful words like *when*.

> Long version: When a woman meets her neighbor, she unknowingly falls in love with a murderer.
> Shorter version: A woman falls in love with the killer next door.

Or you can add a teaser:

> A woman falls in love with the killer next door. What happens next?

Below are two examples from clients. They show the difference between an elevator pitch and a synopsis.

> Elevator pitch: *The Kogi tribe wants the world to know the planet will die if digging into the earth doesn't stop.*
> Short synopsis: *Members of the Kogi tribe living in South America, primarily in Colombia, are coming forward to prove their wisdom is sound, and to share their knowledge, because they sincerely believe it is the key for mankind's survival. They believe that man's ignorance about how to live in balance with nature is precipitating an environmental apocalypse that cannot be avoided unless humans learn to understand the natural world in a fundamentally new way.* [From the documentary feature *Aluna*, directed by Alan Ereira.]
>
> Elevator pitch: *In Mexico, mysterious inventor Simon, chased by organized crime and the police, takes refuge in an orphanage.*
> Short synopsis: *Simon Orwell is a brilliant student whose life has taken a series of wrong turns. At the point of giving up on his dreams, he gets a call from an old professor who has discovered a breakthrough in a device that would create unlimited energy, and he needs Simon's help. But the professor is killed, and Simon assaulted by members of a powerful drug cartel. He takes refuge in a local orphanage where he meets Harold Finch, who walked away from a lucrative career with NASA and consulting Fortune 500 companies to serve a higher cause. With Harold's help, Simon sets out on a quest to uncover who killed the professor and why, but in the process discovers the secret to both the world-changing device and his own unlimited potential.* [From the feature *Unlimited*, directed by Nathan Frankowski.]

FOOL YOUR INVESTOR, FOOL YOURSELF

Let's get back to the sticky subject that your desire to raise money for your film may chase rational thinking out the door. Here are some examples of foolish sentences that I wish I had never heard filmmakers say:

> "I've got a film budgeted at $10 million which is guaranteed to earn $700 million worldwide."
> "Why are you so focused on money, anyway? Isn't the quality of the film all we should care about?"
> "There would be no film without me. Why should investors get 50 percent of profits?"

Below are some guidelines to follow to avoid a pesky case of investor disappearance.

Communicating Effectively

Courage is what it takes to stand up and speak. Courage is also what it takes to sit down and listen.

—WINSTON CHURCHILL

No matter how great your film project is, you may be unable to gain your goal—raising the money—unless you can communicate well with others. When you have a meeting, you think that the goal is to get money for your film. It is actually to communicate with the other person. Communication is a two-way street. In addition to how you are going to explain your project, you need to understand and think about what the other person is saying. Go in with a plan, but let the other person go first. You will probably give your short pitch first, but I advise letting the other person be first to speak about a potential deal. There may be a counter proposal you can make rather than having the meeting end abruptly. Here are a few suggestions to aid your meeting style:

1. Don't interrupt: Let the other person finish what they are saying before you speak. I'll admit that one of my failings with clients is to interrupt due to my "psychic ability" to know what they are going to say next. Even if I am right, the rudeness tends to put people off.
2. Take a breath before speaking: Think about what you have just heard. It lets your investor know that you are taking what they said seriously; or, alternatively, it gives you time to form a reply. This comment applies to serious conversation, not if the other person merely says "hello," or asks if you would like coffee or water.
3. Observe nonverbal cues from their mannerisms, tone of voice, gestures, and so on. At the same time, try to be aware of your own. Are you relaxed and smiling? Try nodding once in a while to show you understand what they are saying. Of course, be sure you do understand.

What They Say and What You Hear

A wise old owl sat on an oak; the more he saw the less he spoke. The less he spoke the more he heard. Why aren't we like that wise old bird?

—Edward H. Richards

Why am I quoting a nursery rhyme? No matter how old we get, we often seem to forget the art of listening to what other people are saying. Or to be more exact, we think we are listening but don't really hear what the other person is saying. It is the same whether it is an equity investor, the executive at a big production company, or a teacher in the classroom.

What they say: It is an interesting script but not the kind of project with which I want to be involved.

What you hear: He will give me the money if I rewrite the script and have Jennifer Lawrence, Chris Hemsworth, and Morgan Freeman in it.

(Go on to the next potential investor. Unless he says anything after that sentence, don't spin your wheels.)

What they say: I've got $100,000 for development. Why don't you start preproduction, and we'll negotiate later.

What you hear: It's a done deal.

(It is a done deal when you have a signed agreement and the cash is in the bank. Do not go forward until then.)

What they say: I've signed the agreement you gave me, and here is a check for $4 million.

What you hear: It's a done deal.

(You heard correctly. As soon as that check cashes, have fun filming!)

There are many good websites devoted to this subject. I suggest an hour browsing the Internet. In addition, have someone with business experience who can advise you. It is often difficult to be objective and separate reality from fiction.

Common Sense Is More Important Than Rules

1. If an investor asks a simple question, give a simple answer. For example, if you are asked the total budget number, just

say it. You'll have plenty of time to go into other items in your pitch. A client was asked the budget of a film four times. She talked about all the wonderful qualities of the film but didn't answer his question for 30 minutes. He finally ended the meeting.
2. What not to say is almost as important as what to say. Don't be the first to bring up negative news reports. On the other hand, be ready with a response to items that you know have been in the news. If a potential investor asks questions based on the probability of making money from a film, agree that there is no guarantee that a film will be profitable. Then go into a short explanation of your financials.
3. Although you are a salesperson in this instance, the motto that "No is only an opportunity" usually doesn't apply in this situation. Sometimes no means no. Thank the person for their time and leave. Later you can assess how the meeting went. You may find better ways to present your material. Then you can choose whether to go back to that person or apply your new knowledge at the next appointment.

LEARN FROM OTHERS

This last section includes an interview with William Nix, for whom I have written two business plans, about his experiences with film. In Chapter 14, Rick Pamplin, Director of *Movie Money Confidential* (MMC), discusses raising the money from investors, as well as his previous experience with film investors. Please take the time to read it.

William Nix

William Nix is chairman of the Creative Projects Group; a producer; and an investment banker with extensive experience in corporate formation, operations, and business affairs; as well as an attorney experienced in complex negotiations, litigation, and dispute resolution in the entertainment, media, sports, intellectual property, and creativity fields. He is executive producer of the

2015 Annie-Nominated feature film *The Prophet*, based on Kahlil Gibran's iconic work, and *Gibran*, a biopic based on the poet's life.

LL: What are the top questions that investors asked?
WN:

- Who is "attached" to the production in key above-the-line roles (i.e., producers, director, actors)?
- Is there a distributor (traditional and/or sales agent) who has committed to release the film?
- What is the timetable for producing and releasing the film?
- Where will the film be shot and what is the budget?
- Is there a P&A funding commitment?
- What social media and other marketing support will there be for the release of the film in various channels of distribution?
- What are the key investor deal terms in respect to their return on investment (ROI), credits, splits, timing, etc.?
- Who else is attached as part of your "professional team" (i.e., entertainment lawyer, business-planning/financial advisor(s), production accountant, payroll company, etc.)?
- How will "tax credits/incentive rebates" fit into your financing plan and what, if any, "gap financing" do you envision will be needed to complete your budgetary requirements for the film?

LL: Is there a difference between U.S. and European/Asian investors?
WN: Generally, in my experience, U.S. investors are very "bottom-line" oriented, with their focus concentrated on ROI metrics. European investors are still concerned with these aspects of financing deals but also seem to be interested in the "content" and "aesthetics" of productions, with somewhat more interest in "cultural" considerations. Asian investors seem to be more likely to focus on the fame of the actors in the starring roles and "attachments," with what seems like more of a "branding" approach to considering projects. Investors from all three regions still place heavy emphasis on the "business" potential for productions, but they appear to vary a bit when it comes to weighing other elements.

LL: How did you find your investors?
WN: Developed relationships over the course of many years, augmented by word of mouth and introductions from colleagues and

brokers who make introductions for a fee. Many of the films on which I have worked have special-topic interest (particularly in the documentary area) to particular investors. Others, because of their historical, cultural, or other significance, have appealed to international investors and audiences. In several instances, the particular genre involved (horror, for example) seems to appeal to certain groups of investors who like both the genre and a "sweet spot" level of the budgets for such films. Generally speaking, it's a "global hunt" and requires a lot of persistence, resilience, and imagination over an extended period of time.

LL: What suggestions do you want to make to filmmakers in approaching investors?

WN:

- Have a very clear "vision" of what your film is about and the audience to whom it will appeal.
- Have a comprehensive command of not only the "creative" aspects of the film but also the "business" ones as well.
- Be able to clearly and succinctly articulate the above, and have a well-conceived and executed "pitch-kit" of supporting materials (logline/synopsis, Business Plan, sizzle reel, PowerPoint deck, etc.) prepared, in a manner that can either be used in person or via Skype or other online platforms, such as Google Hangouts and ones where documents can be shared/viewed together online.
- Be a good "listener" and not just a "pitcher," as many deals never get off the ground because filmmakers are too busy pitching their own words and not asking/eliciting questions and entering into a "dialogue" with potentially interested investors.
- Be flexible. Rigidity often makes it difficult to close a deal. With many deals that actually close, the original terms and conditions have been substantially revised in order to make them fit with the needs and requirements of both parties.
- Make sure that the people pitching investors are the most articulate members of your team, which may not necessarily be the people with a particular title in the production. This means that they need to be masters of the points above, but also able to "speak investor" and be "relatable personalities" who convey confidence and credibility in their presentations.

LL: Do you have suggestions about when to decide that a potential investor is not real?

WN: This is the major challenge that I think most producers face today. Certainly vetting through IMDB postings and references can be useful, but these are not always reliable indicators of peoples' *bona fides*. Many parties will even sign Letters of Intent or Memorandums of Understanding (MOUs) and then not honor them. Practically speaking, attempts to enforce these can be a costly, and often unproductive, use of time and resources. There are law firms as well as investigative and financial firms that specialize in background checks, and these can be worth the cost invested in vetting prospective investors, particularly to ferret out a negative history and ensure compliance with national and international laws and regulations relating to making proper investments with the right parties.

Ultimately, even with the above measures as part of one's business methodology, there are no sure answers, and even experienced industry veterans still face challenges in determining who's "real" and who's not. Many people want to "play" in the entertainment business and bootstrap themselves to others. However, for the most part, it's usually possible to spot the "posers" and "players" fairly quickly by getting to specifics and documentation, which can include "legal" and "proof of funds" type inquiries.

Raising Movie Money: The Investor Train

By Producer Scott duPont

I was responsible for raising the money for the documentary feature film *Movie Money CONFIDENTIAL*, which was inspired by this book.

In today's social-media-driven toxicity it is especially challenging to raise funds for risky, original, independent films, avoiding smears, misinformation, and other obstacles. If you watch our film, and by all means we strongly suggest you do, we explain how we overcame these challenges and persevered. In the end, we got fully funded using a proven strategy I call "The Investor Train."

When filmmakers ask where to find investors, I explain they should start with a killer business plan and people they know. There's a huge reluctance for filmmakers to reach out to friends, family, or even people in their own circles. I empathize with this because on my first few movies it was uncomfortable to make those phone calls to friends and family. The Investor Train starts off and then must go up a long, steep hill with no money—yet. The train needs to leave the station quickly and build up momentum during the first few weeks when you start fundraising, then work to keep more money coming in larger amounts without losing speed to get up the hill.

The secret is momentum from the beginning. Your first investors are usually going to be family, friends, or people who know and trust you. Aspiring filmmakers who push back about approaching friends, family, or people they know are usually doomed from the start. Let me give you an example from *Movie Money CONFIDENTIAL*:

We started off development with a "seed" investor who we all knew, then I got a cousin as my first investor, then two good friends (who I had known for over 20 years), and then a referral from one of those friends to another friend. The fifth investor was my brother.

In our movie you'll see many different investors explain in their own words why they decided to invest. Our train kept chugging up the hill, with some of the final investors being people I didn't know well but had some connection with. This Investor Train is designed specifically for lower-budget indie films with budgets from $50,000 to $2 million. On every single one of my dozen plus films I've learned the "first money" starts with someone you know. When stubborn filmmakers refuse to pitch their project to anyone they personally know, here's my rebuttal: "A stranger asks … 'You didn't put any money in your project, no family members invested and none of your friends are backing this film—but you want me to invest in this movie?'"

The point of the Investor Train is to show proof of support from family and friends and win the confidence of subsequent investors. If you or one of your partners invested, a family member, and/or some associates or friends invested at the start, that really gets the ball rolling. People invest with people they know and trust, and since movies have unique investment risks it makes sense that most of your investors will be people you know, or at least know who you are.

Hoping that a complete stranger writes you a $5,000 or $50,000 check is a bit unrealistic, possible but not likely. Some of your later investors might end up being people you don't know (they could be referrals or experienced investors who want to come in at the last minute, which is smart), but don't count on it.

Finally, our train was filled with investors, the system had worked again, we fully funded the film and sincerely hope it inspires others to make their films and tell their stories.

For more information check out MovieMoney.com to see where you can watch our film and see some of our real-life investors explain why they invested in *Movie Money* CONFIDENTIAL.

You can also learn more fundraising tips and information on my free podcast—*Finance YOUR Movie*—featuring interviews with guests like Louise Levison and other industry experts helping independent filmmakers find movie money for their projects. Good luck.

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Rick's Story "Fini"

Independent Filmmaker Rick Pamplin Interviews Himself

I. Escape from Development Hell

Q: Is this really the end of your story?
A: Well, I think so, in terms of this book.

Q: You appeared in the second edition in 1998 and in six subsequent editions. What went wrong?
A: Nothing. (Laughs) I hope it has been helpful. Sometimes it's lonely trying to make films, raise money, find an audience, so I always want to encourage others. The only way you fail, and I am not the first to say this, is to quit. If you keep going, no matter how slowly, you are still moving in the right direction. The only wrong decision is to stop.

Q: Why did you leave Hollywood?
A: Creative control, essentially. Selling yourself out, playing their games, in the end, is a pretty empty experience, no matter how much money or success you acquire, and mostly everyone I knew, including those at the top, were very unhappy.

Q: So you wanted to be happy?
A: I wanted to tell stories that would change the world. Hollywood wanted to produce movies that made money, period, with very little variation, except for what was called "Oscar Bait," the prestigious, serious films that would win awards and lose money.

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Q: How is that "changing the world" thing working out?
A: It took a while but I am finally, firmly on that path, making exactly the films I want, not the ones others want me to make.

Q: What took so long?
A: I didn't come from money or a family with connections. It was harder. I had an education, but student loans to pay off, bills to pay, I needed to survive.

Q: But you did well in Hollywood, teaching screenwriting, selling scripts, your spec script was distributed by a major movie studio, you were president of two production companies, worked in television and directed a feature film?
A: It was a great learning curve but the wrong path.

Q: What do you mean?
A: I was selling the wrong kind of films, creating projects for hard cash and credits. I bought a condo at the beach. I had a child, creating additional responsibility and overhead, forcing me to make more compromises to collect bigger paychecks. I bought a new house in the desert and was seduced into the Hollywood lifestyle, materialism, the glitter and gold, their way of living and doing business. I fantasized about escaping from my own life.

Q: So leaving Hollywood liberated you?
A: Yes, I went from a six-figure plus income to zero, living on a small savings account and some consulting work.

Q: Were you scared?
A: No, I was happy.

Q: Now you were finally making your "change the world" films?
A: Not exactly. I was finding my voice, but still a slave to making money not art. It took a while to evolve. I made a couple of successful films, a couple I shouldn't have, and took some outside jobs such as script doctoring, preparing budgets, and working on an Orlando boy band movie.

Q: What was the biggest difference between Hollywood and being independent?
A: Independent filmmakers have a more difficult, but ultimately much more satisfying, journey. The focus shifts from pleasure to

passion. You can slow down, savor the experience, be less constrained and more creative. You can find your muse, follow your instincts, and artistic expression replaces crass commercialism and greed.

Q: Can you be more specific?
A: First, there are less rules. Hollywood films operate on formulas, special effects, box office appeal of stars, a certain way of storytelling, three acts and all that. It's very confining and re-enforces a lot of stereotypes and prejudices. Originality is not desirable in most cases. Second, everyone is welcome in the indie world, especially women and minorities, bringing different voices, fresh stories, and new points of view. Freedom from the shackles of Hollywood rules. An independent film can be exhilarating and enlightening, maybe educational and entertaining, all at the same time. Hollywood wants to remake the same 36 plots over and over. It is often said Hollywood films are plot driven with stars and independent films are character driven with actors, and, basically, that's true, although there are exceptions.

Q: What happened to the three films you raised development funds for and were trying to make?
A: We were sued by an investor, three lawsuits, nine counts of alleged wrongdoing. It took five years to resolve, about $50,000 in legal fees and costs, the suits were dismissed. The three films were derailed, our funds depleted.

Q: Then you made another movie?
A: Not exactly, we produced a television show in Branson, Missouri, for some quick cash. It didn't go well, we were fired and literally run out of town.

Q: But you didn't sour on the industry?
A: Never be bitter in this business. You must forgive everyone of everything, including yourself. Your life will go much better. Unforgiveness is like swallowing poison and hoping the other person dies. Rise above it, soar like an eagle, tell your stories, make your movies, this is the summation of what I have learned over the years.

Q: So the three movies you had in development died?
A: No, not at all. Academy Award-winning actor Ernest Borgnine, who had signed on for all three films, passed away, some funding

sources dried up, our principal fundraiser died, the state of Florida, which had pledged over one million dollars for the first film, canceled their incentive program, so we regrouped and are now working with a new producer-fundraiser.

Q: And you are not discouraged?
A: Only by your question.

Q: Let's move on, any advice for others to avoid legal entanglements?
A: If you are prolific or successful you run the risk of being sued. Don't cut corners on your business plan or legal counsel. Pay top dollar and realize they are the foundation of your movie. Document everything, acknowledge the risk in writing, include multiple disclaimers, cast your investors even more carefully than your actors.

Q: Don't a lot of producers settle nuisance lawsuits, or declare bankruptcy, and consider it the cost of doing business?
A: True, but in our case the plaintiff demanded a list of our investors. Our previous legal counsel assured us we could keep their information private. Most don't want to be pestered by fundraisers or other filmmakers and prefer privacy. We filed a motion to protect their identities and lost. We filed an appeal and lost again. The law had changed. Under court order, we surrendered our list, then plaintiff's counsel wrote a letter trying to turn our investors against us. No one else joined their cause, so, eventually, all claims were dismissed. Our experience has been most film investors are very decent and smart people.

Q: Can you explain Development Hell?
A: In Hollywood, I sold and optioned multiple film projects to movie studios such as Warner Bros. and Walt Disney Pictures. I was paid option money, story money, sometimes writing money. Producers would then try to secure production funding, finalizing the script, attaching talent (i.e., movie stars), and preparing a budget. Hollywood studios option hundreds of ideas, concepts, treatments, screenplays, books, plays, and even songs every year to develop into movies. Most release about 15 films a year, so the odds are somewhat astronomical your project will get produced and, if it does, it might take years. Some of the greatest movies ever made were in development for decades.

Q: Is there a Development Hell for indies?
A: Yes, as an independent, raising development money is essential to putting your package together. You need a top-notch business plan (including projections), a small core of skilled filmmakers, an experienced entertainment lawyer, a bullet-proof budget, and acting talent. If you are a first-timer, surround yourself with veterans with proven track records. Most investors and movie stars require the above as a minimum to even look at a project. Unless you have deep pockets, you will need to raise money to get started.

Q: So how do you escape Development Hell?
A: Well, in Hollywood most of my projects died a natural death. Producers passed away, stars lost their box office appeal, someone made something similar, new studio heads generally won't make films developed by their predecessors, so you keep coming up with new material, hoping something catches fire, which seldom happens. One time, after leaving Hollywood, I received a call from a producer on the set of *Twelve Monkeys* about a screenplay of mine, as I recall they were in Pennsylvania. Bruce Willis was shouting in the background, he wanted my script for the next *Die Hard* movie. It was a pleasant call, but it never went any further.

Q: How about as an independent?
A: It's completely different. You control your destiny. You raise money, develop the literary property, prepare business plans and budgets, attract talent, seek out incentive money, pitch your dream project, and submit your package to funding sources. It's a lot more work, and a lot less pay, but much more rewarding and the projects in development never die. Independent producer Dan Griffin has about 80 total projects in development, including some of ours.

Q: So you escape Development Hell by making the movie?
A: Yes.

Q: How many film projects do you currently have in development?
A: Seven, the three previously mentioned and four others.

Q: How many of your indie films have made it out of development into production?
A: Five.

Q: How many films did you have in development in Hollywood?
A: Dozens, unsure of the exact number.

Q: How many films made it out of development in Hollywood?
A: None.

Q: Case closed?
A: My advice is, if you really want to make films, and not just play Hollywood, go indie.

II. *Movie Money CONFIDENTIAL*

Q: Why make a movie about financing films?
A: Louise Levison once told me "How do I get the money to make my movie?" was the most asked question whenever she spoke at film festivals, colleges, or conferences. People pitch me for financing almost every day on social media and when I meet new people they almost always ask me the same question. Filmmakers spend their whole lives chasing money to make movies.

Q: Don't film schools teach students how to fund their movies?
A: Not in my experience. A film hadn't been done, the subject was intriguing. Louise had carved out this unique niche of helping filmmakers get their projects funded by doing business plans. She had been teaching for 22 years, publishing her book for 28, and had some amazing success stories such as *The Blair Witch Project*. I knew there was a lot of misinformation out there about that film, I thought we might set the record straight, and also venture into the hidden corners of fundraising, talk to some filmmakers and investors, get the inside story, be bold, truthful, and reveal secrets.

Q: Can you take us through the process from idea to finished film?
A: Louise had stopped teaching film financing at UCLA and was now focusing exclusively on writing business plans for clients and a new edition of her book. We had lunch, I pitched her the idea, she said yes, and I picked up the check.

Q: Then what?
A: You make lists. You write a logline. You prepare a business plan. You call every single person you know. You never stop until you've funded your movie. The first person I called was Scott duPont, an

actor and award-winning producer I previously met in Orlando. We had worked on some films together, some his, some mine. During our legal ordeal he had stayed supportive, as he had also been wrongly sued and successfully defended himself, so he knew the game. He was living in Los Angeles, working as an actor and doing some producing. I pitched him our logline.

Q: Which was what?
A: "An original, provocative, entertaining exposé of long-held film industry trade secrets with real-life war stories from those on the front lines of film financing."

Q: How did he react?
A: He immediately said yes. No nonsense, no stalling, no hesitation. The quick yes versus the classic Hollywood slow no. We agreed to terms in one call. We would run the film through his company, he'd raise production funds and produce the film with Maggie, my wife and partner. I would write and direct, Louise would consult.

Q: How did you raise production funds?
A: Scott reached out to the primary money man behind *The Blair Witch Project* and it appeared he would finance the whole film. Maggie and I took Louise to lunch to celebrate. It was not to be, the investor decided to sink all his money into the legal marijuana business.

Q: How long did it take until the film was funded?
A: Two painfully long, somewhat excruciating years, Scott hammered away, doing a terrific job of wrangling family, friends, and even some people he did not know very well into investing. Scott explains how he did it and we interview several of these investors in the movie.

Q: So tell me about making the film?
A: We shot the movie with a talented crew headed up by two young, dynamic filmmakers, Jon Zietz and Eddie G. Cabrera, who own an award-winning South Florida production company. Scott contributed creatively as well, helping define the look via proper lenses and cameras, and Louise was always "all in" whenever we needed her expert advice and opinion. Maggie wore many hats, but significantly helped design the look of the film as production designer

and was our "boots-on-the-ground" producer while Scott was in Hollywood. Production took five weeks. It was a whirlwind. We brought the film in about $8,000 under budget and two days ahead of schedule.

Q: How would you summarize the movie?
A: Here's how we pitched it on our one-sheet for distributors:

> "Filmmakers reveal for the first time ever the secrets of film financing inspired by the best-selling book *Filmmakers & Financing* by Louise Levison—including the untold true story of funding *The Blair Witch Project*, the most profitable independent feature film in history. Filmmakers conducted over 60 on-camera interviews and shot almost 100 hours of footage with actors, authors, attorneys, directors, film investors, fundraisers, movie stars, producers, and screenwriters to reveal inside information and offer insight into funding films—how it's done, what works, what doesn't, and how to find and attract investors."

Q: Were you targeting a specific audience?
A: Here's how we explained it on the one-sheet:

> "Essential viewing for film students, filmmakers, investors, and movie fans worldwide. An empowering experience and award-winning film for audiences, inspired by *Filmmakers & Financing*—now in its Eighth Edition and translated into Mandarin. Movie fans will want to see actress-producer Salma Hayek explain her struggles to finance *Kahlil Gibran's The Prophet* and legendary Hollywood box office star Burt Reynolds' incisive interview about filmmaking, in this, his last motion picture appearance."

Q: Did Burt Reynolds ever see the finished film?
A: No, he had requested to see it as soon as possible. We scheduled two rough cut screenings for him, and some investors, when he returned from Los Angeles where he was doing a table read for Quentin Tarantino's *Once Upon a Time ... in Hollywood*. Burt had spoken to me about doing another film together. I was writing the treatment for that movie when the call came that Burt had passed away. He died sixteen days before our screening.

Q: How did that affect things?
A: When Burt passed away it hit hard. I sat in the editing room listening to him over and over, telling me to make the movie I wanted and not to listen to anyone else. I read the transcript. It felt like somehow Burt was in my head telling me what to do, guiding me. We did screenings in New York, Los Angeles, and Palm Beach. Then the pandemic came and whacked us.

Q: You got Covid?
A: Yes, Maggie and I contracted COVID-19, six weeks for me, less for her, three days knocking on death's door. We survived and continued.

Q: What were the initial reactions to the screenings?
A: Two early reviews praised the film. The Dove Foundation (Dove .org): "*Movie Money Confidential* is a fantastic documentary with great visuals and audio." Awarded Dove Seal of Approval, 12+ rating. And from Chart Magazine: "Empowering insights into the secret world of funding films. A bold eye-opener."

Q: How did you approach distribution?
A: The most difficult aspects of making an independent film are raising production funds and finding distribution. You can submit to film festivals, go directly to distributors, four-wall a theater, hoping for some strong box office and favorable reviews, or rely on networking. Over the years I have done them all and whatever works for your film is the correct choice. Do everything, if need be, until something clicks. My advice is always to take classes and seminars, read books, go to film festivals, make friends whenever and wherever you can. Sometimes, it is who you know that opens doors and makes your dreams come true.

Q: So, who did you know?
A: Two amazing things happened to us, which might be seen as God's favor and restoration for all the injustices we had endured, or just plain old dumb luck. We choose to thank God and some very good friends. Over time you will meet some really great people in the movie business. Nurture and treasure them, even if you don't

work together initially, because, eventually, they will come back into your life and bless you.

Q: So, what happened?
A: Louise was a speaker at a film conference in Los Angeles. She was also having lunch with possibly the most influential and powerful entertainment attorney in the independent film world, Michael Donaldson. He has represented indie filmmakers for over 30 years, is an expert on fair use, clearances and copyrights, author of four books (soon to be five), respected, revered, and lauded by filmmakers and the industry, and who says, "Nothing makes me happier than to see an artist's vision come to life." Over lunch Louise told Donaldson about our film, he asked to see it and then he called. He really liked the film, praised the originality and quality, and, after an exhilarating 45-minute telephone-call, he agreed to represent us and the film.

Q: Then what?
A: We spent six months going through Michael Donaldson's boot camp of clearances, releases, credits, and the proper packaging of a film for delivery to a distributor. It was fascinating and extremely satisfying to work with the master of fair use and his associates. Maggie secured releases for every item shown onscreen, we purchased the rights to a film clip from *The Blair Witch Project* and, once we met his unbelievably high standards, Donaldson issued a clearance letter and we purchased the appropriate insurance.

Q: So then you submitted the film?
A: Yes. Initially, many distributors say they love your movie (they don't want to miss out on something), big numbers are tossed about, weeks and months pass, deadlines are missed, excuses are made, contracts go unsigned, some think you are stupid and they can steal your movie. During this process, if you are human, you say, "Why the hell would I let these people ever touch my movie?" And so, you pass on some big deals, others pass on you.

Q: Any specific examples you can share?
A: One of the biggest distributors in the world supposedly loved our film, agreed to acquire it, then dragged their feet for months, frequently didn't return calls and, when we did connect, they often told confusing and contradictory stories. We tried to work with

them until, finally, after months of praise and broken promises, they informed us the head of their documentary division passed, saying our film was not suitable because documentaries can only be about one subject and we covered too many topics. Another well-known distributor said yes, multiple times, even in writing, then wanted to give me notes on re-editing the picture. Our film was locked, finished. My ears are still ringing from Burt Reynolds yelling inside my head to run away from this company, which ironically promoted the "creative rights" of filmmakers.

Q: Sounds like Distributor Hell, how did you escape that?
A: One day Scott, our producing partner, and Louise were invited to speak at the Orlando International Film Festival. Our mutual friend and colleague Kujaatele Kweli, known as Kooge, who had been interviewed in our film, was serving as producer-director of digital promotion and educational materials and was master of ceremonies for the festival. During the event Kooge suggested Scott call a friend, producer-writer-director Sue Ann Taylor, who was raising funds for a film. They talked and she highly recommended a somewhat new distributor, Kaczmarek Digital Media Group (KDMG), which had handled her last two films and possibly an upcoming third project. We researched KDMG, did our due diligence, and found them to be a perfect fit for our project. After two Zoom calls with CEO and co-founder Kyle Kaczmarek and vice-president of sales and acquisitions Sherry Sparks, they submitted a very fair and competitive offer and, as this book goes to press, we have signed a long-form contract with them for worldwide rights to our film. Representing us, naturally, is Michael Donaldson's law firm.

Q: And the lesson is?
A: Two very great friends, Louise and Kooge, who are both in our film, helped connect us to our dream lawyer and an amazing distributor. Go figure. Get to know people. Make the rounds, bang your drum, never, ever give up, stay strong, don't compromise, make connections, be bold, tell your story, keep banging your drum, someday it will be your turn.

Q: Anything else?
A: Yes. For information on how to see *Movie Money* CONFIDENTIAL go to MovieMoney.com.

III. Why Most People Have Got the Future All Wrong

Q: Given we are facing a postpandemic world, what will happen to the movies?
A: Wonderful things. The old Hollywood business models will no longer work. With fewer theaters, the merging of industry titans, and a dwindling audience for the multiplex cartoon action films, storytelling will return, new talents will resurface, better films will be made on smaller budgets.

Q: But isn't streaming killing the movies?
A: No, streaming is the savior of all cinema. Bloated, big budget Hollywood films may not survive, but for everyone else streaming is the very bright future. The pandemic closed theaters, forced people indoors, and they discovered streaming sites in record numbers. Look at the explosion of documentaries, binge worthy high-quality television series, DVD and digital-on-demand opportunities for films. We are entering the real golden age of cinema.

Q: What about independents?
A: Once it all shakes out, independents should rule. Better stories, smaller budgets, increased production values, originality, compelling material with new perspectives and voices. We are becoming a world of content providers on many platforms. This can be as revolutionary as home video was in the 80s, forever changing the movie business and for the better. But the real earth-shattering part of this is that smaller, independent films are more sustainable and potentially more profitable. Hollywood blockbusters won't be able to return adequate profits, certainly not the megaplex type numbers they used to rake in.

Q: But won't audiences miss bigger budgeted films?
A: Great movies historically have been about human beings, the human condition, the triumph of the human spirit, not CGI and A.I. and all that. Look at *Nomadland*. A woman living in a van. Very low budget. No plot, great acting, character driven, very unique. Brilliantly directed by a woman. Endless awards, "Best Picture" Academy Award, and now two million Americans call themselves nomads and live in Recreational Vehicles (RVs). Clark Gable took off his shirt in *It Happened One Night*, wasn't wearing an undershirt and

most men, pretty much to this day, quit wearing undershirts. Tom Cruise wore Ray-Ban sunglasses in *Top Gun* and sales skyrocketed, saving the company from near bankruptcy. Frances McDormand becomes a nomad, sleeps in a van, travels around America and it changes the world. It's already happening.

Q: So you see *Nomadland* as some sort of seminal moment in the history of cinema?
A: Yes, I do. And you should, too. Middle-class people are selling their homes and living on the road working remotely. Entire families are now nomads. There are waiting lists to purchase new RVs, van conversations are raging, campgrounds are full and turning people away. It's like a nation of Jack Kerouacs is emerging. Be free, independent, escape the rat race. See the world, be bold and daring, seek out new adventures. Blogs, social media, and video platforms are filled with free spirited, happy drop outs who are becoming content providers and honing their skills as filmmakers. They are also monetizing their efforts with large followings, i.e., subscribers and six-figure annual incomes, millions for some.

Q: What does this have to do with filmmaking?
A: Everything. These content providers don't need big budgets, stars, or Hollywood to make films or money. In fact, most completely ignore Hollywood. They are the next generation of independent filmmakers and will represent a sort of grass roots cinematic revolution, like the French New Wave, or the home video explosion, forever changing motion pictures while expanding the market. Hollywood is not dead and will not die. It will be less grandiose, different, evolving and reinventing itself to avoid extinction. The future is upon us, an increasing universe of possibilities for filmmakers, independents, and content providers, however you choose to define yourself.

Q: So what exactly is the future?
A: Cinema flourishes and evolves in exciting new ways. Storytelling replaces shallow cardboard stereotypes and formulistic, repetitive remakes and bloated cartoonish super-hero movies. The insatiable appetite of audiences for movies has never slowed down. So, I say, learn your craft, find your place, stay informed, and jump onboard. All are welcome.

Q: Where is streaming heading?
A: Studies show the most popular content on streaming is original movies. With all the distractions and difficulties in our world, people still want imaginative films, not remakes, not cartoons, not video games, people who pay money to watch programming want original feature films. Therein lies the fate of independent filmmakers, the challenge is to fill that void as quickly as possible and join in.

Q: What's next for you?
A: Maggie and I started making another movie a few months ago. We have self-financed it so far and are about half-way done. It's the kind of film I have wanted to make since I was a teenager, inspired by George Harrison's *The Concert for Bangladesh*. Over the years everyone from family members to film school teachers to Hollywood hot shots would laugh at and ridicule me when I would bring up the subject matter.

Q: And that doesn't bother you?
A: Sometimes, due to negative things that happened in the past, or because of previous mistakes, we become less bold, we let our dreams drift away. You do not need anyone's permission to make an independent film. Do not surrender your talents, vision, future, or destiny to gain approval from people you don't like or respect. Personally, I don't care anymore. I am an independent filmmaker. I am powerful. Hear me roar. I have stories to tell. I want to make a better world. And I have Burt Reynolds' words rattling around in my head and I don't think they are planning on leaving anytime soon.

Q: Wow. This doesn't sound like the end of your story, does it?
A: Never say never.

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