Media and entertainment in the digital age

How change is sweeping across the cinematic landscape

In the movie business, it seems the only constant is change. And yet, the more things change, the more they stay the same – with one or two notable exceptions.

After another successful year of the Toronto International Film Festival (TIFF), it’s clear that many showbiz executives remain focused on the funding and development of projects, finding the most cost-effective methods of distribution, and, as always, piracy.

On 12 September 2011, Ernst & Young and Heenan Blaikie hosted the fifth annual State of the Industry discussion for key media and entertainment players at TIFF. Panellists addressed some of the many challenges confronting the industry, particularly those faced by independent film producers.

Panellists included Tom Bernard, Co-President and co-founder of Sony Pictures Classics; David Glasser, Chief Operating Officer of the Weinstein Company; Rachael Horovitz, Producer of Moneyball and Grey Gardens; Victor Loewy, Chief Executive Officer of Alliance Films; and Martin Moszkowicz, Chief Executive Officer of Constantin Film. Steven Gaydos, Executive Editor of Variety magazine, moderated this lively and unscripted industry chat.
Is film still the art form of the 21st century?

Opinion seems to be evenly divided on whether film – or cinema, as it’s properly called in the digital age – is still the art form it was in the 20th century. Steven Gaydos asked the panel if the appetite for making interesting films is still there and what, if anything, has changed over the last 10 years.

David Glasser noted that audiences are saying, “If you give it to us, we’ll go see it.” There’s an incredible appetite for independent movies, and, as a result, the industry has developed a “split personality as indie movies have become hip.”

The panellists agreed that it isn’t any easier to make a film now than it was 10 years ago – it was never easy to make a film, of course – but neither is it any harder. What’s changed significantly over the past 10 years is the process. For example, Rachael Horovitz spent eight years taking her new production, Moneyball, which premiered at TIFF, from the book through the development deal to production.

Adding to the frustrations of independent producers are the labels studios attach to films. Cable system operators are also in on the act as they categorize content for video on demand. “I am the casualty of this change,” said Horovitz. “You don’t set movies up the way you used to.”

Ten years ago, the studios competed more for projects, and spent much more money on development than they do now. But Horovitz cautions that development deals are “like a death sentence,” as they can really impede a filmmaker’s progress.

Martin Moszkowicz agreed, saying that it’s an extremely complicated process, leaving producers with no control over timelines, creative vision or even economics. “If you have the money to develop your projects on your own, you have more control of your work, and you have the opportunity to make more money.”

However, he says, producers must be able to adapt to the constant changes taking place in the industry. The reality is that the environment during development may have changed significantly by the time the film is ready to shoot and again by the time it’s released.

Still, there are also genuine investors who read scripts and are interested in making a quality product, like The King’s Speech, The Fighter or Black Swan. The commercial banks are also investing in cinema.

In today’s financing structure, tax incentives are almost mandatory. Many countries, including Canada and many in Europe, offer subsidies that can potentially equate to 70%-80% of a film’s budget. Since 100% financing of a project from presales is highly unlikely, these tax incentives, together with a few presales, can be enough to get started.

Finding equity has never been easy, but there are equity investors out there for quality films. The use of equity has also become more important, as it’s now becoming increasingly difficult to get in the doors of studios and distributors.

What’s the best way to promote in the electronic world?

The last decade has witnessed a sea change in how films are marketed and distributed. Studios typically spend around US$150 million marketing a new movie, but social media is now playing an increasing role for audiences. As well as being extremely cost effective, these new channels are also efficient at reaching the desired audience based on what people “like” in their profiles. It’s as easy as pushing a button.

Tom Bernard explained, “I bumped into a guy who worked for Facebook at the Sundance Film Festival and I immediately made a deal with him.”
Despite the increasing importance of social media in promoting films, and with online companies such as Yahoo, AOL and YouTube competing to premiere trailers, the effect has yet to result in a decrease in overall marketing costs. Television remains the preferred medium for reaching general audiences for mainstream movies. However, producers of independent films may find social media a better option if they’re looking to reach a particular demographic.

Victor Loewy pointed out that newspaper advertising is virtually non-existent, unless the advertising is online. Companies are also using separate advertising agencies for each channel they use, such as TV, Facebook and YouTube.

Film companies now have teams monitoring social media sites like Facebook, as well as blogs, to get a sense of what audiences are thinking about their films. This allows companies to change their marketing strategies mid-stream to take advantage of new and unexpected audiences. This kind of innovative thinking and operational agility separates high performers from less successful ones.

High-performing companies focus on their current customers and employees as primary sources of innovation. According to a new Ernst & Young report, *Competing for growth*, these high performers also move more quickly getting initial ideas to market and following a formal process for innovation, with greater clarity on “go/no-go” decisions. Many of the lessons learned in the report could be directly applied to the changing landscape of the film industry.

**Is there a future for DVDs?**

DVDs are another format suffering from lower sales. Companies are cautiously lowering their expectations, and it is expected that sales will continue to fall. Bernard also indicated that major retailers are reducing the amount of shelf space dedicated to carrying DVDs, which is contributing to falling sales.

But this situation isn't considered too serious as long as international sales remain strong and there are other distribution channels, such as iTunes, to pick up the slack.

Harvey Weinstein once said, “A movie has to work theatrically first.” However, there is still a market in DVDs for movies that didn't succeed in theatres. But such releases require a star and the correct package to be successful on DVD.

**Is piracy still a major concern?**

The overwhelming consensus is that piracy remains a top concern, and online advertising presents the most dangers.

Martin Moszkowicz recounted an experience from the 2005 German film *Downfall* (*Der Untergang*). One scene from the film was downloaded from YouTube 2.4 million times. However, none of these downloads generated revenue. According to Moszkowicz, Constantin Film, the movie’s producer, negotiated a small royalty with YouTube for each download.

Bernard also warned that the days of presales in foreign countries are likely at an end. *Tyson* was released initially in the UK, but the film was pirated and downloaded 250,000 times illegally before its release in the US. This kind of activity effectively eliminates the possibility of presales in other regions, unless studios and distributors can offer legal alternatives, such as iTunes.

Another such alternative is Ultraviolet, an electronic warehouse slated to be rolled out later this year. It allows consumers to legally download content onto one device and then share it with other devices, allowing viewers to watch any way they want. This could ultimately increase revenue for film companies.
What's next?
Change can be a good thing, but it can also be challenging. In the film industry, the studio system is highly regimented and often not as quick to respond to new ideas. New technologies, available to the general public as never before, are changing the film and television industry in unprecedented ways. New distribution channels are cropping up all the time, leading to far-reaching implications – not just around piracy, but how content is created and produced. The decades-old models of how revenue is generated in the film industry are changing; how film companies navigate those changes will determine their long-term success.

How can we help?
Ernst & Young helps media and entertainment companies adapt to change, manage risk, meet regulatory requirements, foster product innovation and develop new business models. Our team of experienced industry professionals in Canada and around the world – supported by the Ernst & Young Global Media & Entertainment Center – provides a wide range of assurance, risk advisory, tax, transaction and finance-related advisory services to help companies achieve their objectives.

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