



Theatrical 2.0 – The Challenges of Finding New Distribution Schemes for the Black Box

By the German producer Martin Hagemann (Zero Fiction Film GmbH) and Joachim Keil (Daredo)

Martin Hagemann offered to approach this session as a conversation between him and Joachim Keil, sharing their respective backgrounds, experience, opinions on the current situation of the film industry (compared to the music one especially) and their visions of the future. Are there new models for new perspectives?

As he stated, he used to be an independent producer like most of participants in the audience, producing with love, having the sensation to produce better films but making less money. Some years ago, he became a Professor at film school and this is how he met with Joachim Keil from Daredo. Looking at the major changes of the industry caused by digitisation, or let's say the disruption of the film market, he convinced him to dare experimenting new things to attempt to find new ways of producing and distributing films.

The old school funding model

One of the first issues we all face is that we evolve in an old system, especially in terms of financing: the 2 main players being public money (national and regional funds) and TV. The whole chain is being covered, from development all the way to distribution and cinemas. Film funding in Europe amounted to 3b€ in 2012. There are some differences between countries in Europe but still European independent cinema mostly exists thanks to public funding. If we take the example of Germany, a standard film is being financed as follows: 45% by film funds, 25% distributors, 15% by TV, 10% by producers, 5% by others.

Old school revenues

- 50% to cinemas (and concessions)
- out of the 50% producer's share: 35% to the distributor (as a fee), 65% for MG & costs and DVD/VOD/SVOD & TV rights (if not pre-sold) are usually given to distributors as a risk back-up.

If we take the example of a medium size European film of 4mio€ budget, the break even figures are as follows:

- 575.000 admissions for the distributor
- 655.000 admissions for the producer
- 1.1mio admissions for the funder



This situation has turned producers into line producers for distributors and exhibitors. Those taking the risks are the producers. The only realistic income for producers: producer's fee + mark up's, around 8-12% minus 5-10% producer's investment, which leaves the producers with about 5% from the budget.

Business model for old school producers

The credo is:

- Save as much money as possible from the film, otherwise you risk your income and your company (exactly the opposite of what producers should do: produce better films);
- produce as many films as possible.

Results of the old school funding system: *a huge increase of film production and a saturation in the cinemas.*

If we keep the focus on Germany & European films:

- 1970: 55 German films and 305 European films
- 2013: 230 German films and 1.390 European films

So too many films that have to be distributed but we also have to face:

- Bad terms of trade,
- Piracy/mentality issue: everything is free,
- Distributors still make good money (especially thanks to public subsidies),
- A new revolutionary distribution and content media that nobody really understands (but google, apple and amazon),
- The cascade of many revenues spread over 2 to 3 years will disappear (we used to sell the same product to the audience 3 to 4 times, from the cinema then to video/DVD, TV/Pay & Free,
- Therefore budgets will decrease on the arthouse side and increase on the entertainment side.

No new model yet and the crisis grows ... what should we do?

Bad idea to hang on too long to the old ones. If there is no new business model yet, thus we urgently need to develop and experiment new ones!

Let's dare experimenting: the Fogma example (production & distribution)



Martin Hagemann has been through a new experience, FOGMA, at film school. This is how he met with Joachim Keil, coming from the music industry. The latter also had to face a technical revolution (from physical to digital distribution) and piracy in his field. Instead of remaining frustrated, at Daredo they have decided to concentrate on the people who liked what they were doing, on the music fans. Investing in marketing is important for the film business too.

Students of the film school have produced "Love Steaks": 10 people crew, 8 weeks of shooting with RED Epic, 15.000€ cash, regular post-production, 2K DCP. The film takes place in one location, a wellness hotel in the winter by the seaside, 2 actors, a dozen amateurs. Without in-kind investment (hotel) a realistic budget of 350.000€.

In Germany, like in most European countries, the old system consists in windows like 6 month-exclusivity in the cinemas. The audience of "Love Steaks" does not watch TV but goes to theatres and screen films on the net. Why not a simultaneous release?

Day & Date Release: "Cinestream"

They decided to create a model, a brand called "Cinestream": they gave the VOD rights to exhibitors for free and the whole technique was in the hands of Daredo. 20 cinemas agreed to do it immediately and 20 more could possibly join. But the cinemas have been backmailed and the film had to be released the old way: in total, between 30-40 cinemas, 15-20 cinestream and 15-20 regular ones.

Distribution budget amounted to 100.000€ : 15.000€ of technical costs for Cinestream and 85.000€ marketing costs including press and marketing agencies.

Deal & Recoupment:

We give all the rights.

50% coming from the cinema minus 15% fee for booking and billing fee.

1.Rank: costs from the top, 10% corridor producer till recoupment by investor.

1.Rank: 90% for producer up to 30.000€ (delayed MG), 10% to investor.

2.50% 50% on all rights

If we reach:

- 45.000 admissions: recoupment of distribution costs and the producer gets 11.000€
- 54.000 admissions: recoupment "MG" by the producer.

No windows, then: TV sales, regular VOD, international rights in the hands of the producer, 50% share.



DIGITAL PRODUCTION **CHALLENGE II**

New models future & recommendations for producers

- To regain capital
- To be able to finance distribution costs (crowd funding makes more sense for distribution than for production, investment for future P&A)

It goes through experimenting:

- Low budgets
- New distribution models
- Different ways to sustain a living during experimental period.

It has become clear that producers' rights are devalued, that linear TV does not work any longer, Internet does but who pays for it?

Conclusions

- Films must be financed without giving away Internet rights (mainly Internet TV);
- The transfer of public financed TV to public financed non-linear Internet must be regulated;
- Cinemas become the analog locations in the digital world;
- Cinemas must develop new audience-connection and new business models (ex. cinema-on-demand, cinema VOD);
- We should all change mind set, not be afraid and believe in the future: accepting and understanding what is happening in our industry, remaining responsible, in charge of the commercialisation of our products (there are new platforms and more possibilities), questioning ourselves more on "what is my content? What is my audience?" and start looking for our fans ... worldwide!

One significant difference between music and cinema is the length of a song vs. a film: you can't watch a film 5 times a day!