Film Financing Rule #1 – Be Prepared

By Marty Shindler

“It’s all about being prepared. You need to have a solid set of projections for revenue, expenses and, of course, an anticipated bottom line, if you want a financier to take you seriously,” I said to an acquaintance that I had met a few weeks prior at a networking event.

“That is, of course, unless you have a rich uncle who will write you a check with no questions asked”, I continued, chuckling under my breath.

“But, I have done a solid production budget. It is not just a guesstimate of the cost. I have done a line item budget and have even been able to get bids from many vendors, so that it is not a smoke and mirrors estimate of the costs” he responded. “I am confident in the total and know we can get this movie made within the total.”

“Furthermore, the story and characters are compelling. This is not just fluff wrapped in a wish to make the picture,” he continued.

I mulled over his spreadsheet and two page project summary.

Content is king. It is all about content. We all know that, for without a good story, no matter how great the performances, how lush the settings or how professionally the movie is shot, the story is fundamental.

Today, though, while content is king, so are the finances that surround the picture. How often do we read in the trades that the movie is being delayed while the producers work with the studio to get the budget to an acceptable level? How often have you had a “plum” assignment delayed as a result of budget issues? It happens all the time.

“Studios, with an average negative cost of $60 million and average marketing costs of $36.2 million take a hard look at the entire financial prospects of the movie under consideration before a green light to move forward can be given. You should, too,” I said to the would be independent film producer.

The fact is, with more than 500 films being released each year, there is a lot of competition in the marketplace. Even without knowing the “official” number of releases, one only needs to look in the paper on a Friday or Saturday to see the sheer volume of product in the marketplace at any one time.

"I always thought that since it can be difficult to predict box office in the US and worldwide, that having a solid production budget would be sufficient and that the revenue would take care of itself when the movie is completed and released," the producer commented.

"True enough," I responded, "but you still need to have a sense of what the range of success might be or even the range of failure, assuming the movie fails to attract a distributor and then an audience. Are you going to just shrug when you meet a financier and you are asked what the possibility of a return on the investment would be?" I asked him somewhat rhetorically.

I had made my point. The producer was not sure how to respond.

Making a movie is a risky venture, just like many other businesses. Even with additional revenue opportunities available today, due in part to a burgeoning digital distribution industry thanks to broadband penetration and the digital infrastructure upgrades made by the cable companies, industry statistics point to 60% - 75% of the movies released losing money for their investors.

Of the remaining 25 – 40%, about half will make a little money/breakeven and the rest will make a tidy profit, sometimes making up for the rest that lost, at least in a diversified product mix portfolio, the kind of product mix used by most studios.

While there is never a guarantee of a profit in any business, at least having a sense of the potential is important. Studios run the numbers all the time to get a sense of the potential for a movie. While there are a lot of qualitative factors that go into the final decision, such as genre, story line, characters, talent attached, possible release date, acceptability outside the US, etc. the numbers heavily influence the decision.

When developing a set of projections, the following should be considered:

- Be sure the production budget is solid and based on the final or near final script, if at all possible, although budgets should be started sooner than later, even with a working script. Do not rely on guesstimates. Obtain written bids where possible.
- Develop a set of projections starting with detailed revenue. It is important to have a sense of whether the movie will/might be released by a major studio, major independent or even a smaller organization. The type of release could impact the revenue.
- Include North America box office and box office for the rest of the world. Translate the box office to film rental. The projections should be done for a minimum of 5 different levels, starting with a low revenue estimate and working up in logical increments to a high. The two extremes are very important as they will form the potential "range of possibilities."

- In developing revenue projections for DVD and TV, keep in mind that the current DVD market is slowing down and no longer generating double digit growth rates. Be sure to consider the forthcoming next generation DVDs and the format war that is currently underway.
- Look to video on demand to make a potentially significant impact in the future. It is possible that VOD may be a disruptive factor in the entire revenue stream, especially impacting the next generation DVDs due to the growth of HDTV sets and increasing availability of HD content.
- Factor in nascent revenue streams from digital downloads, downloads to own and downloads to burn. These are difficult areas to estimate due to business models still being worked out.
- Include distribution costs that you expect to incur. These will vary with the level of revenue included in the projections.
- Develop a cash break even and a net profit break even, the latter being the standard contractual formula studios use for calculating shares of net profits for those lucky enough to warrant them. Understand the terms used. Read Understand Before You Sign at iShindler.com.

This is not intended to be an all inclusive set of concepts to include in a set of projections as the specifics may vary with the project and with other factors. It should be used as a guideline.

It is never a guarantee that financing can be raised and that a movie that is financed will turn out to be good and will be commercially successful. However, the #1 consideration that will put you a step ahead of others is being prepared. It's not just for Scouts.

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