

Economics of the movie business

[Entertainment](#), [Movie](#)



In most of the cultural industries, product performance is usually evaluated within a multidimensional sector. Cultural goods have a two fold nature. They are both artistic in creation and economic also in nature. If a cultural perspective is taken, the sectors within which the creation, distribution and evaluation of the cultural products takes place shapes the entire symbolic element. From one perspective, innovation, creativity as well as authenticity represents the cultural industries and its features used to attract the attendance. The economic factors that the actors are subjected determine their eventual success .

Films represent a dual nature that is composed of the cultural creations and the economic factors. Thus the success of a film can be done either on its box-office success or on the quality of the cultural content. There is a fruitful research area for scholars within the film industry. It's a appealing to researchers because it has a high economic significance as it does offer rich data over a large range of new products. It is estimated that the motion industry does employ over half a million people in U. S alone.

In 2004 alone it is also estimated that approximately \$9 billion and \$11 billion was spent on theatrical tickets in the U. S and internationally respectively. In the entertainment market, it is the motion pictures that are considered to be the key drive within the U. S. This is an area that is appealing to researchers since the availability of new data within a relatively short period of time makes the area even more appealing. Its also worth noting that practitioners in this field heavily rely on the conventional traditional wisdom as well as the simple rules of life which in most cases do

not demand that they be examined in close proximity. Movies production is not only very costly but also very risky.

Individualizing roles helps to reduce the risk as well as overcome the financial difficult. Different individuals as well as entities take part in the entire process of producing and distributing a film. Different levels of competition also do exist. To be noted here in this particular case is the presence of integrated major studios, independent distributors, independent production companies, country wide exhibition chains, as well as other smaller art houses. There are four major functions that are carried forth within a studio set up. These include but may not be limited to; producing, financing, advertising and distributing.

Production can be regarded as activities that are required to produce a copy of a movie. Distribution encompasses a situation where the distributor interacts with the exhibitors and eventually with the audience³. Some of the revenue windows provided forth by the motion picture industry include, domestic theatrical, home video, foreign theatrical, network television, pay television, video games, syndication and merchandising. It has been noted in many research that a clear understanding of the audience is a major key of finding solutions to the problems that the producers, distributors and the exhibitors face.

An economic approach that has been taken in this kind of studies is one that has explored the factors that may have an influence on the financial performance of a film⁸. Producer They are charged with the responsibility of being the overall managers of the film production taking care of the logistic and administrative details. Usually, they do consult with their clients in order

to have a common agreement on the objective, concept and their target audience of the program. They are also charged with the responsibility of designing the production within the budget and maintain it throughout the entire production.

They not only approve the work of the script writers and the entire production set, they also come up with the production schedule, acquire the needed equipment and arrange the selected site for the shooting. Based on the parameters that have set forth by the organization, they choose the in-house work, select production crew this including director, camera operators, performers and the rest⁶. For the legal part of it, they prepare contract details for the commercial services such as hiring transmission and production facilities, professional scriptwriter and actors.

Other services which they are responsible for are making the decision on are the post production services, which may include but not limited to multi-track audio recording, digital optional effects, closed captions as well as resolving the problems that may arise between the contractors and the agency. Finally they are supposed as per custom to approve the final production as well as make sure that it does reflect the agencies policies³.

Directors They are charged with the responsibility of ensuring aesthetic quality of the companies' audiovisual production and maintain the production values.

They work together with the producer, script writer and client in translating the script into various visual and audio elements that will eventually communicate the intended message. They design lighting and the sets, create additional visual elements that may include animation and graphics

and also select sound effects and music that will complement and accompany the images¹². They also rehearse the narrators and the actors and also determine camera angles and placement. During production, they orchestrate the participant's action, direct the movements and cue the audio elements.

In most of the cases, they carry out a preliminary editing of the film a step that gives them the opportunity to put the scenes in a proper sequence that sees a rough draft of the film produced for the clients' approval before the final editing is done³. Editors They are charged with all post-production responsibilities. This includes adjusting, assembling and enhancing the visual and audio elements so as to come up with the finished film. They make use of computerized equipment such as character generators, video switchers and digital optics generators so as to create a variety of special effects.

They not only control the technical quality of the product, they also monitor it using vector scopes, form monitors and signal processing equipment. Just like the directors, they need to have a creative sense so as to be able to construct scenes captured in volumes of raw videotapes and blend the visual and audio elements together . It should noted that the roles of a producer, director and the editor are in most cases well defined and separate inmost of the motion picture industries and in the larger Government audiovisual organization.

But the scenario in most of the Federal agencies is not like so since most of these roles are usually interwoven to some extent. Most of the common arrangement is to have the producers direct their own programs or to have the producer-director shift their role on various circumstances. Also worth

noting is that most of the producers and directors do their own videography or script writing . Every movie may have its own unique approach of production but there may be some general approach in all of them. In most of them, they begin with a story that is usually based on some literary concept.

This maybe a true event or a new idea. In some of these cases a producer or a studio may request a writer to come up with a new screen play that is adapted to an already existing one. With the help of a literary agent, the writer forwards the draft to studio/independent affiliated producers for review. If the producer is interested with the screenplay, he may purchase it, pay the writer and have the literary agent take some of the money . It's at this time that a substantial amount of money is needed for the film to be produced.

This may not be so problematic if the writer is affiliated to a certain studio. The option of not to go through the finances alone is for the producer to sign a contract with the studio which in most cases does see him give up a good portion of rights that may relate to sequels, merchandising, spin-offs, among others but at the same time gives him an opportunity to apply for and get bank loans, secure better distribution and exhibition deals as well as even tapping some of the studios capital. From the studios perspective, these kind of deals are highly beneficial as they guarantee a steady flow of records.

Unfortunately, in most of the project, financing is a problem as the producers do not manage to have a deal with the studios and they thus have to finance it themselves. A more difficult situation is encountered if the producer does not manage to secure a distribution deal⁵. Other lines of the film

development are required from the producers and these include though not limited to; recruit the director, cast and the crew, design costumes and sets, scout possible shooting locations, among other responsibilities.

The producers are at this stage expected to determine an estimated budget that is based on such factors as cost of the script, production and post production expenses, and the star salaries. A few months follow this step where the film is shot and the post production phase which consist of activities such as dubbing, editing, creating special effects, and incorporating music are all done . The process of rating also does follow especially from the movies that have to be distributed outside the U. S. Most of the movies from ‘ Hollywood’ dominate box-office ratings in most part of the globe.

In US therefore, the international theatrical market gives more than even the domestic market. Ironically from this great success of ‘ Hollywood’ its only 700 movies that are usually produced in U. S every year compared to approximately 7000 movies produced world wide. India is sometime referred to as ‘ Bollywood’ as it did produce more than 1000 films in just 2001 alone which were able to generate 45 billion rupees in revenues. Why make movie that eventually flop in the box office? A good example of this is the movie The Adventure of Pluto Nash, which did cost \$100 million to produce but sadly earned less then \$5million in U.

S theaters. Another type of error that is worth noting is of rejecting potentially successful project with a good example of the Passion of the Christ, which at 2004 was the at one time the highest-grossing independent movie but several major studios had turned down the offer to be partners in the production¹⁰. Risk of producing a movie These may be classified in three

main category; financial risk, completion risk and performance risk. They face a completion risk because of the changing relationship and motivation between the producer, stars and financiers .

They also face performance risk because there is lots of uncertainties regarding the stars appeal, critics and reactions of the audience, and it is also difficult to accurately predict the revenue performance. It is for this reason that the equity investors face financial risk. This requirement to manage increased cost with reduced potential investors is what has created one of the major funding problem for the independent producers and the studios as well. To reduce the risk, studios are capitalizing on brand equity and are also pursuing franchises based on properties that have shown some interest on the market.

There are contracting terms that actors, producers, directors and the other members of the entire production are worth noting. Such factors may determine how these role interplay with each other and may include moral hazard mitigation, risk sharing, liquidity constraints, and the superstar phenomenon. Some studies have shown that it's worth for the actors to accept some ' typecasting' role early on in their careers, as this helps them to stand out in the crowd but it may also act as a source of some trade-offs at a later stage².