The Business Strategy of Hollywood's Most Powerful Distributors: an Empirical Analysis

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Abstract

As many authors suggest, nowadays the distribution arms of the major info-entertainment conglomerates heavily invest in feature films that promote their own intellectual properties. As a result, the variety of features films that these companies contribute to produce increasignly depends on the revenues that the embedded intellectual properties can generate on secondary and ancillary markets, while the theatrical release is frequently an expensive loss leader mainly designed to create awareness of these properties. Using publicly available data from various internet databases, the present paper provides a contribution to the understanding of this trend by analyzing the portfolio of feature films released in 2007 and distributed by the mainstream and minor divisions of the six largest 'Majors'. Specifically, the purpose of this analysis is to assess the use of three cardinal principals of this business strategy valorising intellectual properties: (1) 'Strike while the iron is hot', (2) 'Open Big', and (3) 'Diversify your slate'. This analysis shows that in the year in question, about 60% of funding allocated to feature films was invested in 'non-original' content and that the conglomerates that were the most efficient in applying these principles were also the best earners.

Keywords: Hollywood film distributors; intellectual properties; audio-visual markets

Introduction

It is rather common to find in the literature statements describing the business world of filmmaking as very uncertain, because this activity commonly requires large investments in projects that rarely produce net profits. Moreover, even though producers, distributors and the same Motion Picture Association of America (MPAA) are very reticent with regard to publicly disclosing the details of the different revenues that their feature films generate (Epstein, 2010; Ulin, 2009), the poor success rate of filmmaking in Hollywood is often explained by using a widely accepted and precise figure, which makes the risk of filmmaking credible and real. Indeed, the share of feature films making net profits is commonly known to be '20 per cent or less' (see, for example, Weinstein, 1998; Picard, 2005; United Nations, 2008) besides the unlikely existence of any reliable empirical evidence, given the lack of detailed and trustworthy information (Sparviero, *forthcoming*).

The implications of the uncritical acceptance of this '20% success rule', i.e. the widely spread belief that only one in five feature films makes a positive financial return, should not be neglected: notably, when

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policy-makers accept that the outcome of a movie is highly unpredictable and the gap in terms of income between a success and a failure can be substantial, they are also more inclined to accept concentration in this sector as a way to reduce risk and increase potential investments. In this situation, only large distributor-producers of feature films are able to produce a portfolio of projects that is large enough to contain at least a few profitable ones that make the company financially viable. Notably, however, concentration of ownership in audio-visual markets is also a concern for policy-makers as this is likely to reduce the variety of content and viewpoints available to the audience; yet, these concerns are partly offset by this idea that, in order to diversify their production, competing large distributors can cross-subsidize the production of content and finance, for example, niche and less commercial movies. As a result, in theory and under certain conditions, the existence of a few large distributors can also contribute to extend the variety and improve the quality of feature films.

The results of the research conducted and presented in this paper provide a contribution to this debate. A previous study (Sparviero, *forthcoming*) focused on the success rate of the six largest info-entertainment conglomerates (here also, 'the Majors') concluded that the '20% success rule' can no longer apply to them, given that nowadays most of the feature films that they distribute are likely to generate a positive financial return. The present study, on the other hand, focuses on the business strategy and explains how the six Majors manage to secure a high rate of success from a portfolio of projects.

Therefore, this paper first will explain the current strategy of the Majors, before providing a description of the methodology and of the data used for this exercise. Furthermore, this research will differentiate between distributors and explain their performance according to three cardinal principals of the Majors' business strategy, labeled here (1) *strike while the iron is hot*, (2) *open big*, (3) *diversify your slate*. The conclusion will summarize the findings of this exercise and will also provide a contribution to the debate regarding the consequences of the dominance of six Majors on the quality of audio-visual content available to global audiences.

The Financial Risk of Filmmaking and the Strategy of Hollywood's Most Powerful Distributors

Notably, since the late 1990s, the Majors have been steadily adapting to the new technologies (e.g. the digitalization of content creation and distribution) and the changing socio-economic environment (e.g. globalization and the de-regulation of media ownership) and used the new and emerging conditions to benefit from the synergies available to companies that own a variety of media outlets (see Squire, 2006). Therefore, as a result of these socio-economic and technical changes the revenue streams of secondary and ancillary markets generated by feature films and their embedded intellectual properties have increased and have become important elements of the decision-making process that determine which feature films are produced and distributed, and how they are later exploited. Nowadays, the revenues from secondary and ancillary markets typically account for about 80% of the gross revenue of a feature film; they include DVD rentals and sales, different platforms for the rental and sale of digital downloads (e.g. iTunes, games consoles), pay-per-view cable channels, over-the-air television channels and the further use of intellectual properties (characters, images, scores, etc…) in books, music CDs and digital downloads, videogames, theme parks, fast food restaurants and several other types of merchandising items (Epstein, 2010). The adoption of this business strategy focused on intellectual properties and secondary markets has two main consequences on the value-chain of these major media conglomerates: the first is that the theatrical release "can be seen as a loss leader to create awareness of the property for downstream video, TV, and other rights" (Ulin, 2009, p. 121), and the second, is the increasingly importance of the role of the distributor, which is responsible for coordinating the different units of a conglomerate in order to "carve up and exploit rights in a way that maximizes the return on the whole." (Ulin, 2009, p.49)

Table 1: list of the imported variables and their sources

	Imported Variables	***Main Source(s)***
1	Title of the Feature Film	*Box Office Mojo / The Numbers*
2	Date of release	*Box Office Mojo*
3	Main distributor	*Box Office Mojo / The Numbers*
4	Production Budget (Declared Budget)	*Box Office Mojo / The Numbers / Wikipedia / Estimates by the Author*
5	Domestic Total Gross Box Office	*Box Office Mojo*
6	Foreign Total Gross Box Office	*Box Office Mojo / The Numbers*
7	Widest Release (No. Of Theatres)	*Box Office Mojo*
8	Home Video Rentals	*Box Office Mojo / Estimates by the Author*
9	Domestic DVD Sales	*The Numbers / Estimates by the Author*

Source: the author.

Therefore, this paper provides new figures that illustrate the filmmaking business strategy of the Majors, their mechanisms, and the effectiveness of these mechanisms. The analysis carried out is based on simple indicators estimated by using the (rare) publicly available data. The dataset used for this analysis contains information about 191 feature films, i.e. the quasi-totality of movies distributed in 2007 by the companies that are affiliated with the Majors, as they were organized and named in that year. These Majors are: Time Warner Inc. (publicly traded under the acronym TWI), Walt Disney (DIS), News Corporation (NWSA), NBC Universal (NBCU), Paramount (now Viacom, VIA) and Sony (SNE). Notably, each of these info-entertainment conglomerates has a mainstream distributor and one or more minor labels / divisions. The former are Warner Bros (belonging to TWI), Walt Disney Pictures (DIS), 20th Century Fox (NWSA), Universal Pictures (NBCU), Paramount Pictures (VIA) and Sony Pictures (SNE); the latter are Warner Independent (TWI), Picturehouse (TWI), Miramax (DIS), Fox Searchlight (NWSA), Focus Features (NBCU), Paramount Vantage (VIA) and Sony Picture Classic (SNE). Additionally, the formerly independent distributor New Line Cinema, which was acquired by Time Warner in 1996 (DiGiacomo, 2009), is considered a mainstream distributor rather than a minor label, when the analysis requires this distinction.[2]

The business strategy of the Majors is informed by the literature (mostly, by Epstein, 2010 and Ulin, 2009), and summarized and simplified here using the following three principles: (1) *strike while the iron is hot*, (2) *open big*, (3) *diversify your slate*. *Strike while the iron is hot* indicates the practice of using and reusing content that was already successful in other audio-visual products or media outlets, in order to reduce risk and maximize the revenue from intellectual properties. Alternatively, *open big* refers to the practice of creating a large media event on the opening weekend, which aims at promoting the theatrical window of a feature film, but also, at advertising the embedded intellectual properties in view of generating income from the ancillary markets and the following audio-visual windows. Furthermore, the section entitled *diversify your slate* analyzes more in detail the effects of the choices made by each of the six conglomerates regarding the distribution of funding between mainstream and minor labels. Before these sections and before the conclusion, however, methodological choices concerning the construction of the database and the indicators used in the analysis are introduced.

Methodology and assumptions

Most of the data regarding the 191 feature films, which compose the population of the dataset, are taken from two websites: The Numbers (i.e. www.the-numbers.com) and Box Office Mojo

[2] The slate of movies distributed by this company in 2007 followed more closely the business model of a large distributor than the one of a minor label: in fact, the total size of the budgets of the movies released in 2007 was over 600 million dollars; the average budget of the 13 movies released was more than 50 million dollars. As detailed below, however, New Line Cinema did not seem to have performed in 2007 as well as the other mainstream distributor of the same conglomerate, and this could help explaining why it was integrated into the main label "Warner Bros" in 2008 (DiGiacomo, 2009).

(www.boxofficemojo.com). The variables taken from these (and other) online databases are referred to here as the *imported variables* (listed in table 1), a term chosen in order to distinguish them from the *computed variables* or indexes, i.e. the variables estimated by the author. Among the imported variables there are series indicating the income generated by each movie from the sale and rental of DVDs: these series are particularly important for assessing which movies were successful beyond the domestic theatrical window and essential to study the marketing strategy of the distributors and the results of their efforts taken in order to diversify their slate of movies of this particular year. Unfortunately, however, the variables *domestic DVD sales* and *home video rentals* (domestic) available, respectively, from The Numbers and Box Office Mojo, do not provide the necessary observations for all of the 191 movies selected: 49 are missing from the first series and 27 from the second one. Therefore, these were estimated.

These estimates were calculated using two multiple linear regressions: the imported and computed variables chosen as explanatory variables of the regressions are good indicators of the dependent variables, yet not too highly correlated between one another in order to avoid collinearity. Therefore, the choice was taken to explain domestic DVD sales using the *domestic box office (total gross)* and the maximum number of theaters in which the movie is shown at the same time (i.e. *widest release*): conversely, the revenue from home video rentals was estimated using the widest release and the *composite score* index (described below). Moreover, given that the missing observations concern almost exclusively movies distributed by minor labels (and by New Line Cinema) the multiple linear regressions were calculated from two subsets of the main dataset, which contain only the (fully available) data from the minor labels (including from New Line Cinema), in order to reduce the extent of the standard error. As a result, these (sub-) datasets contain 59 observations for the home Video rentals and 38 for the domestic DVD sales.

Of course, the use of estimated data by linear regression presents some shortcomings: although these regressions are statistically highly significant, the relatively important standard errors of both regressions (over 12 and 11 million dollars, respectively) can indicate a much larger or minor success of a feature film, than the real level. However, the reader should keep in mind that the potential of over- and underestimating the real figures is random and therefore it is unlikely to have a substantial impact on a particular distributor or conglomerate. The regressions provided the formulae described here below, which were then used to estimate the missing observations:

(I) DOMESTIC DVD SALES = 0.35 * BOX OFFICE, DOMESTIC TOTAL GROSS + 4435.64 * WIDEST RELEASE

[MULTIPLE R^2 = 89.1%; R^2 = 79.5%; R^2 (ADJ) = 76.1%]

(II) HOME VIDEO RENTALS = 9153.21* WIDEST RELEASE + 149107.69 * COMPOSITE SCORE

[MULTIPLE R^2 = 89.8%; R^2 = 80.6%; R^2 (ADJ) = 78.5%]

The *production budget* is another fundamental variable used to describe and differentiate the 191 feature films selected as the sample for this study. Most of the figures composing this series are taken from Box Office Mojo and from The Numbers, but also from additional sources when necessary. This data, however, can only have one original source: they are the budget figures leaked to the specialised press by the distributors and/or producers of feature films. Each of these figures, which the reader should interpret as a rough estimate of a feature film's total negative cost, is likely to be inflated or rounded up. Notably, producers and distributors have an interest to inflate the budget figures that are leaked to the press as a marketing strategy, i.e. to signal to the public a superior quality. For example, Epstein (2005) notes that Warner Bros' movie 'The Negotiator' with Samuel L. Jackson and Kevin Spacey was efficiently produced for 43.5 million dollars. However, the budget of this movie in The Numbers is 50 million, confirming the discrepancy between the negative cost and budget figures that are publicly available. Such a discrepancy, however, has little or no impact on the analysis presented here: this practice of inflating the production budgets' figures to the press is most likely a generalised practice and therefore unlikely to affect a particular type of movie or a particular distributor. In order to remind the reader of this potential discrepancy, however, the production budget is also labelled here as 'declared': therefore the real negative cost of a movie, and therefore, the total costs paid by the producers to realise a feature films, is assumed to be between 80 per cent and 100 per cent of the declared production budget.

More importantly, however, declared production budget figures for 28 of the 191 films of the sample were not available, consequently they were estimated. Among the 28 feature films whose declared production budget is unknown, 8 are documentaries: notably, the very large majority of documentaries have a relatively small budget, and given that none of the documentaries in this sample realised box office receipts of more than 1.2 million dollars, their production budget was estimated at 500,000 dollars. On the other hand, estimates for the remaining 20 feature films were calculated as the average of other feature films believed to be of similar cost, because fulfilling the following two conditions: they are feature films that Box Office Mojo indicates as 'similar to' the feature film whose production budget was estimated, and they belong to the same widest release category (extra-large, large or small, as detailed below). The choice of this last indicator as a proxy for the production budget is informed by the fact that efforts to promote a feature film are normally proportional to its total cost (see, for example, Ulin, 2009).

The Gross Audio-Visual Revenue

A few simple indexes have been calculated from the imported variables in order to illustrate and analyze the strategies of the different distributors for the given year. These computed variables have been labeled the *gross audio-visual revenue*, the *return ratio from audio-visual markets* and the *composite score* index.

The gross audio-visual revenue provides an indication of the gross revenue of a feature film from the different audio-visual markets and is calculated as the sum of the different revenue streams, whose data is publicly available: i.e. the gross domestic and international box office receipts, and the gross domestic revenue from the rental and sales of DVD. Notably, other sources of revenues from audio-visual markets are also responsible for a very important share of the overall income of each movie: these are, for example, the licensing of feature films to television stations (domestic and foreign), and the sale and rental of DVDs on international markets. Nevertheless, the commercial success of a feature film in these latter windows is consequent and proportional to its success in the first window (see Sparviero*, forthcoming*; Ulin, 2009). Therefore the series chosen already provide a good basis for comparing the relative success of each movie and the strategies of their producers.

(III) GROSS AUDIO-VISUAL REVENUE = GROSS DOMESTIC BOX OFFICE + INTERNATIONAL BOX OFFICE + DOMESTIC DVD SALES + HOME VIDEO RENTALS

Return Ratio from Audio-visual Markets

The return ratio from audio-visual markets, which is calculated as the ratio between the gross audio-visual revenue and the declared production budget, provides a standardized indication of a gross return rate from the theatrical exhibition and two subsequent windows, and therefore, a useful measure for comparing the relative success of feature films of different budgets (e.g. franchise movies, high budget, under the radar and low budget, to use a classification provided by Ulin, 2009).

(IV) RETURN RATIO FROM AUDIO-VISUAL MARKETS = GROSS AUDIO-VISUAL RETURN / DECLARED PRODUCTION BUDGET

The Composite Score Index

The purpose of the composite score index is to provide an indication of how much each feature film has potentially benefited from word-to-mouth advertising, or more generally, has been well-received by an audience composed of users of specialized online databases. This indicator is calculated as a weighted mean (base 100) of the percentage of people that liked the feature film (taken from Rotten Tomatoes, or RT, www.rottentomatoes.com), the average rating from Rotten Tomatoes, the average rating from IMDb users (www.imdb.com) and the average score from film critics (i.e. the Metascore, calculated by Metacritic, www.metacritic.com). The simplest variable, i.e. the percentage of people liking the movies, accounts for 50% of this index, while the remaining three indicators provides the remaining 50% of the value of the index. The purpose of this choice is twofold: the first reason concerns the subjectivity of user's rates and the problems that this can cause. In fact, one can rather safely assume that Rotten Tomatoes' users are likely to recommend their peers the experience a movie if they rate it as 'liked it', and not recommend it if they rate it as 'not liked it', it is more difficult to judge from which rating level of the five-scaled-index proposed by Rotten Tomatoes, or of the ten-scaled-index used by IMDb, word-to-mouth advertising is likely to happen.

The second reason explaining the choice regarding the weights of the different series concerns the fact that the percentage of people that liked the movie is the indicator with the largest variance. Therefore, choosing to assign 50% of the weight of the composite score index to this series allows to also obtain a series of observations that are more spread out rather than closely clustered around the mean value, and therefore, easier to interpret. The formula for calculating the composite score is described here below (the reader should also note that the various indexes have been multiplied by different coefficients to account for the different scales in which they are expressed):

(V) COMPOSITE SCORE INDEX = 0.5 * [PERCENTAGE OF PEOPLE THAT LIKED ON RT * 100] + 0.5 * {0.33 * [USERS' RATINGS ON RT * 20] + 0.34 * [USERS' RATINGS ON IMDB *10] + 0.33 * METASCORE ON METACRITIC}

Strike while the iron is hot

As introduced above, *strike while the iron is hot* indicates the principle adopted by the Majors of using and re-using content that was already successful in other audio-visual products or media outlets, in order to reduce risk and maximize the revenues from the intellectual properties that are embedded in their feature films. Therefore, in this section the size and the outcome of investments in original stories and scripts are compared to the size and outcome of investments in other types of stories. More specifically, *original* is a categorization applied to feature films based on real life events and on original screenplays that are not part of a franchise. On the other hand, *re-use of intellectual property (IP)* (or *non-original*) is a categorization that applies to feature films based on original screenplays generated to expand a particular franchise, and to feature films, whose content originates from fiction books or short stories, feature films already in circulation, folk tales, legends, television shows, and fairytale comics or graphic novels.[3]

Moreover, in order to support the analysis concerning the diversification of a slate introduced below, the use of different types of content was also calculated for mainstream and minor divisions, and the performance of different distributors is measured in terms of the composite score and the return ratio from audio-visual markets.

The results obtained with the empirical analysis confirm some of the features of the business strategy described by Epstein (2010) and Ulin (2009): assuming of course that the Majors are aware of their risks and attempt to minimize them, feature films based on intellectual properties are seemingly less risky, as

[3] The source of the content of a movie is available from The Numbers.

revealed by the fact that the Majors 'bet' larger amounts on them. In fact, the main indication that this analysis provides is that more than 60% of the total (declared) investments in the production of feature films was used to finance projects based on non-original content. On the other hand, when the total number of feature films is considered, the sample shows that almost 60% of them is based on original content; however, the total size of investments in feature films based on some type of intellectual properties is larger because these are considerably more expensive to produce (58.6 million dollars against 25.9 for films based on original content). The difference in production budgets between feature films based on original content and those based on intellectual properties is also more remarkable depending on the type of property: indeed, the data collected for this exercise shows that feature films based on comic/ graphic novels are the most expensive projects, costing almost four times the average feature films based on original content (i.e. over 90 million dollars). Moreover, of the 15 tent-pole movies (i.e. the movies costing over 100 million to produce) released in 2007, only two are based on non-original content (i.e. Ratatouille, by Walt Disney Pictures, and The Bee Movies by Paramount pictures).

Table 2: Re-use of Intellectual properties Vs Original content in Feature Films (2007)

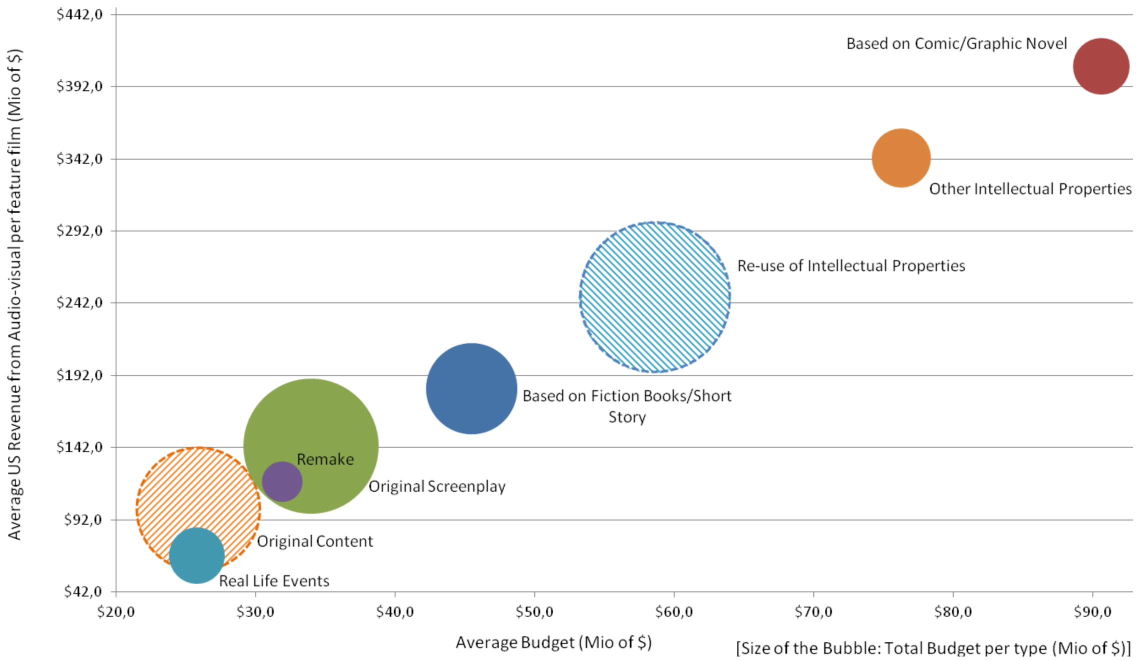
	Re-use of IP	**Original Content**
N. of Movies	77	114
% of Total Movies	40.3%	59.7%
Average 'Declared' Budget (Mio of $)	58.6	25.9
Total Declared Budget	4,510.0	2,947.7
% Total Budget	60.5%	39.5%
Av. Composite Score	64.1	65.1
Gross AV Revenue (Mio of $)	19,004.3	11,305.2
Average Gross Return (Mio of $)	246.8	99.2
Return Ratio Gross Revenue US / Budget	4.21	3.84

Source: The author. Primary data sources and methodology of the calculations are detailed in the text.

Therefore, even though movies based on non-original content seems to provide a better return on the investment (4.2 against 3.8), the difference between the average return of the movies based on intellectual properties and the movies based on original content might not justify the much larger difference in cost and the consequent higher financial risks associated with undertaking the first type of projects, if one believes that, in general, feature films have a small chance of generating a positive return. Unless, of course, the 'hidden revenues' from ancillary markets that these movies generate for the Majors are relatively important, as Epstein (2010) and Ulin (2007) suggest.

Moreover, considering that feature films based on original content are riskier projects, the results of the exercise also confirm the role played by minor labels of experimental laboratories of the Majors: in 2007, Fox Searchlight (NWSA) was the distributor that is the most dedicated to issue movies based on original plots and characters, as 90% of its budget financed these types of projects. Also, the other distributors that emerge from our analysis as significant providers of original content are minor labels: Warner independent (88% of the declared budget), Picturehouse (70%) and Paramount Vantage (63%).

Figure 1: The revenue and production budget of feature films, grouped by the origin of their content



Source: the author. The sources of data are detailed in the text. Note that 'other intellectual properties' include feature films based on Folk Tale/Legend/Fairytale, TV shows, Based on Games and Theme Park Ride. Not that 'Original Screenplay' also includes feature films that develop a new or existing franchise

Table 3: The revenue and production budget of feature films, grouped by distributor and origin of their content

		Number of Movies		Average 'Declared' Production Cost (Mio of $)		% of the total 'declared' production cost of the year		Average Gross AV Revenue US (Mio of $)		Average No. Of Theatre for the 'Widest Release'	
		Original Content	*Re-use of IP*	*Original Content*	*Re-use of IP*	*Original Content*	*Re-use of IP*	*Original Content*	*Re-use of IP*	*Original Content*	*Re-use of IP*
Time Warner Inc.	TWI	30	18	25.7	65.1	39.7%	60.3%	75.0	283.9	1,536.7	2,483.4
	Warner Bros	13	9	38.3	71.3	43.7%	56.3%	104.3	417.5	2,281.6	3,135.3
	Warner Independent	*4*	*1*	*7.5*	*4.0*	*88.2%*	*11.8%*	*22.0*	*10.1*	*295.8*	*13.0*
	New Line Cinema	7	6	25.5	82.8	26.4%	73.6%	76.5	218.0	1,792.6	2,719.3
	Picturehouse	*6*	*2*	*10.8*	*14.3*	*69.3%*	*30.7%*	*45.2*	*17.6*	*451.3*	*77.0*
Disney	DIS	11	9	38.4	71.4	39.7%	60.3%	204.3	322.7	1,973.8	2,626.9
	Walt Disney Pictures	8	6	49.0	96.7	40.3%	59.7%	269.5	420.5	2,556.1	3,279.8
	Miramax	*3*	*3*	*10.3*	*20.8*	*33.2%*	*66.8%*	*30.4*	*127.2*	*421.0*	*1,321.0*
20th Century Fox	NWSA	14	12	13.9	46.8	25.7%	74.3%	89.8	248.6	1,264.5	2,799.8
	20th Century Fox	5	11	20.9	50.0	16.0%	84.0%	117.8	267.6	2,801.2	2,891.2
	Fox Searchlight	*9*	*1*	*10.0*	*11.0*	*89.1%*	*10.9%*	*74.3*	*39.6*	*410.8*	*1,794.0*
NBCUniversal	NBCU	16	11	38.1	47.0	54.1%	45.9%	144.7	153.9	2,006.0	1,696.8
	Universal Pictures	12	6	46.2	68.6	57.4%	42.6%	162.9	219.7	2,284.3	2,211.5
	Focus Features	*4*	*5*	*13.8*	*21.0*	*34.4%*	*65.6%*	*89.9*	*74.8*	*1,170.8*	*1,079.2*
Paramount	VIA	11	14	34.8	68.4	28.6%	71.4%	116.6	288.1	1,871.4	2,303.9
	Paramount Pictures	5	11	54.4	81.1	23.4%	76.6%	184.1	334.7	2,866.4	2,660.0
	Paramount Vantage	*6*	*3*	*18.4*	*21.7*	*63.0%*	*37.0%*	*60.4*	*117.3*	*1,042.2*	*998.3*
Sony / Columbia	SNE	32	13	17.8	50.9	46.2%	53.8%	61.0	175.4	1,042.3	1,870.8
	Sony Pictures	19	8	24.5	76.9	43.0%	57.0%	86.7	277.0	1,650.5	2,948.3
	Sony Pictures Classic	*13*	*5*	*8.0*	*9.3*	*68.9%*	*31.1%*	*23.4*	*12.9*	*153.2*	*147.0*
Mainstream Distributors		**69**	**57**	**35.7**	**73.5**	**37.0%**	**63.0%**	**132.7**	**311.4**	**2,319.0**	**2,835.1**
Minor Labels		***45***	***20***	***10.8***	***16.1***	***60.0%***	***40.0%***	***47.7***	***62.8***	***563.6***	***775.6***

Source: the author

Open Big

As explained above, this section concerns a fundamental principle of Hollywood's filmmaking activities, i.e. the practice of creating a large media event on a feature film's opening weekend. Particularly in the case of the most expensive tent-pole movies, the opening weekend is said to be a marketing tool designed by the larger distributors in order to promote the content for the theatrical, but also for subsequent audio-visual windows and ancillary markets. Therefore, the questions that this section attempts to answer are: which of the Majors have efficiently invested in the promotion of the 'right' (i.e. later successful) slate of feature films? Or, which of the Majors was most successful in promoting some feature films without an expensive big opening weekend, but rather through word-to-mouth promotion?

Table 4: Typologies of feature films and opening weekends' strategies

(A) CLASSIFICATION OF FEATURE FILMS ACCORDING TO THEIR PRODUCTION BUDGET	Budget (mio. of $)
Tent-pole (or Franchise)	Over 100
High Budget	Over 30
Under the Radar	Over 10
Low Budget	Less than 10
(B) CLASSIFICATION OF WIDEST RELEASE STRATEGIES	Minimum Number of Theaters
Extra Large	3200
Large	1500
Small	1

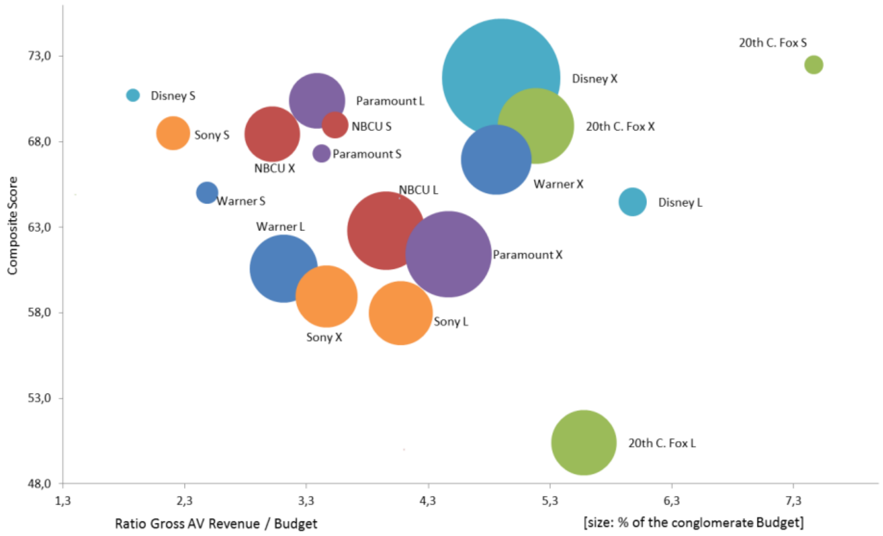
Sources: (A) Ulin, 2009; (B) the Author.

In order to assess the success of a distributor's slate of feature films in relation to the investment made in promoting their releases, three groups of different typologies of opening weekends' events were created (see figure 2): extra-large (XL), large (L) and small (S). Given that the resources allocated to the promotion of a feature film tend to be proportional to its total negative cost, the boundaries of these groups, which are expressed in terms of the number of domestic theaters showing the feature films, were set so that these groups could be somehow compatible with a more common categorization based on their budget and presumed level of risk. This latter includes: tent-pole or franchise feature films (with a production budget of over 100 million dollars), high budget (over 30 million dollars), under the radar (over 10 million dollars) and low budget (less than 10 million dollars) (Ulin, 2009). Therefore, the minimum number of theaters of an extra-large opening was set to match the opening event of a tent-pole feature film, so that all tent-pole movies are assumed to be introduced to the public with an extra-large opening event (i.e. in more than 3200 theaters); on the other hand, the upper limit of a small opening was set to characterize the opening of (at least most) low budget feature films (maximum 1500 theaters). As a result of this methodology, differences in the practice of opening weekends' events between distributors are determined and recognizable by the middle categories of feature films, i.e. under the radar budget movies, whose opening events vary from small to large, and for high budget movies, whose opening events vary from small to extra-large. Moreover, the performance of these different groups is measured in terms of their composite score and the ratio of gross return from audio-visual (see figure 2).

As a general rule, if a conglomerate has taken the right decisions regarding the potential 'legs' of a movie in audio-visual markets, the slates of movies that have also used most of the year's resources (i.e. the size of the bubble in figure 2) should also be the ones with the better return rates (i.e. placed the furthest on the right in figure 2). On the other hand, the groups of movies that display a higher level of composite score are the ones that should have benefited relatively more than others from word-to-mouth promotion. Nonetheless, one should note that, also within the same conglomerate, there are groups of feature films classified as large opening, which record better gross return rates than groups of feature films classified as extra-large events, which certainly benefit from larger marketing budgets. This does not necessarily mean that these distributors have over-spent on the launch of the most expensive movies (e.g. DIS, NBCU, NWSA, SNE). Such a trend is in fact compatible with the assumption that the tent-pole movies are mostly constructed to revive the chain of benefits that can be collected from a particular intellectual property, from other feature films and/or from the ancillary markets. As a reminder, this analysis only includes the revenues comprised in the gross audio-visual revenue index, and only from the movies released in 2007: therefore, the performance of feature films classified as 'extra-large' as estimated here is likely to be more affected by the non-inclusion of other sources of revenues than is the case for the other categories, as tent-pole movies (with extra-large opening) are assumed to be more tuned to promote, and generate revenue from, intellectual properties.

The analysis presented here shows that two conglomerates were particularly proactive and efficient in adopting the *open big* principle in 2007: Walt Disney and News Corp. The former has concentrated over 70% of the resources in 'extra-wide' opening movies, which were very successful, as they delivered an above-the-average gross audio-visual return of almost 5 times and scored very high in term of audience ratings. Instead, the latter is the conglomerate that reached the highest gross audio-visual return in two categories of feature films: extra-wide and small opening releases. Additionally, also the feature films categorized by large opening events distributed by this conglomerate were on average more successful than most of their competitors. Moreover, if on the one hand, the relatively large success of News Corp's small opening feature films can be explained by the high composite score and therefore by an efficient word-to-mouth promotion, on the other hand, the slate of feature films characterized by a large opening were seemingly supported by an efficient advertising campaign, as they reached a relatively high return (5.6) in spite of the low level of composite score (50.8). Furthermore, in comparison to these conglomerates, the remaining ones performed less well. In fact, Time Warner, Sony, NBC Universal and Paramount have invested an important part of their respective budgets in large-opening movies (between 30 and 48%) but they have obtained lower-than-average composite score and gross rates of return.

Figure 2: The Majors' opening events of feature films in 2007



Source: The author. The sources of data are detailed in the text.

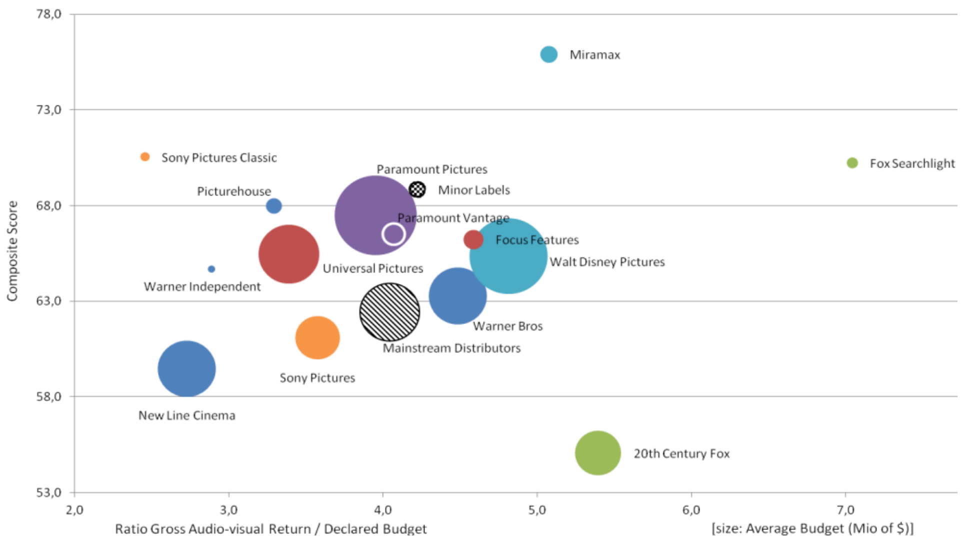
Diversify Your Slate

The current section analyzes more in detail the effects of the choices made by each of the Majors of distributing funding between mainstream and minor/specialty labels. As explained above, a potential benefit from concentration is the theoretically availability of funding for the riskier, but also alternative projects. Conglomerates are likely to channel funding for the less commercial feature films into their 'independent'/specialist divisions or labels. Therefore, in this section, the allocation of funding to these minor labels and the performance of these latter in terms of financial gains and audience ratings is reviewed and compared.

The data collected for this exercise suggests that in 2007 the average budget of a minor label was about 11 per cent of the total budget assembled and allocated by a Major. This budget, as estimated, ranged from about 34 millions of Warner Independent, to over 170 million of Paramount Vantage. Also according to the statistics collected for this exercise, Walt Disney and News Corp are the Majors that were seemingly most efficient at diversifying their slate of movies in order to capture different audiences, by financing and distributing different types of movies through their divisions. Such a statement is supported by figure 3: the composite score provides an indication of the degree to which users of online databases have appreciated a particular feature film. The population of these users is not necessarily representative of the entire population of movie-goers and/or home video entertainment users. On the contrary, the average higher composite score assigned to the feature films distributed by minor labels in general would suggest that users of specialist online databases are more likely to be supporters of less commercial / less mainstream feature films. Therefore, it is interpreted as good diversification when mainstream and minor labels obtain a relatively different composite score, *as long as* all distributors of a same conglomerate also obtain an over-the-average rate of return. In fact, such a scenario suggests that the tastes of difference audiences were catered for and that most feature films produced were commercially successful. Indeed this indicates that users of online databases have experienced the less commercial movies and liked them, while the non-users of specialized databases have experienced the poorly rated and more mainstream feature films in large numbers, as the rates of return testify.

As displayed in figure 3, this case scenario applies to News Corp (20th Century Fox and Fox Searchlight) and Walt Disney (Walt Disney Pictures and Miramax). The other Majors, on the other hand, seem to have been less effective at diversifying the 2007 slate of movies, either because the composite score between mainstream and minor is similar (therefore, they were rated with the same average score by the same population of users) and/or because the rate of return was lower than the average.

Figure 3: the 2007 performance of the mainstream and minor distribution divisions of the majors



Source: The author. The sources of data are detailed in the text.

Conclusion

This paper considers the business strategy of the largest and most powerful distributors of feature films and illustrates this strategy by building on publicly available data referring to their feature films released in the year 2007. The analysis presented is informed by the description of this strategy provided by Epstein (2010) and Ulin (2009), among others: to a large extent, the Majors invest and channel funding from third-party into feature films that promote intellectual properties that they own, in order to generate revenues in different markets and maximize their return on investment. Therefore, assuming that 2007 is a representative year, about 60 per cent of the total production budget for feature films is invested in projects whose content derives from fiction books or short stories, feature films already in circulation, folk tales, legends, television shows, fairytale comics or graphic novels, and original screenplays written to expand an existing franchise.

Moreover, these attempts to valorize the intellectual properties embedded in feature films have contributed to increasingly transform a larger proportion of the latter into loss leaders and promotional activities characterized by large and expensive opening weekends. In fact, a majority of the most expensive franchise movies earns proportionally less from the main audio-visual markets than cheaper productions. However, as not all the feature films are designed to exploit intellectual properties, the Majors generate earnings from different types of stories and different audiences, also by providing semi-independent, minor divisions with about 11 per cent (as estimated here) of the total production budget used for the feature films that are managed by all of the distributors of their group.

Overall, the current business approach to filmmaking is seemingly working effectively for the Majors: in 2007, Walt Disney (i.e. Walt Disney Pictures and Miramax) and News Corporation (i.e. 20th Century Fox and Fox Searchlight) were the conglomerates that best interpreted the three components of this dominant business strategy, labeled here *strike while the iron is hot*, *open big* and *diversify your slate*, and at the same time they were also the conglomerates that earned the most (although the revenues from ancillary markets, whose volumes are unknown, were not taken into account).

Furthermore, as noted in the introduction, concentration of ownership in audio-visual markets is also a concern for policy-makers as this is likely to reduce the variety of content and viewpoints available to the audience. The present paper argued that indeed a majority of the funding managed by the Majors is invested in non-original content. Moreover, interestingly, concerning the design of the tent-pole/franchise feature (and most expensive) films, Epstein (2010) suggests that these are nowadays increasingly standardized. In fact, he argues that the feature film more attractive to a global audience of teenagers, which represents the best target for maximizing various type of investments connected to an intellectual property across different markets, follow more or less closely a common set of characteristics. He calls these characteristics "the Midas Formula" and their existence is a further indication of the lack of variety in feature films. Therefore, there is no doubt that a strategy that attempts to maximize the revenue from different windows carried out by a vertically integrated companies that can control these different windows, negatively affects the variety of media content available.

A stakeholder involved in the world of Hollywood's filmmaking once affirmed that "The history of business has shown that the most successful pictures have been developed by individual efforts rather than mass production" (cited in Wu, 2011, p. 88). It was 1923 and the founder of Paramount W. W. Hodkinson, who had previously witnessed the decline of the Edison Trust's monopoly, was expressing his concerns regarding the future of feature films and the general lack of quality of the latter as a result of their unfolding mass-production and standardization. The expansion of the Majors and the vertical integration of production, distribution and exhibition, which characterized these companies between the 1920s and 1940s, brought them wealth and allow them to grow at the expenses of the smaller independent. The industry of filmmaking became a Fordist organization producing for a market of mass-consumption, and Zukor, one of the strongest advocates of this strategy, replaced Hodkinson as the leader of Paramount (Wu, 2011).

Nonetheless, Hodkinson was right: the quality of content suffered, and when new venues for experiencing audio-visual emerged (over-the-air television and then cable television), the poor quality of features films showed in the theatres contributed to transform audiences from movie-goers to home consumers of audio-visual products. Eventually, in the period between the 1950s and the 1980s, and as a consequence of the litigation between Paramount and the Department of Justice and the resulting vertical disintegration of the Majors, feature films became mostly produced in the same way of the independents: as 'blockbuster movies', i.e. as once-off artistic production aiming at bringing audience to the cinema to experience it (Sparviero, 2011; Wu, 2011). Nowadays, however, given that the Majors are again vertically integrated and can also exploit the content of feature films in a variety of different markets, they also tend to design, invest and re-invest in intellectual properties that suit all of these markets. Therefore, the history of the Hollywood Majors clearly shows that, even though an oligopoly of content producers attempts to diversify, there is a tradeoff between, on the one hand, creating the conditions for a more pluralistic industry and stimulating the generation of variety of content, and on the other hand, the stability and consistent growth of an oligopoly of large producers-distributors (mass-)producing rather uniformed audio-visual content. Furthermore, as this paper contributes to demonstrate, there is also no doubt that the current regulatory environment is favoring the latter rather than the former.

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