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Studies in Australasian Cinema

Australian Feature Films and Distribution: Industry or Cottage Industry?

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Abstract

Feature films remain critical flagships to any national film industry. Australian feature films can be highly commercial endeavours that also perform symbolic functions by embodying the national identity through big screen based sound and imagery. Australia's central film funding agency, Screen Australia has policies, which remain geared around privileging feature films. The advantages of these policies have enabled feature films to conduct a dialogue with domestic audiences as well as showcase key aspects of Australia in the global film festival circuit. As the pre-eminent filmmaking form, feature films also serve as vital launch pads for the careers of many Australian writers, directors, actors and technical crew.

There are however some financial disadvantages raised by key players in the Australian film production sector. In the wake of over a decade of diminished share of local box office obtained by Australian feature films, *Australian Feature Films and Distribution: Industry or cottage industry*, examines how distribution approaches are becoming critical, in that they may alter the performance of Australian feature films in a spiralling box office.

Introduction

The share of Australian box office returns collected by Australian feature films has been tracking below five per cent since 2002. There have been previous years and periods when the ability to attract a sizable share of the Australian box office has proven elusive but the current twelve-year trough represents a record stretch of low performance (Screen Australia 2013). Ulin argues that the 'bellweather of box office has grown in importance' (2010, p. 118), and he cites two reasons why box office statistics are significant indicators of success

'... success at the box office continues to be an accurate barometer for the success in subsequent release markets. Second, the media frenzy surrounding theatrical release drives awareness that is amortized over the life cycle of the production and drives consumption months and even years later (2010 p.119).

Given this perspective the questions now arising concern what percentage of the Australian box office represents an acceptable share, and represents value for the publicly invested monies? What are the circumstances contributing to the

current performance of Australian feature films and what kind of responses have been provoked that are addressing the situation?

The research methodology incorporates reports from Screen Australia, *Beyond the Box - understanding audiences in a multi-screen world*, and *What to Watch? Audience motivation in a multi-screen world*, as well as the AFTRS white paper, *Why Australian producers should think like distributors* and producer Robert Connelly's report, *Embracing Innovation: A new methodology for feature film production in Australia* (2009). In conjunction with these reports data and insights will be applied from the Second Australian Screen Producers Survey, *'Understanding Australian Screen Content Producers: Wave 2'*, a collaboration between AFTRS, Bergent Research and the ARC Centre of Excellence for Creative Industries and Innovation.

Theatrical box office is the focus in this discussion in light of its continuing role as the most publicised key performance indicator (kpi) of Australian cinema for both industry and wider public understandings. While theatrical box office returns are not a kpi for Australian screen agencies, it is intrinsic to one of Screen Australia's kpi's, discernible in its budget statements where the agency forecasts the goal of a three-year average of 2.7 million admissions from 2014-15 to 2016-17 (Screen Australia Budget Statements p. 291).

The Two-Speed Australian Film Industry

Two opposing views seem to co-exist on the status of the Australian film industry. From an industry perspective it is well established with veteran producers, directors and technicians, internationally renowned actors, cinematographers and editors. It attracts international investment and boasts global entertainment entities like Village Roadshow, world-class production facilities at Sydney Fox Studios and Gold Coast Movie Studios and world class cinema chains. In 2010 Australia ranked number 11 in the world in terms of production investment in feature films. (Screen Australia 2011)

The opposing view of the Australian production industry sees it as a small-scale film industry caught between the competing logics of a subsidised cultural activity and commercial enterprise. Over the last forty years film production has fluctuated with a peak of forty-two films occurring twice, once in the mid-eighties and again at the end of 2010. But the leanest times have seen six (1972/73) Australian films produced. In the last decade an average of thirty films per year was achieved with an average budget of \$6.92 million (Screen Australia, 2013b). Though in this decade, just under half the features produced had a budget of approximately \$3 million compared to some foreign film budgets of above \$20 million (Screen Australia, 2013c) and its apparent why there are claims the Australian industry has two-speeds.

Australia's English language basis is seen to make the local market for film and screen content susceptible to American and British product and distribution of feature films remains dominated by the Hollywood majors.

Global production practices, digital distribution and the expansion in digital viewing platforms has, by any account, transformed every aspect effecting the production and consumption of Australian feature films over the past forty years. The opportunities and challenges arising from convergence and globalisation require many of the assumptions behind the Australian film industry to be reconsidered. Even the long-standing presence of the Hollywood majors in Australia has significantly altered with iterations of 'Global and local Hollywood' reinscribing traditional hegemonic relations between Australian and American film companies. For example, in the 1990s, the production-alliance between Australia's Village Roadshow and Warner Bros. resulted in a billion dollar revolving production fund and assisted Village Roadshow's transformation into a global entertainment company. (Goldsmith, Ward, and O'Regan 2010, 120)

Language, alongside low rates of local currency exchange, skilled crews, policy and business frameworks has underpinned Australia's ability to attract Hollywood 'runaway productions' to the Gold Coast and Fox Studios. Australian State and Federal government incentives have seen local production services infrastructure, skilled Australian crews and global best-practice post-production facilities marshalled into internationalised production activities. While runaway production, that is Hollywood films seeking the cheapest off-shore production and post-production deals, are routinely argued to have peaked, the logics of globalised production flows means Hollywood productions now permanently flow to wherever there is a competitive advantage. For example, in the form of currency fluctuations or local incentives to exploit particular locations. American film interests are acutely aware of the new paradigm, as California becomes just one more jurisdiction competing to attract feature film production.

...All sectors of California's film industry are under heavy assault from domestic and international competitors, all eager to permanently capture a slice of the Hollywood pie. The negative economic impact for California is well into the billions of dollars on an annual basis. The speed at which runaway production is happening and the subsequent erosion of a state industry composed of over 6,000 core businesses is dizzying.

The hot locations for VFX work are all outside of California (and the US). Vancouver, Montreal, London, Singapore, India, Australia and New Zealand are just some of the locations booming with growth while California's VFX sector withers away...

(Film L.A. Inc. 2013 16-18)

Runaway productions are just part of the global mix the Australian film industry that is capable of accommodating but rarely claimed as a substitute for homegrown Australian feature films. Nevertheless, alongside runaway productions and low budget features there has continued to be creatively controlled and subsequent Australian qualifying productions benefitting from

Australia's internationalised production environment. Australian feature films; *Mad Max Beyond Thunderdome* (1985), *Babe* (1995), *Oscar and Lucinda* (1997), *Dark City* (1998), *Moulin Rouge* (2001), *Australia* (2008), and more recently, *The Great Gatsby* (2013) and *Lego Movie* (2014) have all leveraged the advantages of the dynamics of 'local Hollywood'.

International Comparisons

Over the past thirty years the business of selling films made for Australian audiences has not improved. Australian features should be aiming for a larger box office return to help re-coup production costs. But this hasn't been the case and box office figures in Australia and Internationally are both flailing. The downward trend in Australian box office returns is set against an international recovery occurring in cinema attendances. Between 2008 and 2012 the Asia Pacific region delivered growth of 56 per cent in box office revenues and the Australian theatrical market was ranked ninth in the top ten international markets worth USD\$1.2 billion in 2012. (MPAA, 2012)

France, Germany, Italy, UK, Spain, Sweden, Denmark, Norway, Japan and South Korea, are all managing to attract a far greater proportion of their national box office receipts (see Table 1.0 below). China and India are clearly exceptional cases but these other national film industries from comparable OECD nations face many of the same challenges confronting the Australian industry. Yet every country is performing demonstrably better than Australia in capturing a sizable share of their local box office and each is markedly up in 2011 compared to where they were in 2000.

Table 1.0 Australia vs Foreign: 2000-2011 Local film market shares as percentage % of box office/admissions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia			4.9%	3.5	1.3	2.8	4.6	4.0	3.8	5.0	4.5	3.9
France	28.9	39.0	34.0	34.8	38.4	36.8	44.7	36.6	45.4	36.8	35.7	40.9
Germany	12.5	16.2	11.9	17.5	23.8	17.1	25.8	19.9	26.2	27.4	16.8	21.8
UK	21.0	11.7	15.4	11.9	12.4	33.0	19.0	28.0	31.0	16.5	24.0	36.2
Italy	17.5	19.4	21.8	22.0	20.3	24.7	26.2	33.0	29.3	24.4	32.0	37.5
Spain	10.0	18.0	14.0	15.8	13.4	17.0	15.4	13.5	13.3	16.0	12.7	15.0
Japan	31.8	18.0	27.0	33.0	37.5	41.3	53.2	47.7	59.5	56.9	53.6	54.9
Sth Korea	-	-	45.2	49.7	54.2	55.0	64.2	50.8	42.1	48.8	46.5	52.0
China	-	-	-	-	55.0	60.0	55.0	45.9	39.0	56.6	56.3	53.6
India	-	-	-	-	-	92.5	86.0	76.5	90.5	92.0	89.0	89.0
Russia	-	-	-	-	12.0	27.7	23.3	26.3	25.5	23.9	14.5	15.8

Sources:

Australia: Screen Australia

Foreign: EAO World Market Trends Focus Reports 2001 - 2012

Australian Feature Films on the Homefront

Despite all the advances made by the Australian film industry that gathered pace in the 1990s there appears to be inveterate asymmetries between what appears to be a growing and mature creative industry and managing to produce Australian feature films that appeal to domestic audiences.

As highlighted by the recent survey conducted with Australian producers, a central issue in making Australian feature films is that the majority of production enterprises still approach the specific business of feature filmmaking from a cottage industry perspective. The survey showed that feature film producers tended to operate in small under-capitalised firms employing no more than 1-4 staff, their fortunes can fall or rise on a single feature film project, 59 per cent of which can take three-to-ten years to complete. (CCI, Bergent 2012) Management and production decisions are handled by members of the small team who are required to perform specialised business skillsets for which they are not necessarily qualified (CCI, Bergent 2012 34).

According to the AFTRS white paper by producer, Vincent Sheehan, commissioned by AFTRS, *Why Australian producers should think like distributors*,

In the main, our industry consists of a loose collection of 'kitchen-table' operators, poorly capitalised, going from one project to the next. This is an acute and revolving problem (Sheehan 2009 4).

Australian feature film producers appear to still be operating according to the principles of the 'creative protectionist producer' as opposed to the 'balanced producer' and as creative protectionist producers they have a high risk operating basis that leads to high rates of attrition (Lee and Gillen 2010). Fundamental to the vulnerability beneath the creative protectionist producer is the arms length attitude towards distribution as they remain intensely focused on 'the creative purity of the vision they have for each picture'. (Lee and Gillen, 2010 p.10)

According to Sheehan, the problem of attrition amongst Australian feature film producers is a fundamental one: Producers are at the heart of the film industry. They commission and/or generate the ideas that fuel the industry's creative engine. But low levels of business sustainability mean that many producers exit the industry early, creating a constant flow of ideas, energy and experience out of the sector (Sheehan 2009 2).

The producers offset was a strategy designed to facilitate the development of sustainable production companies and since 2009, Screen Australia's Enterprise program has been another policy initiative seeking to assist screen businesses by 'supporting growth activities that address key industry-wide challenges to sustainability'. (Screen Australia: Enterprise Industry Overview). The scheme represents a shift from project investment to firm and sector investment but accounts for just 4 percent of Screen Australia's development/production funding (Screen Australia 2013a 25).

The Big Picture

Australian feature films' share of the Australian theatrical returns is an enduring benchmark. In addition to providing insight into actual returns being generated in Australia against international releases it is a headline historical figure for the purposes of public reporting. By providing a key performance indicator for local theatrical audiences of Australian feature films it concomitantly serves as a measure of the success of accompanying screen support policy and investment decisions by Australian screen agencies. Prior to the new millennium there were six years when Australian films gained close to ten per cent or more of the Australian box office.

Table 2.0 Australian features share of Australian theatrical box office						
Box office year	1977	1981	1982	1986	1988	1994
(\$m)	8.6	24.2	34.5	44.4	39.8	46.6
Share (%)	10%	13.9%	16.4	23.5%	17.8%	9.8%

Source: Screen Australia: Australian Content, Box Office

Crocodile Dundee (1986) remains the top grossing Australian film at the Australian box office earning over \$47.7m and is the eighth highest earner of all time against all foreign and domestic titles. Only two other Australian films occupy places in the top fifty income earners at the Australian box office, *Australia* (2008) at 27th place earning over \$37.5m and *Babe* (1995) at 30th place earning just over \$36.7m. Notably, only one Australian film per decade has secured a place in the top fifty since 1980. (Screen Australia, Audiovisual Markets Cinema)

Since 2001 the collective share of local box office receipts has been significantly below ten per cent and for the six consecutive years 2002 and 2008 it was below five per cent.

Table 2.1 Australian features share of Australian theatrical box office 2002-2009								
Box office year	2002	2003	2004	2005	2006	2007	2008	2009
(\$m)	41.8	30.3	11.9	23.1	40	36	35.5	54.8
Share (%)	4.9	3.5	1.3	2.8	4.6	4.0	3.8	5.0

Source: Screen Australia: Australian Content, Box Office

Digital Goalposts

The majority of the 20-30 feature titles produced in Australia each year are overseen and receive investment from Screen Australia which also monitors the

performance of Australia screen content in Australian and overseas markets. In the Screen Australia report, *Beyond the Box – understanding audiences in a multi-screen world* (Screen Australia 2011) the aim was to address how, ‘the screen industry is in transition as distribution mechanisms converge and access points increasingly fragment.’ The sole focus of the Screen Australia report is to look at Australian feature films as it attempts to, ‘take stock of our audience’ and ‘understand shifts in media penetration...’ (Screen Australia 2011)

The significance of the *Beyond the Box* report is suggested in its title which refers to beyond box office considerations: ‘Screen Australia has also developed a new standardised metric to evaluate the number of times content is viewed across its first-release lifecycle’ (p3). The report appears to be part of Screen Australia’s response to the difficulties being encountered by Australian features at the box office and issues raised in the 2008 AFTRS commissioned white paper, *Embracing Innovation: A new methodology for feature film production in Australia* by producer, Robert Connelly.

The establishment of Screen Australia provides us with an exciting opportunity to revisit the ways we make films in Australia, the way we share the returns, the risks we are collectively willing to support and the possibilities for rewarding innovation. If cinema is to remain a dominant contributor to the way we tell our nation’s stories, then it is critical that we reinvigorate our approach to ensure it is dynamic, innovative and audience-focused. (Connelly 2008 18)

By creating a new methodology that provides a measurement of ‘viewings’ the *Beyond the Box* reports aims to present a more comprehensive account of the performance of Australian feature films as they travel downstream across what is identified as ‘six key access points: cinema, rental and purchase on DVD and Blu-ray video, subscription and free-to-air television and increasingly online alternatives through streaming or downloading services’. (Screen Australia 2011 12)

The notion of “viewings” is designed to account for the proliferation of alternative consumption habits, which have been tracked since the days of VHS, and DVD because ‘historically home video revenue from most blockbusters equalled or surpasses that of their box office take’ (Ulin, 2010, 188), though these figures started to decline from 2005. But today’s method of calculating “viewings” is reliant on the explosion of digital technologies which provides alternative distribution figures. Based on this methodology and new metric *Beyond the Box* delivers five key findings with the number three stating:

Gross revenues tell a vital, but incomplete, story about the performance of screen content. Just as content makers need to adapt to changing audiences, so too do the methods of measuring success. Audience size needs to be considered alongside return on investment to ensure a more comprehensive understanding of performance. For Australian feature films, Screen Australia

modeling indicates that box office admissions account for less than 10 per cent of all viewings. (Screen Australia 2011 1)

The analysis covers all features films produced between 2007 and 2009 and their viewings up until February 2011. By only accounting for ten per cent of all feature films viewings, box office admissions represent the lowest amount of audience viewings for Australian feature films across this period. The viewing analysis is specifically applied to the Australian production slate through extensive modelling and surveying commissioned by Screen Australia. The sum total of viewings by 2011 of Australian feature films released in cinemas between 2007-2009, across the six distribution points produces the headline figure of 101 million viewings with the percentage breakdown:

65% of the viewings were on video (61% DVD/Blu-ray 4% online)
26% on television (16% free-to-air, 10% subscription)
9% at the cinema.

Source: Beyond the Box, Screen Australia 2011

The new viewings metric appears to present some compelling evidence suggesting Australian feature films *are* reaching Australian audiences just not through the first theatrical window of release i.e. cinema. Though to be accurate these metrics will need to be harvested multiple times to confirm if the pattern is reoccurring in the Australian market. Though it's hard to ignore the figure of 101 million viewings, as it presents a significant finding and analysis in *Beyond the Box* casts light on the extent to which Australian audiences are viewing Australian feature films across emerging digital platforms and screens. Disconcertingly, the report also raises some inescapable issues arising from multi-screen consumption behaviours that effect remuneration in the lifecycle of Australian feature films in the digital age.

The first issue concerns traceable linear remuneration able to be derived from the six distribution points. According to the report,

cinema box office is one measure where there is a linear relationship between dollars and audience numbers, [however] other distribution points generally result in multiple viewings from a single transaction...In this case the level of market penetration may be far greater than financial transaction data would imply. In seeking an indicator of performance that can operate sensitively across all release windows, the challenge is to find a way of measuring audience size for distribution points...which do not create additional revenue for multiple viewings. (Screen Australia 2011 10-11)

As a report, *Beyond the Box* certainly responds to the audience measurement challenge by deriving the new viewings metric based on all six points of distribution. But the challenges surrounding *identification* of remuneration from a single financial transaction across the five distribution points outside theatrical release highlight the *actual* remuneration issues confronting content producers.

Large audiences not translating into remuneration is one of the core issues arising from digital disruption and represents a globally shared challenge effecting distributors and producers alike when it comes to online screen content. The uncoupling of revenue from viewings is symptomatic of digital content consumption and the online phenomenon of *dis*-economies of scale that sees costs escalate as audiences grow and analogue dollars get replaced by digital cents. A stark example was reported in *Slate Technology* when YouTube faced a \$470 million dollar loss despite 375 million people playing 75 billion YouTube videos. (Manjoo 2009)

Through the *Beyond the Box* report, Screen Australia presents the first iteration of a new measure of viewings as an alternative account of the consumption of Australian feature films by Australian audiences. By quantifying viewings the report is able to overcome the gaps in remuneration data and provide an alternative assessment on how Australian feature films are performing in their ability to reach and appeal to Australian audiences.

The figure of 101 million viewings as of 2011 for Australian features produced between 2007-09 seems to represent a significant impact in terms of audience reach. But in the absence of any comparative analysis against the number of viewings non-Australian features receive, the figure of 101 million viewings does not provide any kind of benchmark measurement. Therefore it remains unknown what this figure actually represents in terms of successful audience reach and penetration. Though Ulin argues that

One of the most interesting development of the maturation of the distribution market is that the more important the revenue stream outside of box office have become the more important the value placed on the box office.' (2010, 118)

Hence the traditional metric of box office share can and does provide benchmarking alongside other informational qualities. It provides benchmarks against comparative international markets and their local films, the performance of international films in the Australian market and provides comparative longitudinal measurements of annual production slates.

At the level of an individual film, the viewings total also remains attached to its box office performance, as the *Beyond the Box* report testifies:

Success still breeds success: films with higher box office tend to lead to downstream viewings'. (Screen Australia, 2011 13)

Therefore the theatrical release platform and concomitant lifecycle audience penetration measured through viewings seem to remain vitally connected. As a result of the viewings metric the report's findings do expand on the traditional understanding between a film's box office performance and its success at attracting Australian audiences across its television access point; '...Total Audience Viewings analysis shows lower-grossing films performing relatively well on television'. Nevertheless, in the words of the report;

Strong television does not excuse under-performance in cinemas but these results demonstrate the significance of free-to-air and subscription television in building an audience. (Screen Australia 2011 13)

Ultimately then, it would seem the significance of the new viewing metric is its ability to capture performance data revealing how and at which access point Australian audiences are encountering Australian content. But it remains to be seen how this translates into wider remuneration possibilities for producers given box office performance still remains the key determinant in its lifecycle success. Significantly, in theatrical release, good box office grows in response to positive audience reception spreading positive word of mouth - more powerful than ever in the age of social media - and contributes to growing box office success.

The significance of theatrical release is highlighted by Wasko (2003) in terms of its ability to brand the film, and how box office performance along with the marketing spend, underwrites the value of the licensing price paid by distributors for all downstream rights.

Despite the report's conclusion that the viewings total across the five points outside of theatrical release demonstrates Australian feature films are 'building an audience' through their lifecycle it does not indicate audience satisfaction levels. Nor is there any evidence that viewings of these past Australian films has assisted subsequent Australian features. Three years on from the report's publication, the continued poor performance of Australian feature films in Australian cinemas testifies that despite all the viewings of Australian feature films that may be occurring across new screens and platforms it has not translated into better performance by Australian feature films in the theatrical market. Since 2010 the share of Australian box office achieved by Australian feature films remains stubbornly low (see table 1.0).

Table 2.2 Australian features share of Australian theatrical box office 2010-2013			
2010	2011	2012	2013
4.5%	3.9%	4.3%	3.5%

Source: Screen Australia – Australian Content, Box Office

Nowhere in the *Beyond the Box* report does it explicitly state that engendering Australian audiences to Australian films through their digital lifecycle will lead to future higher box office returns for Australian films and a subsequent larger share of domestic box office. Nor does the *Beyond the Box* report contradict long-

held understandings that an individual film's performance in cinemas is commensurate with a better lifecycle performance, beyond the proviso that lower grossing films perform 'relatively well on television'. Yet, when box office admissions are compared against viewings across the other five points of distribution, by accounting for less than ten per cent of total viewings, the argument of the *Beyond the Box* report positions box office revenues as diminishing in significance within the broader 'performance' metric of Australian features based on the new measure of total viewings.

In 2012, the *Beyond the Box* report was supplemented by Screen Australia's companion piece, *What to Watch? Audience motivation in a multi-screen world* which investigates, "...why audiences watch what they watch, exploring how motivations change for feature films, TV drama and documentaries...across different distribution mechanisms or platforms (cinema, DVD and Blu-ray, online video, subscription and free-to-air television" (2012 1). Qualitative data collection was gathered through focus groups and attitudinal surveys tracking age and lifestyle demographics against questions of WHO is watching, and on what platforms are they watching it and WHY?

In terms of WHAT content Australians audiences are watching the study does not differentiate between Australian and international content and only distinguishes between drama, documentary and features. Aside from the two case studies, *Mao's Last Dancer* (2009) and *Underbelly* (2008), Australian content is not singled out in *What to Watch?* despite its functioning as a follow up to *Beyond the Box*. So there is a fundamental disconnect between the two studies and it is inexplicable why the new metric of viewings has not been followed through and subsequently applied to non-Australian content across the six points of distribution.

Ultimately, it appears that the new metric of viewings has highlighted some of the issues associated with remuneration across the lifecycle of a feature film, but otherwise it has simply confirmed the importance of theatrical release in downstream sales. Despite some comprehensive analysis and findings in both of Screen Australia's reports, *Beyond the Box* and *What to Watch?* it is unclear as to how the viewings metric may assist with developing any strategies to improve the performance of Australian feature films at the box office, or indeed if this is even a consideration?

Re-Approaching Australian Film Business

The Producer Offset scheme has been a significant policy initiative that has been unanimously applauded in the Australian production sector for its responsiveness to current market and financing conditions. Between 2008 when the Producer Offset's commenced until 2013, the indirect, market-driven incentive has been granted to 115 eligible Australian feature films with a value of \$462.2m. (Screen Australia, Producer Offset Statistics)

The Producer Offset applies to the Qualifying Australian Production Expenditure (QAPE), a subset of the production expenditure incurred by a production company but most marketing expenses are not eligible as QAPE. The Producer Offset is worth 40 per cent of an Australian feature film's QAPE, double the 20 per cent available to non-feature Australian qualifying productions like television drama, documentaries and DVD or web distributed programming. (Screen Australia, What is QAPE?)

In short, the Producer Offset scheme is the latest example of funding arrangements that privilege Australian feature films over other Australian screen content. The extent to which this other Australian screen content is outperforming Australian feature films in terms of viewings remains unknown due to *Beyond the Box's* focus on feature films only. But given the high rating success of most Australian television drama for example, it is likely the ratios between viewings and revenue against their reduced incentive of a 20 per cent Producer Offset are favourable to non-feature content.

In terms of producing feature films the current policy and funding mechanisms ensures a steady supply of Australian feature film will continue to populate the annual production slate. Indicative of a highly subsidised, cottage industry approach this will occur irrespective of the demand for Australian features amongst paying audiences. Based on the insights from the producers survey it is also inevitable that the current funding and financing practices surrounding Australian feature films will ensure fledgling producers and production companies will either be driven into debt or put out of business by their own feature films and the inability to generate sustainable 'Return On Investment' (ROI) from their Australian feature films. An ROI is a profitability ratio calculated by dividing the negative cost of a film's production with its box office returns. *Paranormal Activity* (2009) is the most profitable movie based on its ROI, its production budget was \$450,000 (US) and it made at the box office \$89 million US (The Numbers: online). All film producers want to make a film that delivers a high ROI but making films is costly. The Producers survey found that

Over 50% of Commercial and Digital Media producers carry debt of less than (or up to) \$25,000. By contrast, Film producers carry the most debt, and almost 1 in 5 carry over \$100,000 (22%) in debt. (CCI and Bergent 2012 46)

If we return to the observations from Australian producer Vincent Sheehan in his report, *Why Australian producers should think more like distributors*, 'the value of the film, distribution and its business rationale holds the key for greater ROI on Australian feature films and can ultimately contribute to the sustainability of the Australian feature film producer'. For Sheehan, the critical issues for producers clearly lays in distribution, where it is hoped that a solid ROI, on one film, may help reduce residual debt. This is why producers should approach the development of their films with markets, audiences and remuneration foremost in mind. It's not simply about getting a bigger film budget, because that may

exponentially decrease the ROI, it is about carefully calculating all financial and creative aspects of a film as well as paying specific attention to the distribution options.

As is well established, distribution is a numbers game and the many variables associated with individual productions can be reduced to spreadsheets that enable distributors to develop appropriate distribution strategies around particular films. By quantifying what are essentially qualitative factors like genres, narrative themes, cast and director against estimable yet measurable rights components like domestic and foreign theatrical markets, presales and local DVD sales, promotional and marketing expenses, a calculable market strategy can be arrived at for each feature film. (Lee and Gillen 2010, 157-163)

At the core of a distributor's business, which is similar to a balanced producers approach, is assessing the value of a particular film's rights and the potential returns suggested by its key assets like script (first and foremost), cast, director and genre (Lee and Gillen, 2010 165-183). By prescribing then calculating a market value for each of these unique elements and variables each film can be approached singularly through its appeal and ability to reach particular audiences. By being so audience driven, distributors are able to forecast and identify budget to market ratios, recoupment minimums, and accord rights values across theatrical markets and non-theatrical markets like airlines, cruise ships and hotels, DVD rental and sell through, Video on Demand (VOD), pay and cable television, free to air television and education. (Sheehan, 2009)

The approach taken by the distributor to a specific title is far removed from the approach taken by Australia's creative protectionist producer (see Lee and Gillen, 2010, 10). Adopting a dispassionate attitude by approaching the value and potential of each film commencing with the audience appeal of its story and package elements is often the first obstacle preventing producers from approaching their film like a distributor.

While producers are often biased by a belief that their project is pure genius and bloody commercial too, distributors are never biased. For them, it's not about taste or story or message, it's about *audience*. (Sheehan 2009 6)

According to Sheehan, running the numbers before a producer embarks on a production is not just about estimating potential remuneration from carefully targeted markets and audiences, crucially, it is also about arriving at an appropriately sized budget.

The value of all the rights in a project, once calculated, should directly inform the structure and strategy for financing it. Unfortunately, the current Australian development culture has got it 'arse backward'. Producers are often asked to get their script budgeted before investigating the marketplace, knowing the audience or assessing the value of rights. These elements not only

have to be considered – they have to be thoroughly examined, as a project with the wrong budget-to-market ratio will never work commercially. It is not uncommon to hear overseas distributors, producers and sales agents comment that Australian film budgets are inordinately high when compared with the sale prices paid for them. (Sheehan 2009 8)

On the issues of inappropriately sized budgets, Sheehan is aligned with Robert Connelly,

Whereas world cinema is largely polarized between the successful huge budget studio productions and a smaller scale, bolder form of cinema, Australian films have increasingly fallen into the middle. These films occupy a no-man's-land budget range: they are neither large enough to compete in the multiplexes, nor small enough to provide the basis for a sustainable and innovative industry (Connelly 2008 3)

Effectively Connelly's argument is that Australian films suffer because they lack the opportunity to improve their ROI and this arises from two causes firstly an entrenched Australian film production sector and secondly a distribution system that sees profits going to distributors before a film's producer has re-couped their losses.

According to the attitudes captured in the 2011 survey of 109 Australian feature film producers, Sheehan and Connelly's message will continue to be a hard sell. The survey reports attitudes and approaches amongst the 109 film producers that are contrary to nearly all of Sheehan's recommendations. In opposition to the points about Australian films being over-budgeted, when asked about the size of their typical project budget the film producers responded:

20% Well Below average
22% Below Average
30% Average
21% Above Average
6% Well Above Average

(CCI, Bergent 2014)

Only 27% of producers would acknowledge they were operating with inflated feature film budgets. The Producer survey results show that the majority believe they are working on under-budgeted film projects, when compared directly to the foreign budgets they might be, but comparing one films budget directly with another confuses the issue. The issue is about 'return on investment' (ROI), the lower a films budget then the better chance it having a decent ROI from the box office. The producers survey results perpetuates the belief Australian feature films are low budgeted enterprises capable of decent ROI.

The Producer survey also revealed that Film Producers lacked skills, qualifications and confidence in their legal, business, financial and marketing skills despite rating all these skills as important (p65). Perhaps of most concern was responses to the question; How useful is audience research/user testing in improving production quality in the industry? (CCI, Bergent 2014)

Very Useful 43%
Useful 31%
18% Neutral
3% Not Useful
5% Not at all Useful

(CCI, Bergent 2014)

Unfortunately, the Producer survey does not specify the exact type of audience research seen as being valuable to producers, though the majority of Producers perceive audience research as Useful and Very Useful. The fact that a combined total of 26 per cent of the 109 responding film producers, or over a quarter of them, place no value on audience research and user testing is cause for extreme concern as it puts them at odds with the fundamentals of the business they are in.

CONCLUSION

The multi-screen viewing behaviours, which have antecedence in the analogue era now use an online platform, addressed in both *Beyond the Box* and *What to Watch?* have been impacting global film industries for decades. The more successful producers and distributors have processed this information and altered their approach to the business of feature filmmaking, and occasionally they enjoy success, particularly with older 24 y.o. + demographics who continue to view films on DVD and TV but who remain a niche audience when it comes attending the cinema and purchasing tickets that underpin theatrical release box office.

What has to be questioned in Screen Australia's reports and Connelly's paper are attempts to mitigate the performance of Australian films in the face of the seemingly intractable spiral downwards in local box office share and revenue earnings. Creating soft success stories of how Australian feature films perform and deliver cultural returns on investment will not translate into the hard numbers required for a sustainable industry. Box office returns may not tell the whole story of the performance of Australian feature films amongst Australian audiences, but it is certainly a narrative that would be embraced if there were stronger returns being generated locally.

While Screen Australia should not be seen as a vehicle to generate licensing fees for distributors, it does hold the key to unlocking the data that might help Australian film producers and distributor's work together to increase an Australian films exposure to its primary audience.

This work needs to be done along side Screen Australia's current, invaluable support to the Australian film industry, its programs and initiatives are indispensable because they are driven by priorities other than profitability and the production sector does benefit greatly from their policies. But when Australian producers like Connolly argue convincingly that there is now a 'no-mans land budget range', he isn't referring to the size of the budget, he is pointing out that the film production methodology and distribution system jointly compromises Australian films because the decision making processes prevent the films from reaching their audiences at the box office. From the results of the producer survey, it would seem there is also some more work to be done with educating producers about how to better appreciate their audiences and which market segment is best targeted through a theatrical release.

The conflicted discourse underpinning the response to the current poor performance of Australian feature at the Australian box office by both Screen Australia reports reveal some of the contradictions in the policy mechanisms underpinning Australian screen content. Clearly there is a case for the approach taken by distributors on audience value as remuneration to be matched to the kind of analysis Screen Australia is capable of conducting and the industry needs to be alerted to. Screen Australia has failed to acknowledge that audiences are linked to remuneration, which is linked to industry sustainability, the very thing that Screen Australia is tasked to preserve. Thus, taking a distributors point of view, it is misleading for Screen Australia reports like, *Beyond the Box* to try to separate audience measure from remuneration.

It is not only Australian audiences but Australian producers that will be the ultimate beneficiaries of a sustained research engagement on how Australian feature films can win back Australian box office appeal. A forthright business analysis, more informed by distribution practices will reflect the industry orientation of Australia's maturing and increasingly globalised screen production sector. A more thorough integration of data analysis that is both qualitative and quantitative will provide important benchmarks to assist charting a path towards sustainability of the Australian screen industry and its feature films in the digital age.

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