

SXSW

March 11, 2014

What Filmmakers Can Learn From the Music Industry

Dan Satorius

Ken Abdo

5 Lessons the Film Industry Can Learn From the Music Industry

The music business has been the canary in the coal mine that is the entertainment industry. Over the past 15 years, much of the economic value has been removed from the music business by piracy, new technology, and changing audience expectations about how they want to consume and pay for music.

Now it's the film industry's turn. The film industry, especially independents, is vulnerable to the same factors that ravaged the music business. Filmmakers have always struggle to find new ways to finance, market and distribute their works and make a living doing so.

But there is a phoenix rising from the ashes. Some segments of the music business have developed innovative ways to thrive economically and artistically. In this article we explore lessons practitioners in the film industry can learn from those innovators.

1. New ways to finance in an environment where the work doesn't pay for itself.

Successful veteran filmmakers often say it is just as hard to finance their current film as it was to finance their first. How is this possible? Doesn't a successful track record count for anything with financiers? The answer is that financiers discount track records and instead focus on formulas that emphasize a-list actors and storylines that mimic the film that made a ton of money at the box office last week.

How are music artist tackling that problem? In 2012, recording artist Amanda Palmer started a Kickstarter campaign to raise \$100,000 to fund and market her new album and a tour to support it, thus circumventing the record label system. She used Kickstarter to pre-sell her album. Her campaign was so successful that she raised \$1.2 million (12 times her goal) from 24,883 backers in the first month.

Independent artists who have direct relationships with their audiences control a substantial asset that can partially finance, or in some cases fully finance their projects. Rob Thomas's The Veronica Mars Movie Project crowdfunding campaign attracted 91,585 backers (Kickstarter's all-time highest number of backers) and raised pledges of \$5,702,153 (the goal was \$2,000,000) for the film. Spike Lee and Zach Braff have also conducted successful Crowdfunding campaigns.

Most independent filmmakers do not have the kind of relationship with audiences that enable them to fund the full budget of a film via Crowdfunding. But what if the relationship can be built? If so, the filmmaker can control and deliver a significant asset. That would put the filmmaker in a different position in negotiations with financiers.

Crowdfunding is viewed by many as a way to pick up some quick money to start a project or pay for costs like deliverables. But Crowdfunding can benefit filmmakers in a number of ways beyond the obvious benefit of raising money. Instead of thinking of Crowdfunding as an ATM, think of it as a way to build a community around an artist or a topic that can support a series of works. That support can come in the form of not just cash (Crowdfunding) but in many other ways (Crowdsourcing.)

Crowdsourcing can be used throughout the development, creation, financing, marketing, and distribution of a project and for a series of projects. Crowdsourcing can serve as a sort of test for the concept behind the project. Distributors, broadcasters and financiers, and even the filmmakers themselves seek out people and organizations who are willing to endorse the project even before it is available for consumption. Crowdsourcing can be used to develop the project by bringing resources and expertise to the writing and production of the project (think of Wikipedia.) Also, Crowdsourcing can market a film. The crowd can be used to get the word out and get people talking about the project. These fans and supporters can be rallied for promotional activities around the release of the film.

One thing Crowdfunding campaigns like those of Zach Braff, Spike Lee, and Amanda Palmer show is that there is "consumer surplus": fans will pay more than amounts normally charged for product if they see the value in the project. The community of fans will support an artist if the artist creates a rich experience for them. The fact that the audience/fan base/community contributes pays more to a crowdfunding campaign than the value of the product offered (such as a copy of the film), shows that the audience sees value in supporting the effort to create the work.

2. *New ways to market your work when the audience expects it for free.*

The once lucrative DVD market that sustained the independent film industry for years is declining rapidly, and is being replaced by streaming services. Analog dollars have been replaced by digital dimes. To survive in a world of declining revenues, one must reduce costs but that will take you only so far. In the music industry the situation is worse; audiences expect to consume music for free. How do music artists do it?

When Radiohead's record contract expired the band self-released their new album, *In Rainbows*, offering it for download for "whatever you wish -- even nothing." The album, released in 2007, debuted at No. 1 on the charts and sold millions worldwide. Their album generated more music publishing

royalties for the writers before the album was released on CD than the band made on total sales for the band's previous album.

Entrepreneurial music artists are discovering ways to give away or sell their sound recordings for pennies in order to promote other income generating aspects of their business over which they have more control. They are shifting focus from solely (or primarily) hard goods such as CDs to a focus on live performance, social media, branding and merchandising. This allows artists to change the value proposition for the audience from the sale of sound recordings (which is hard for artists to control) to audience experience which artists are better able to control through live performances, music publishing, and the sale of merchandise.

Filmmakers are starting to find significant revenues in live performance equivalents: semi-theatrical and film festivals. Depending on the film's themes and topics, there may be many semi-theatrical venues for the film such as conventions, charitable events, colleges and universities, churches/synagogues/mosques, seminars, fraternal organizations, and other organizations who will pay to screen films, especially if the filmmaker comes along to present the film. Four-walling, the practice of renting out theaters for exhibition of films, in theaters can also be profitable for some titles. There even are Crowdsourcing apps such as TUGG and GATHER that can be used to promote theatrical screenings.

Semi-theatrical distribution gives the filmmaker the opportunity to sell not only tickets or collect screening fees but also sell t-shirts, caps and other merchandise, and DVDs—usually at premium prices. One can create special editions and collector editions with DVD extras and other special add-ons. That's thinking like a band on tour or a Broadway show. Make the experience special and exclusive for the audience. If the filmmaker can create a special experience for the audience, he/she can turn the audience into fans who will buy DVDs and merchandise and be there for the filmmaker's next film.

Filmmakers now have the opportunity to create and sell derivatives of their original work that can be distributed over multiple platforms such as websites, apps, and webizoids (and of course the traditional remakes, sequels and TV series). Mini versions of documentaries can be created for the educational market with curriculum materials.

Giving away content can lead not only to sales but it can build other assets, owned directly by the artist, such as killer email lists. HUNGRY FOR CHANGE is a documentary film about the benefits of proper diet and weight loss. It is the second film by Australian filmmakers James Colquhoun and Laurentine ten Bosch. Their first documentary film FOOD MATTERS sold hundreds of thousands of copies. They offered HUNGRY FOR CHANGE online for free for 10 days and got 450,000 views from more than 150 countries. It went on to sell over one million DVDs and a companion recipe book in the first two weeks (\$34.95, for the DVD, \$49.95 for the recipe book, \$74.95 for both.) This was accomplished with no paid advertising, no distributor and no retail channels. And it increased their email list to nearly 500,000 names. They can use that awesome email list and the great relationships they built with their audience to finance their next film through pre-selling to their fans and to market that film via email.

Shifting the value proposition from the sale of plastic discs to the sale of something the independent practitioner can control is at the heart of the new business model. Experience is something creators can control. Plastic discs, not so much.

3. New ways to distribute directly and with traditional distributors.

There was a time when an artist needed a record company to sell records but not anymore. Musical artists have learned how to connect directly with their audiences using direct (let's not call it "self") distribution.

Ani DiFranco built a lucrative career using direct distribution. She started her label, Righteous Babe Records, in 1989 at the age of 18. Within 10 years her label was distributing the records of other nationally known artists. Her label has put out records by more than a dozen artists and sold over 4 million records. By taking a direct approach to distribution, she has built and enjoys the advantage of a powerful and devoted community that supports her business.

Filmmakers can distribute their films directly and in combination with traditional distributors. In the past it was common to grant all rights for the distribution of a film to a single distributor or perhaps one domestic and one foreign distributor. Now it is possible, even advantageous, to grant limited rights to multiple distributors.

These agreements are called "split rights" deals. Split rights deals offer filmmakers several benefits. First, when rights are split, the costs and advances from one distributor are not recovered from the revenues generated by another distributor. This can result in greater net revenues for the filmmaker if, for example, one market controlled by one distributor tanks, while the market controlled by another distributor does well. Second, the filmmaker may want to hold onto those markets they have the ability to exploit directly. For example, let's say a filmmaker has a documentary about groundwater pollution. A distributor may be the most effective way to reach audiences via television, cable, SVOD, VOD, etc. But there may be a small market for the sale of DVDs to special interest groups, professionals and others with whom the filmmaker has connections. Or perhaps the film could do well in limited semi-theatrical settings such as seminars, conventions, fundraisers, etc. The filmmaker may be in a better position than a distributor to distribute the documentary in those situations. And so the filmmaker may want to hold back those rights. An added benefit of direct distribution, discussed above, is the relationship the filmmaker builds with the communities he/she directly distributes to.

Capturing audience contact information and engaging audiences regularly throughout the process of making and distributing a film and even between films builds a community that will help develop, finance and provide the audience for multiple works and even ancillaries such as merchandise.

Distributors will not build community for filmmakers. Their efforts are focused on the big initial push to sell the film. They put lots of money and effort into marketing and distributing a film. Websites are built, publicists are hired, print and TV ads are made and placed. For most films, by the end of the first week, 100% of the prints and ads (P&A) budget is spent. The distributor builds an audience for a film,

but after the first few weeks no further effort (and no financial investment) is made in this nascent community. That valuable asset, the community, is lost because there is no follow up. Distributors have no incentive to invest in the community because they do not benefit from it. Their interest is in the release of the film not in grooming the community for the filmmaker's next work.

Developing and maintaining a community can sustain a filmmaker's career. Filmmakers need to learn how to treat their audience as their most important asset.

4. *Be a rock star to build your career.*

The rock star's business model is not built on one song, one album, or one concert but rather on the artist him/herself. To be successful, the music artist must engage audiences in multiple ways to create an experience and ultimately a relationship with the fans/audience. When the artist creates a sufficiently compelling experience, the audience wants to extend the experience by attending concerts, buying recordings, clothing, and merchandise, and by participating in social media. The artist becomes a brand -- a rock star.

The film and television industry has rock star equivalents such as Scorsese, Tarantino, Coen Brothers, Spielberg, Lucas, and Woody Allen. And there are a few young filmmakers like Morgan Spurlock (*Super Size Me*, *POM Wonderful Presents: The greatest Movie Ever Sold*) who intentionally self-promote. But for the most part audiences don't know contemporary young filmmakers.

One reason for this may be the way distributors release films. Just as distributors don't nurture audiences, as discussed above, they don't promote filmmakers – at least not those who are not already brand names. Distributors promote and market films, not filmmakers. Promoting films creates value for the distributor while promoting filmmakers holds little value for them. And filmmakers, especially independents, do little to promote themselves. The result is filmmakers must start fresh with audiences for each new film. This is inefficient from a marketing and, consequently, financing perspective.

5. *New media is a new way to collaborate with audiences.*

The internet and digital distribution are disruptive technologies. As Clay Shirky, author and leading thinker on the impact of social media, says: "...every information business that the Internet touches, the first thing it does is it rips the guts out of the scarcity model. It did it for music, it did it for books, it's doing it for movies, it's doing it for newspapers."

But new media is not the first disruptive technology to impact the entertainment industry. TV was considered a threat to the film industry when it first developed. In the late 1940s, US movie theater attendance was a stable 4 billion admissions per year. By the early 1960s, admissions were reduced to one-fourth of that number. But TV did not devastate movie admissions by just showing movies on TV. Instead it pioneered new programming such as soap operas like "As the World Turns", variety shows like "Ed Sullivan", sitcoms like "All In The Family", mini-series like "Roots", the nightly news, live sports and instant replays. Audiences stayed home to watch these new forms.

Just as TV invented new ways for audiences to consume stories, filmmakers must invent new ways for audiences to consume stories in the new media.

Filmmakers must innovate new ways to present stories on digital media, not just use it as a substitute for DVD, television and theatrical. For example, why not turn your documentary or feature into a game? Of course there are many films based on video games (*Mortal Kombat*, *Laura Croft Tomb Raider*, *Resident Evil*, and *Prince of Persia*), so why not work it in reverse? There is now at least one video game based on a documentary. In 2012, Julian T. Pinder released TROUBLE IN THE PEACE, a cinematic documentary about a farming community in northern British Columbia struggling with pipelines running across their property. In an effort to expand the reach of the film and the involvement of a wide audience in the issues raised by the film, the producers of TROUBLE IN THE PEACE commissioned a 24-level video game called "Pipe Trouble." Media frenzy around the documentary and the game helped to promote each work. Consider the huge market for video games.

We are locked into the paradigms of the artist as sole creator and solitary visionary, financiers as draconian figures with bags of money, and distributors as gatekeeper. But as we all know film is the quintessential collaborative art. Why can't the collaboration extend to the crowd? Why can't the crowd be a virtual film studio in the way that Wikipedia is a virtual encyclopedia company? Why can't we collaborate to create works that play on the world stage? Those who exploit new technologies in new ways that engage audiences have an advantage over those who merely use the new technology to support the old methods of delivering content.

Reflecting on the other 4 "lessons" outlined above we might consider a further step the filmmaker can take and a new way to adapt to new media. All of the above lessons -- crowdsourcing, direct distribution, selling experience -- not plastic, 'rock star' branding -- contemplate collaboration with the crowd. The most effective way for filmmakers to use new media may be collaboration.

© Copyright 2014 Daniel M. Satorius

DANIEL M. SATORIUS' firm is Satorius Law Firm, PC. He practices in the area of entertainment law, including contract, intellectual property, financing, and business structures. His clients include award winning independent producers, writers, financiers and distributors in the motion picture and television industries. He can be contacted at: 80 South 8th Street, IDS Suite 2000, Minneapolis, MN 55402; (612) 333-1526; E-mail: Dan@SatoriusLawFirm.com.