

GOVERNMENT OF THE RUSSIAN FEDERATION

NATIONAL RESEARCH UNIVERSITY  
HIGHER SCHOOL OF ECONOMICS

FACULTY OF WORLD ECONOMY AND INTERNATIONAL  
AFFAIRS

MASTER OF INTERNATIONAL BUSINESS PROGRAM

MASTER THESIS

**Topic: Formation of International Distribution Channels by New  
Players in the Film Industry**

Student

**DARIA LOUZGUINA**

Research Advisor

**Associate Professor**

**IRINA G. KRATKO**

Moscow 2015

## **TABLE OF CONTENTS**

### **INTRODUCTION**

#### **CHAPTER 1. THEORETICAL REVIEW OF EXISTING LITERATURE**

- 1.1 The Research Question
- 1.2 A Brief History of Film Distribution
- 1.3 Conceptual Framework of Film Distribution

#### **CHAPTER 2. ANALYTICAL AND EMPIRICAL RESEARCH**

- 2.1 Case Studies of Establishing Film Distribution
- 2.2 *Glukoza Production*: Company Analysis
- 2.3 Results of Interviews Conducted with Industry Experts

#### **CHAPTER 3. RESEARCH OUTCOMES AND MANAGERIAL IMPLICATIONS**

- 3.1 Distribution Strategy Proposal for *Glukoza Production*
- 3.2 Concluding Remarks
- 3.3 Limitations of the research
- 3.4 Recommendations for further research

### **REFERENCES**

### **APPENDIX/FIGURES**

## **Introduction**

While the global film industry is highly capital intensive, requiring large upfront investments, it is, also, one of the most profitable industries. According to a report by PWC, the total worldwide revenue of the film industry in 2013 was US \$90.3 billion and is estimated to go over US \$100 billion in 2016 (PWC's Entertainment Report, 2013).

The reason why this thesis topic has been selected is due to the interest in the film industry and the technological developments that it has been going through. One area of the film business that has been largely affected by this is that of distribution. The movie industry is extremely capital intensive. Some movies, such as *Avatar* produced by James Cameron, not only recoup the production costs, but, also, return a significant profit. *Avatar* earned over \$2.7 billion in the box offices all over the world with the total box-office revenues for that year being \$29.4 billion (All Time Worldwide Box Office Grosses, 2015). The term box-office revenues is an industry specific term that will often be used later on throughout the paper. According to a definition provided by IMDB, box-office revenues refers to the total amount of money spent by customers to view a certain movie in the cinema (IMDB, 2015). The author of this paper worked for a Russian animation film production studio, *Glukoza Production*, and personally experienced the challenges faced by such new players in a market where the rules are largely dictated by major companies. Once a studio completes the production of a film, it then has to raise awareness among potential viewers.

The paper gives an overview of the past and current situation of the movie business, provides a description of film distribution strategies worldwide and discusses the most lucrative and profitable markets for the Russian film company. After the macro level factor of selecting the right markets to enter, an analysis of the selection of the right distribution channel is provided. There are many tactics of movie marketing, including the Internet, appearances on TV shows, movie trailers, interviews, advertisements in magazines, radio and etc., depending on the movie's target audience.

The object of this thesis is the film industry and the subject is film distribution strategies. The thesis looks at film production companies that are planning the international distribution of their films. Foreign models of the

movie business are analyzed and applied to Russian films. The paper argues that new players in the film industry must select an appropriate distribution chain for the international sales of their movies in each market.

The analysis has been completed using both primary and secondary data. Secondary data comes from the research of different sources, including websites of film statistics (eg. Box Office Mojo), media research companies (eg. Motion Picture Association of America), books on the film industry and others. In addition to this, primary data has been collected through interviews with representatives from the Russian and international film industry. The interviews were held at various locations, including the American Film Market in Santa Monica, California and the Moscow office of *Glukoza Production*. This analysis may be used by other film production companies that are new players on the market.

Since the scope of the paper does not allow to cover the entire global market, only the distribution strategies for the key international markets of Russia and the United States were given. Other major territories for distribution, such as the CIS, European Union, China and Japan were, also, discussed in less detail.

Upon conducting a review of the existing studies, a significant gap in the literature on the subject was found.

First of all, there is no comprehensive explanation of the current film distribution strategies and factors that affect the choice of some distributors and channels over the others. Overall, there has been little written on the subject from the business point of view. The academic work published by film and media students usually does not incorporate business strategies as the writers tend to be less familiar with existing business models. On the other hand, students coming from business schools are likely to lack the specific knowledge of the film industry (Silver, 2007).

Second of all, a large portion of the research analyzes the factors that affect theatrical box office results, while there has been little research dealing with sequential media. One of the reasons for this is simply that there is not that much data on successive distribution channels, including DVD and Video-on-Demand. Official data for VOD channels is often difficult to find and, thus, it proves hard to conduct the necessary research. This paper uses existing studies and future

projections to analyze sequential strategies after a movie's release in the theaters.

Third of all, we plan to show the practical implications for film studios that are new players in the film industry. This involves an analysis that is current and up-to-date.

Finally, we plan to determine the profit-maximizing sequential system for a real-life film studio, *Glukoza Production*, that is a new player in the film industry.

## **CHAPTER 1. REVIEW OF EXISTING LITERATURE.**

### **1.1 The research question**

Overall, there are four steps involved in the delivery of a movie to an audience: production, distribution, exhibition and consumption (Eliashberg et al., 2005). Movie creators need to sell and distribute their content. Can they do this themselves? Why do they need distributors? As will be discussed in a later chapter, the Hollywood studio system that developed in 1930-1949 was one of vertical integration in which the major studios controlled all aspects of the film delivery process. This made it extremely difficult for new players to enter the market. Nowadays, the barriers to entry have been significantly lowered. However, the film studios that are smaller players on the market and/or are new to the industry, usually don't have the experience or funds in order to set up the necessary distribution infrastructure. Even if they do possess some distribution capabilities, these are most often on the domestic market and, thus, do not aid such film studios with their international distribution.

Therefore, most filmmakers choose to go through a distributor who can provide significant funds for advertising in order to entice consumers to watch the film. Not only do distributors have the necessary connections with exhibitors, which are needed to sign deals and then collect the revenues, but they, also, have extensive industry experience (Gong et al., 2011). Especially for the international markets where film studios do not have an existing presence, they would benefit from the help of third parties in order to design their distribution strategy.

When manufacturers of goods decide to sell their products to end-consumers, they often find it easier to go through intermediary firms for their physical distribution. Intermediaries tend to possess more knowledge of the markets, have specialized capabilities and industry-specific expertise, thus making it easier for manufacturers to get their product out. For retailers, there are several important benefits as well, such as the capability to spread their overhead over a range of products and have a continuous supply of products.

In the movie business, the manufacturers are producers and film studios. The distributors acquire their films and license them for exhibition to the cinema

operator, which is the retailer in this case. Thus, the process can be summarized as follows: Production → Distribution → Exhibition → Consumption.

When dealing with the international sales of their products, film studios must select which distribution strategies to adopt in various markets as well as choose the channels through which to distribute their products. Distribution and selling costs may turn out to be as much as forty percent of a product's cost (Koselska, 1992). Therefore, film studios must carefully consider each channel in terms of its cost and scope of coverage. Having shorter channels with fewer intermediaries makes them more efficient to operate and reduces the product's final costs. However, this, also, depends on the firm's strategic goals and the business environment of each specific market.

The products of the movie business are motion pictures and they have the following characteristics that affect the approach to their distribution process.

- Essentially, motion pictures are produced to be released in succession as opposed to a simultaneous release in multiple markets (Elberse & Eliashberg, 2003). This means that film studios must pay close attention when deciding upon their releases in various markets. Also, this means that the sequential order of the channels is of large importance.
- The lifecycle of motion pictures, and entertainment products overall, tends to be shorter than that of other products (Luan, 2005), which means that their releases have to take place within a relatively short time period, or else the film content will become outdated and no longer relevant.
- The production costs for motion pictures are higher than that of average products (Perspectives Filmed Entertainment, 2009).
- Entertainment goods, overall, have an experiential nature, which means that their quality can be judged only through usage. Therefore, distribution strategies may have to be adjusted accordingly based on the product's box office performance or amount of purchases (Bassi, 2007).
- The film industry is experiencing constant advances in digital technologies, which raises the issue of speed-to-market (Technology & Innovation, 2015).

## **1.2 A Brief History of Film Distribution**

For a long time the film industry was reserved to a few Major studios that held an oligopoly on the market. The time period from 1930-1949 is known as “The Studio Era” with the ultimate domination of the eight Major Hollywood studios: the “Big Five”, which were Paramount, Loews-MGM, Warner Brothers, 20<sup>th</sup> Century Fox and RKO, and the “Little Three”, which were Universal, United Artists and Columbia Pictures (Sklar, 2015). These studios possessed unique capabilities of vertical integration that made it extremely difficult for new players to enter the market. This means that the movie’s production, distribution, exhibition and even consumption were under the control of the major studios. The studios owned the films, the distribution chains and even the movie theater chains where the films were exhibited (Smith, 2013).

Besides this, the cinema attendance was extremely high as there were pretty much no close substitutes to film, so there was almost no direct competition. In fact, the movie demand was so high that major studios often did not even have time to create enough product. This is where the “Little Three” came in to help. They, also, produced high-quality movies with famous actors and had their own distribution chains set up. However, they did not own movie theater chains. Finally, there were some lower rate film studios, such as Monogram and Republic, that did not own theaters or possess their own distribution chains.

The vertical integration system guaranteed exhibition to the Majors, since the producers of the movies basically owned the market. The films of the mini-Majors were, also, eagerly sought after, because the demand of the viewers was higher than the supply of the major studios. This presented a business problem to the smaller rivals for several reasons. First of all, because Hollywood’s movies were a form of mass production, it was hard to form a serious competitive threat to them. Second of all, there were extremely high barriers to entry, having to do with financing and the release regularity of movies.

The system wavered after World War Two, giving rise to “The Golden Age of Hollywood”. This happened for several reasons, the main of which were the antimonopoly laws introduced in 1948 (Gil, 2008). These laws forced the film studios to sell their movie theaters. The second important reason was the



appearance of television and other technological developments, which brought about an increase in demand. All this led to a disintegration and higher specialization of the traditional Hollywood studio system. The Majors ceased to have guaranteed exhibition in the movie theaters and were left to compete with the films of the mini-Majors, which proved to be more attractive to movie theaters because they were significantly less expensive. This marked the beginning of an era when small independent film studios and chains of independent movie theaters began to arise. This was the era of lower budget independent films. This was a time when a different kind of system developed, one that was opposing to that of Hollywood's, which lasted until the end of the 1980s.

In the 80s, the world saw a revival of Hollywood, largely due to another revision of the anti-monopoly legislation. The studios again got the chance to own movie theaters, which they began to exploit. This was the era of the "New Hollywood", with its new studio system that largely resembled the previous one (Schatz, 2004). Besides vertical integration the main characteristics of the new studio system were franchises and conglomerates. The blockbusters of the new era were created under the franchise principle, meaning that besides the movie itself there was a large amount of accompanying products created – animated series, toys, books, magazines, comics and etc. – that were based on the movies and generated additional revenues from the movie's success. Another feature of the new Hollywood system was the tendency to consolidate as the studios understood that it is better to merge with the manufacturers of accompanying products and thus to fully control the market. This would allow companies to outsource some production, become more efficient and gain greater economies of scale. The years of the 80s and 90s are the years of the birth of media-conglomerates, such as Time Warner, Disney, News Corp., Sony, Viacom, Seagram. The industry, therefore, became even more capital intensive. The conglomerates now owned everything -- film studios, distribution chains, actor agencies, movie theaters, TV channels, radio, printing houses and etc.

The times again became very tough for smaller film companies and new players on the market. However, the increase in demand and the rise of home video popularity allowed for a more specialized business structure. The demand

for home video was so high that these small companies managed to survive for some time by selling their films on video. Later, most of these companies were acquired by large studios and merged into conglomerates.

### **Digital Technology Revolution**

Digital technologies first appeared in the film industry in the 1980s and reached their heyday in the 1990s. At first digital technology was used for the creation of new images. It then went on to have a drastic impact on the way movies would be produced, distributed and sold. From the technical point of view, digital technology is the conversion of the images and sounds to digital data, or a sequence of zeros and ones, which can be stored, processed and transferred via computers. The company “Industrial Light and Magic” founded by George Lucas was the pioneer in creating visual effects that made fantasy stories seem extremely realistic (Silver, 2003).

The 90s brought about a boom in digital video with the appearance of recording digital video cameras, which allowed film amateurs to shoot and edit high quality video projects. Independent young filmmakers adopted the digital video cameras and began to use them in creating their movies, which were now broadcasted on TV and on prestigious film festivals. Together with digital video there was, also, rapid development of the Internet. Hollywood was slow to react to these changes at first. The low-budget thriller “Blair Witch Project” filmed in 1999 on small-format cameras is considered to be the first movie that used the market potential of the Internet to its fullest. The producers spread rumors on the Web that the “horror” scenes in the movie were actually real and this provided for the box office receipts of more than \$248 million all over the world. The Internet opened the doors for a new model of film production and distribution. In previous eras, film production and distribution for the majority of the movies was limited only to large corporations and distributors. However, the Internet allowed to bypass some intermediaries, as companies could choose to distribute their products straight to video production or online.

By 2012 there were almost no 35mm projectors left in the movie theaters, with the Digital Cinema Package becoming more and more widespread, together with the Blu-ray. DCPs are the packages of files necessary for the reproduction of

the film's digital copy in the movie theater. According to the Motion Picture Association of America, almost ninety percent of the world's cinema screens are now of the digital format (MPAA Report, 2014). The shift from a material film carrier of a 35 mm film to an electronic file has dramatically changed many business processes and links in the way films are released. The film industry has been affected on a global level and throughout many of its platforms.

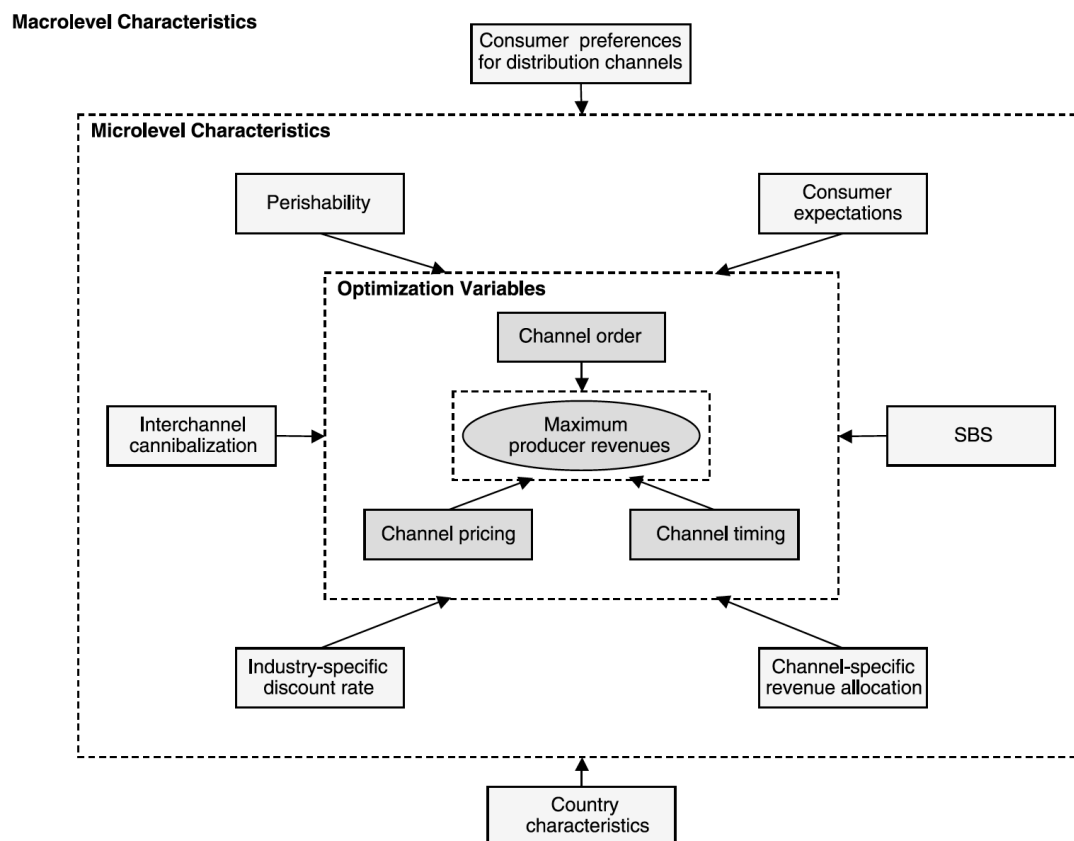
Although the major studios continue to specialize on larger blockbusters, the lower barriers to entry have allowed for new players to become competitive in other niches. In 2010, for example, out of the 754 movies produced in the US, only 98 of them were released by the major studios (MPAA Research and Reports, 2013). Even before that, however, in the 1990s, there were some low-budget films from newcomers that had successful theatrical releases, which will be discussed later on, such as the Blair Witch Project.

### **1.3 Conceptual Framework of Film Distribution**

The major studios today control most of the distribution worldwide. In the U.S., for example, thirteen large companies distribute movies for over a hundred production companies, which shows just how consolidated the industry is (Corts, 2001). Their domination is due to many factors, including brand equity, high budgets and a strong worldwide presence. Some majors are still entirely vertically integrated, such as the Walt Disney Company, but most of them rely on smaller production companies to provide the movies.

In order to construct a conceptual framework for the analysis of film distribution, the author of this paper decided to incorporate the ideas presented in an article on movie distribution channels (Thorsten Hennig-Thurau et al., 2007). In it, the authors contend that the decision of a movie's sequential distribution strategy is generally influenced by both macrolevel and microlevel factors. The figure below shows a visual representation of some characteristics that should be taken into consideration.

**Figure 1.** *Characteristics Affecting Film Distribution*



Source: Thorsten Hennig-Thurau et al., 2007

The SBS abbreviation in the figure stands for Success-Breeds-Success, which explains that viewers are more likely to be interested in films that have either had some success in the past, have star power, or have generated some buzz (Towse, 2010). Instead, it will use this diagram to analyze the formation of international distribution channels in a similar way, starting first from the macrolevel factor of country characteristics and then narrowing it down to the microlevel of channel order and channel timing. Some other factors will be briefly touched upon as well.

### **Selection of distribution markets**

Before a film studio starts designing its distribution chain for various markets, it should have an understanding of what markets it plans to enter as this will affect its distribution strategies. This paper develops a distribution strategy for a film production company that plans to build its distribution chain both on the domestic market as well as internationally. As Isaac Holloway points out in his publication, while there are some instances when companies choose to release their film simultaneously all over the world, known as day-and-date, the

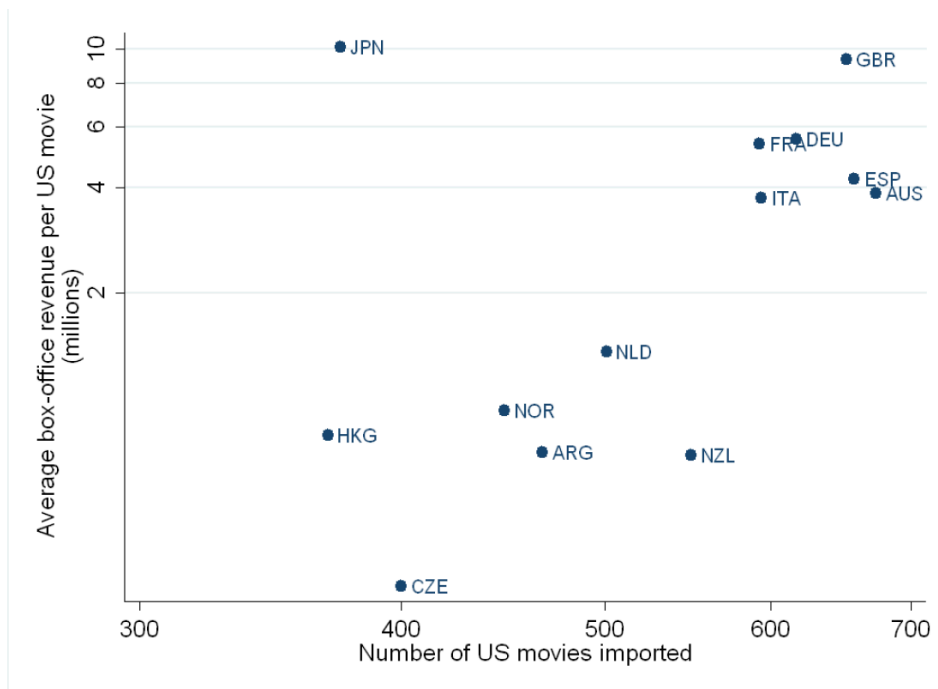
majority of companies follow the strategy of sequential entry, starting from a release in the domestic market and then look to international expansion (Holloway, 2012).

Each new market entry involves certain fixed costs for the production company. However, as was mentioned previously, one of the product characteristics of motion pictures is the fact that its quality can be judged only through usage. This means that the company must forecast its revenues based on various factors, such as, for example, the market size and price of the cinema tickets. With each new market release, it then has to update its revenue forecasts based on the reaction of its consumers. Therefore, the majority of companies first release their movie in the domestic market, then potentially move on to key international markets and, finally, look to secondary international markets that are less lucrative in terms of revenue.

Also, from a managerial point of view, sequential expansion would allow for some advertising goods, such as posters, cardboard standees, etc. to be used on multiple occasions and allows for stars to travel from one part of the world to another for promotional events at the movie's release, for example. However, there are certain drawbacks to releasing in markets sequentially, as opposed to simultaneously in various markets. One of these is the discounting of future profits as companies prefer to have revenues earlier rather than later (Prasad et al., 2004). A second drawback is the issue of international piracy. With the development of technologies and despite the implementation of stricter laws, piracy allows viewers to get content that has already been released in another market, thus decreasing a company's revenues in this subsequent market.

Movies are cultural products in that their success is largely dependent on the consumer preferences in various markets. This paper aims to give a brief overview of the key international markets and then move to a more specific analysis in the second section for the company at hand. Distributing movies to these markets is attractive because of their large size, higher incomes per capita and a culture of movie-going. To find the key international markets that US film companies usually choose to enter, we can look at Figure 2 below, in which the data is presented for the years ranging from 2002 to 2008.

**Figure 2. US Movies: Extent of Entry into International Markets**



Source: [www.boxofficemojo.com](http://www.boxofficemojo.com), 2002-2008; Holloway, 2012

The country codes are used for the ease of writing. As we can see in the Figure, the graph plots the countries according to two main criteria: the average box-office revenue for a movie and the number of US movies shown in specific countries. The Figure demonstrates that most US film companies choose to enter English-speaking countries, such as England (GBR) and Australia (AUS)<sup>1</sup>. The European countries listed along with them in that corner, such as Germany, are likely to be entered due to their size. In fact, the main European markets with the highest cinema admissions include Spain, Germany, France, and the United Kingdom (EAO, 2001).

The overall trend that we can see from this graph is that films tend to have higher box-office revenues in markets that are larger. The markets that US film companies are more reluctant to enter are the Asian countries, such as Japan and Hong Kong, most likely because of issues, such as cultural distance, language barriers and high entry costs. Japan here can be seen as a total outlier to the overall trend where despite extremely high average box-office revenues, few US film companies choose to enter this market – only those that have high potential to do well because of their large production budget, star cast, or cultural appeal,

<sup>1</sup> Countries presented in the Figure: Argentina, Australia, Czech Republic, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Norway, Spain, and United Kingdom.

for example, and, at the same time, are able to overcome the large entry costs, such as print and advertising costs.

A more recent study conducted by Pricewaterhouse Coopers ranks the top 20 international markets outside of the United States in 2014 by their box office revenues as shown in Figure 3 (Global Filmed Market Entertainment, 2015).

**Figure 3. 2014 Top 20 International Box Office Markets (US\$ Billions)**

**2014 Top 20 International Box Office Markets – All Films (US\$ Billions)**

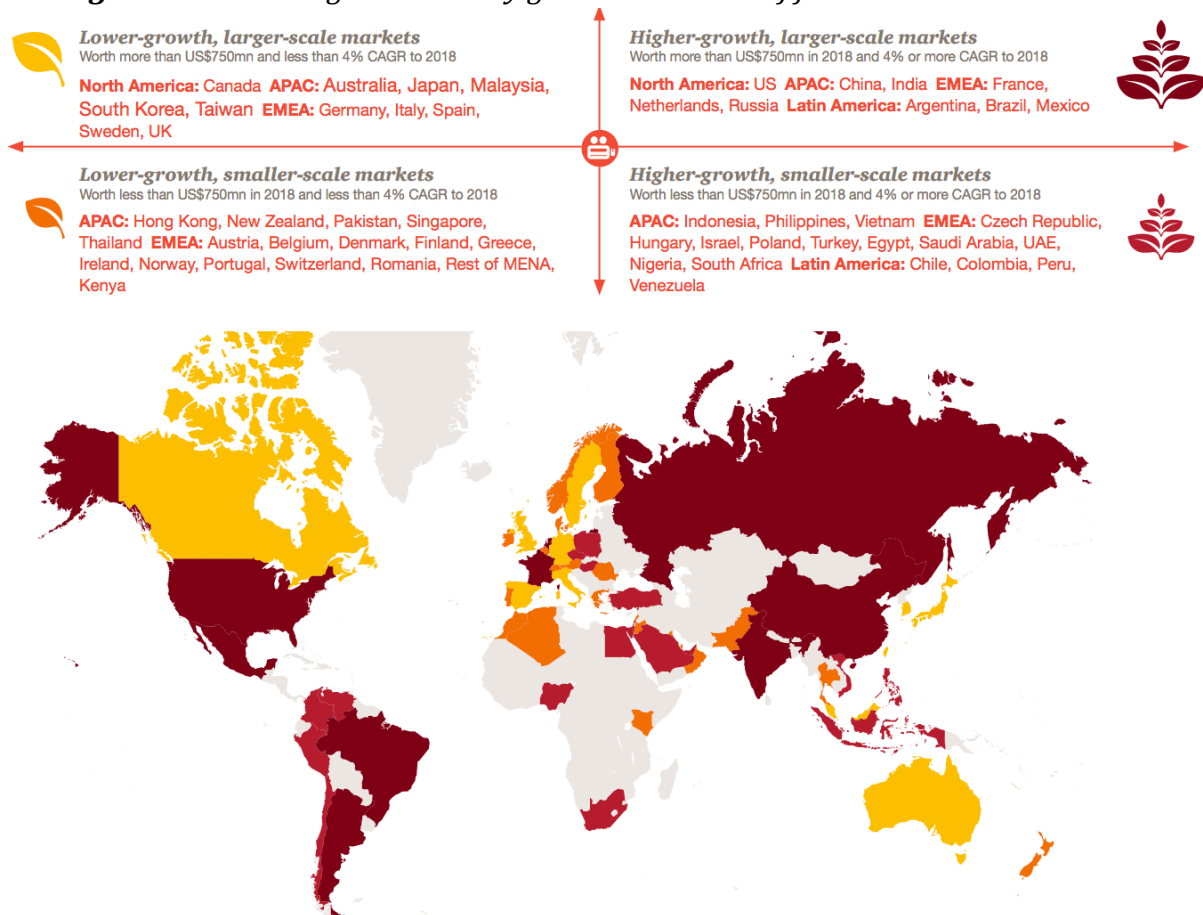
Source: IHS, local sources

1.	China	\$4.8	11.	Brazil	\$0.8
2.	Japan	\$2.0	12.	Italy	\$0.8
3.	France	\$1.8	13.	Spain	\$0.7
4.	U.K.	\$1.7	14.	Netherlands	\$0.3
5.	India	\$1.7	15.	Turkey	\$0.3
6.	South Korea	\$1.6	16.	Venezuela	\$0.3
7.	Germany	\$1.3	17.	Argentina	\$0.2
8.	Russia	\$1.2	18.	Sweden	\$0.2
9.	Australia	\$1.0	19.	Taiwan	\$0.2
10.	Mexico	\$0.9	20.	Indonesia	\$0.2

Source: Motion Picture Association of America, Theatrical Market Statistics

Figure 4 below segments all the film markets into four categories based on their average growth rate in filmed entertainment revenue, both real and projected, from 2014-2018 in Figure. As we can see both in this Figure as well as the previous analysis, United States is undoubtedly a large market leader in the film industry that is still experiencing high growth. From the Asia-Pacific region, China and India are important players, with China having the highest box office market. The Russian market, also, stands out in both figures, which is particularly relevant for the case that will be analyzed later on. International markets, such as Japan and South Korea, despite being large markets will experience slower growth. This could be due to various factors, such as their regulatory environments, high entry costs, tax policies and/or quotas on foreign film exhibition.

**Figure 4. Market segmentation by growth and scale of filmed entertainment**



Source: *Global entertainment and media outlook 2014–2018*, PwC, Informa Telecoms & Media

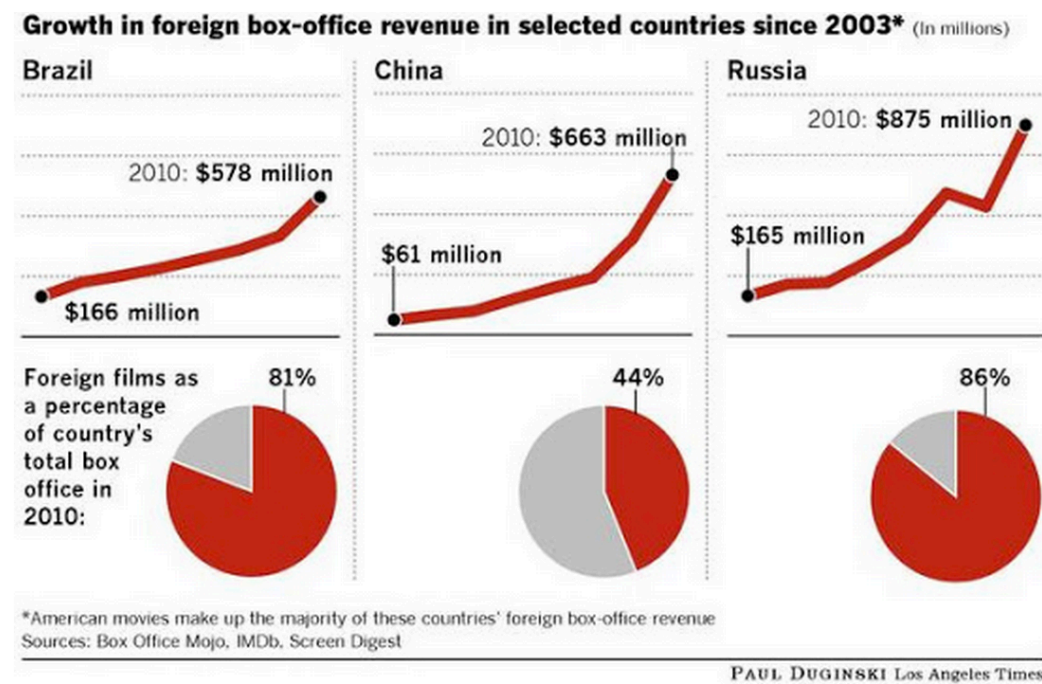
Methodology note: Each market's location within the quadrant is calculated by assessing their average growth rate in filmed entertainment revenue between 2013 and 2018, then dividing the markets in terms of overall scale.

*Source: Global entertainment and media outlook 2014-2018, PwC, Informa Telecoms & Media*

It is interesting to note that four out of the five emerging markets known as the BRICS, including Brazil, China and Russia, have been experiencing incredible growth in their box-office revenue since 2003, as is indicated in the Figure below.



**Figure 5.** Brazil, China and Russia: Growth in foreign box-office revenues since 2003



Source: Graphic by Paul Duginski, LA Times

The film company must, therefore, weigh the potential revenues against the entry costs for each international market. Edward Jay Epstein, an American journalist who leads the *Hollywood Economist* column on *Slate* made the following analysis on the entry costs to foreign markets for the movie *Gone in Sixty Seconds*, which can be summed up in Table 1 below (Epstein, 2005).

**Table 1.** Foreign Market Entry Costs in millions of U.S. dollars

	JPN	DEU	GBR	FRA	AUS	ESP	ITA	Other	Total
Advertising	6.5	3.1	2.5	1.4	1.1	1.0	0.9	8.7	25.2
Prints					N/A				5.7
Dub/Subtitle					N/A				0.82
Shipping					N/A				0.46
Foreign taxes					N/A				5.0
Curr. Conv.					N/A				0.27
For. Trade Assoc.					N/A				0.12

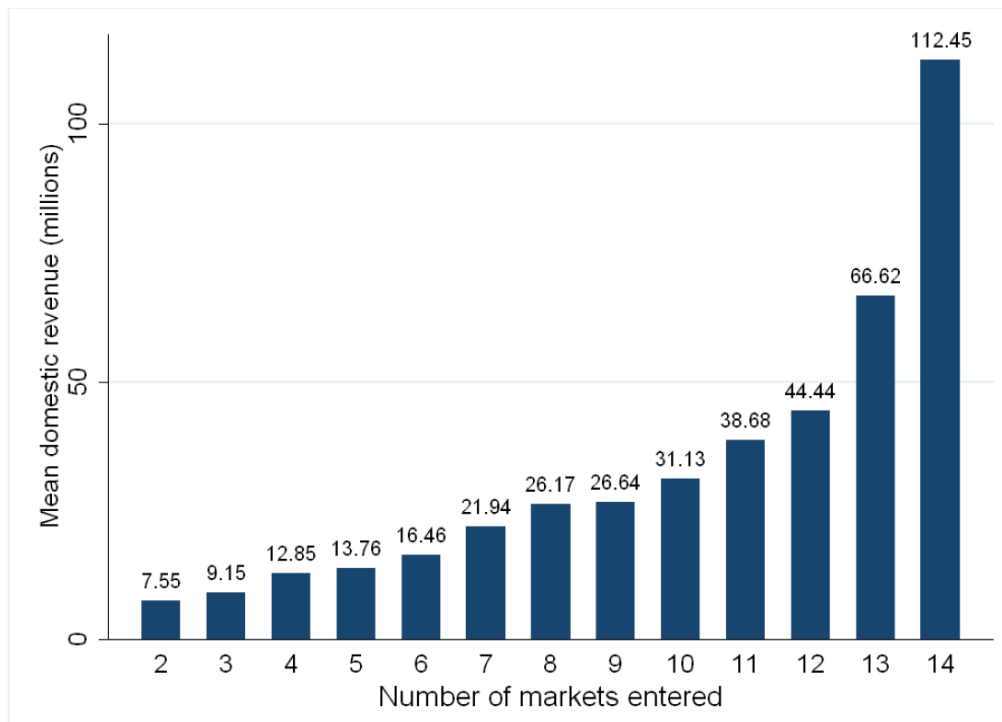
Total Costs	N/A	38.0
Exhibitors' Share	N/A	73.5
Total Deductions	N/A	111.5
For. Box Office	N/A	129.5
Foreign Profit	N/A	18.0

*Source: Epstein, 2005*

From this table we can see that among the top foreign film markets the Japanese market does, indeed, have extremely high advertising costs. Overall, the film company spent \$25.2 million on foreign advertising. The table, also, provides the other distribution expenses that the film incurred upon entering foreign markets, including prints, dubbing and adding subtitles to the movies, shipping, foreign taxes, converting currencies and dues to foreign trade associations. Therefore, despite the high box-office revenue of \$129,477,395 reported by Disney, after calculating the distribution costs, the actual profit came down to a mere \$17,993,913. It is, also, interesting to note that the exhibitors take a lion's share of the profit, \$73,500,000, which is more than half of the international box office.

This brings us back to the idea of releasing a film in the domestic market first and then proceeding with its sequential release in foreign markets. This way, the company may judge the film's quality through its domestic box-office revenues and, based on this information, decide which international markets it should enter. Because all foreign market releases involve certain fixed costs, domestic revenues will show the foreign market entries that a company can strive for as well as its ultimate profit after taking into account the costs of those entries. Figure 6 below shows the relationship between the mean domestic revenue and the number of markets entered:

**Figure 6.** Average Domestic Revenue by Number of Markets Entered



Source: Isaac Holloway, 2012.

The logic is, also, that the higher the movie's production budget, the more markets it is likely to enter. Of course, the entry pattern might be dependent on various factors and differ on a case-by-case basis, but these are the general trends and logic.

The movie distributor works with the film studio to decide on the best release dates for the movie as well as the channels through which the movie will be made available for viewing. The distributor can organize the movie's release independently if he owns movie theaters or via exhibitors, which are the movie theaters that have the right to screen films, and other sub distributors (Stoller, 2008). It is important to note that distributors may have certain restrictions with regards to the types of products, such as DVDs or Blu-Ray, or the countries that they operate in. From a practical point of view, for a movie's release in the cinemas, the distributor is responsible for the digital distribution of the film's copies as well as the creation of posters, advertising in magazines and newspapers, TV clips, trailers and other advertising products. If the distributor is

working with a foreign film he is, also, responsible for the dubbing and the addition of subtitles to the movie as well as any censorship or other necessary organizational and legal approvals for the film's release on the territory where the distributor conducts his business. In the cases when the film distributor decides to collaborate with a local distributor on a certain territory, the name of that distributor will be indicated in the film's materials distributed on that territory. The distributor acquires the film's license for a certain period of time.

Some distributors deal exclusively with the distribution of home videos or some of its forms (DVD/Blu-Ray distribution). Also, movie producers may transfer licenses to movie distributors, granting them the rights for home video, or a distributor may sublicense the rights to other distributors. If the distributor plans to distribute the movie on material carriers, such as DVDs, then it is his responsibility to create the DVD cover and set up the manufacturing of a certain amount of copies. They may, also, maintain contacts with the wholesalers that supply the DVDs to the retail outlets, with the internet stores, as well as organize the DVD delivery for them.

### **Cooperation as a Strategy to Enhance Distribution**

As was mentioned previously, film studios may experience some challenges when looking to distribute their movies in markets that are culturally distant or entail high entry costs. In order to distribute their content in such markets, film studios may require assistance from distribution studios that are local or that have past experience on the ground. Studios may, also, choose to either create content together with other film studios from the early stages forming co-productions or to collaborate together on the marketing and distribution of single or multiple projects once the content is already created (Schwartz, 2014). The first type of cooperation, known as co-productions, not only provides financial support from the early stages of filming, but, also, increases the chances of successful entry into and subsequent distribution within the respective market later on. Also, the production company may gain useful insight from the co-production company at early stages in order to tailor its product to the market's demands. Co-productions are slightly outside the scope of this paper and may be considered as an area for future research. However, the second type

of cooperation on projects upon their near completion in terms of promotion, marketing and/or distribution on the territory of certain countries will be discussed in further detail later on. For example, the concept of joint marketing, or co-marketing, is a common business practice employed to bring together the marketing assets and resources of several companies in order to reap higher profits and increase brand recognition (Anderson, 2015). In fact, such cooperation on the market is becoming more and more widespread, especially between the big studios and the smaller new players. For example, Adam Sandler<sup>2</sup>'s studio called Happy Madison Production has recently signed a deal with the Netflix giant for a total of four films with Sandler's smaller studio providing the cast, including Adam himself, the script and the final product, while Netflix would offer its distribution network and brand name (McClintock, 2014). As another example, in the case of Paramount Pictures and Skydance Production, the latter less-known studio provides the financing, while Paramount Pictures ensures a film's success by arranging the star cast, final product and securing the distribution network (White, 2013). This way, the two companies in the cooperation receive mutual benefits and create a synergy by complementing each others' strengths and weaknesses.

### **Analysis of Existing Distribution Channels**

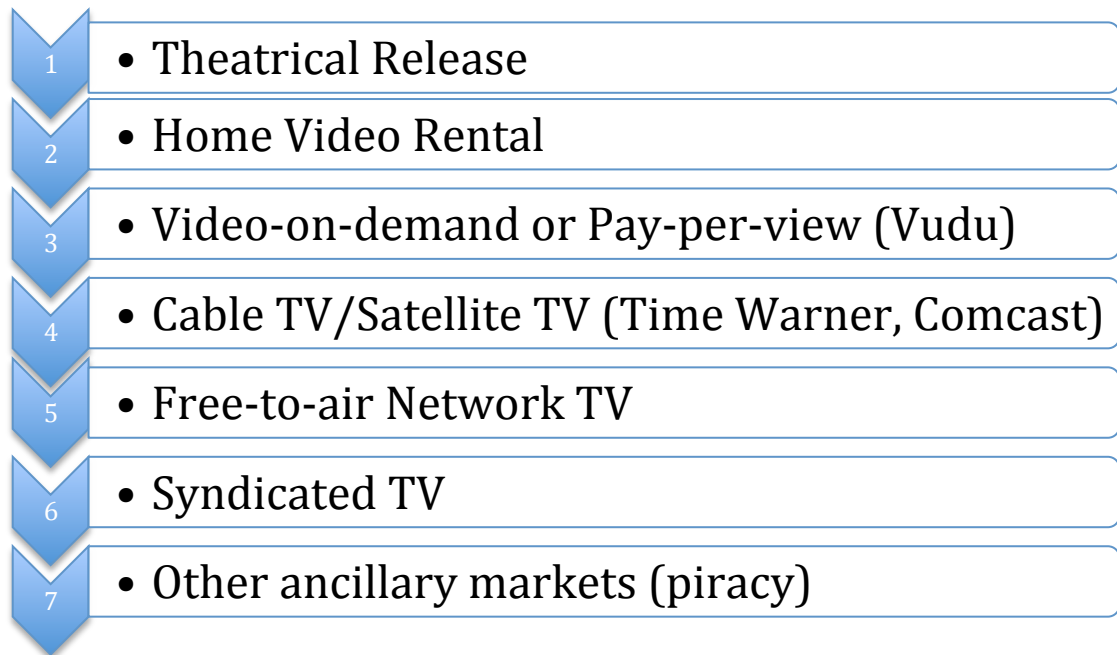
Film studios must decide on the most appropriate channels of distribution that they can use in a given market. As was discussed previously, movies are entertainment products that are generally sequentially released. The traditional sequential scheme of distribution looks like Figure 1 below, though not all film studios choose to follow the same order or go through all of the steps (Silver, 2003). Initially the film should be released in the theaters, followed by a release on home video, ancillary markets, and, finally, through any merchandising goods or branded products. In the previous eras, there existed a clear time lag, or a release "window", between a movie's release and availability on each of the consecutive media channels. However, with the appearance of a large amount of alternative channels, the traditional scheme seized to reflect the market's realities. Nowadays, many film studios that are new players on the market

---

<sup>2</sup> Adam Richard Sandler, actor, 1966 – present

choose to bypass the release in movie theaters and go straight to home video. Some choose to shorten the release “windows” or release their movies simultaneously on different media channels everywhere and on the same day, the day-and-date release.

**Figure 7.** *Traditional Model of Film Distribution*



*Source: Silver, 2003*

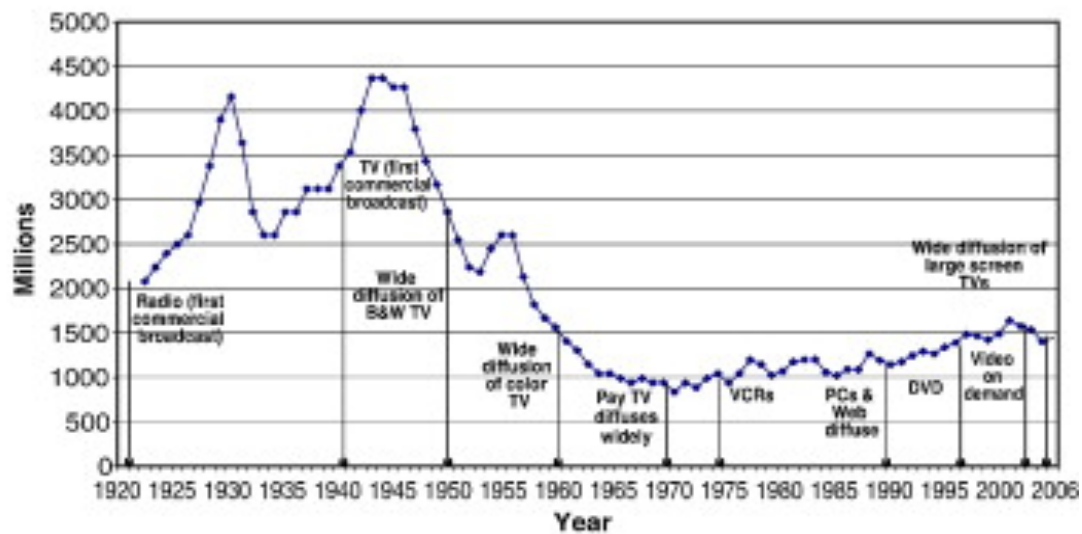
### **Theatrical Release**

The first step, theatrical release, usually establishes the movie as a brand. Nonetheless, blockbuster revenues from theatrical releases are a rarity. In order for a movie to have a successful theatrical release, a large share of the production budget will have to be spent on its marketing and promotion.

It is a common understanding in the film industry that movies should be distributed first through channels that provide the largest amount of revenues over the least amount of time and then trickle down to other channels that return less revenue per unit of time (Eliashberg et al., 2006, p.27). Nowadays, however, movie theaters are losing their appeal and importance, while other forms of film distribution are becoming more popular (Silver, 2007).

Figure 8 below shows the annual US movie attendance from 1990 until 2006. As can be seen, there is a direct correlation between the introduction of new technologies and a decline in movie theater attendance.

**Figure 8.** Annual US movie admissions in response to new technologies



Source: Silver, "Are movie theaters doomed?"

With the increasing spread of high-quality options of home cinema there has been a decline in movie theater demand. A recent report by the Motion Picture Association of America, MPAA, confirms the trend: between 2004 and 2013, the amount of tickets sold decreased by over ten percent, while the box office revenue increased by almost twenty percent (Schwartzel & Fritz, 2014). This means that while the ticket prices have gone up, the overall cinema attendance has experienced a downfall.

We can analyze the reasons for the industry of sequential channels becoming more attractive than that of theater releases using the Porter's Five Forces framework: Substitutes, Buyers, Suppliers, Barriers to entry, and Rivalry (Porter, 1980).

Substitutes: Nowadays, there is an increasing amount of alternatives to movie theaters, such as large screen LCD and Plasma TVs, portable digital media centers, HDTV, home cinema projections and video-on-demand technology that enables consumers to recreate the theater experience at home at a much lower cost. Especially with smaller movie theaters, the value proposition of the home experience is often comparable due to the spread of high-quality sound systems and 3D format viewing options. Distributors have implemented an aggressive tactic of promoting the new format of both DVDs and Blu-Rays. There are even 3D formats available for home viewing.

Buyers: In making their decision between theatrical and video channels, consumers are faced with certain economic trade-offs, including: (1) film content becoming less relevant over time (2) quality/price ratio between cinema and video viewing (3) presence of large crowds in the theaters for movies that are large hits increases the external costs faced by each user, (4) home video allows for multiple usages unlike the theater experience (August et al., 2013). With the widespread use of quality home viewing options and the comparable price-value offer between the two, many consumers lean towards choosing home video channels for viewing their content.

Suppliers: Movie theaters are still largely reliant on the major studios as they have higher release regularity and are able to provide commercially viable and high-quality films. However, with the shorter run periods in theaters and a decline in cinema attendance, movie theaters have had to find ways to improve their profitability, such as by increasing the ticket price or total cost of seeing a movie (i.e. concession sales, etc.)

Barriers to entry: Countries with a well-developed film industry, such as the US, have extremely high barriers to entry. Unless the film studio serves a specific niche market, distribution through all the major channels will prove tricky.

Rivalry: In countries with a well-developed film industry, such as the US, the rivalry within the film industry is high. One of the explanations for this is the fact that the construction of multiplex cinemas is a large investment and, therefore, the exit costs are high.

This means that in order for film studios to be successful in their movie theater distribution they will need to adjust accordingly with the use of new technologies, such as IMAX, a creative implementation of its assets and multiple target marketing. The IMAX technology deserves special mentioning as it allows movie theaters to develop a sustainable competitive advantage, providing value that is not substitutable in the home environment. The technology developed by the Canadian IMAX Corporation offers an enhanced cinema experience. The average IMAX screen measures 22 meters in length and 16 meters in height using the largest image projection format of 70mm with high quality. IMAX production is costly, however, as it can be about four times more expensive than normal production. However, studies done on IMAX have shown that it has a



powerful effect on the audience, leading to a larger amount of repeat visitations. In addition to this, IMAX has a strong brand image in the eyes of consumers, sometimes even more than that of a studio, such as Disney or Pixar, for example (Silver, 2007).

### **Home video Rental/Sell-through**

Traditionally, home video is considered to be the second market after the release in movie theaters, in terms of both the release dates as well as by sales volume and revenues. Also, as an overall trend, we are seeing heavy discounting by mass merchandisers of DVDs.

### **Video on Demand (VOD)**

As has been mentioned above, there has been a rise of digital media distribution as opposed to physical media distribution. The development of high-speed internet and IPTV, also known as Internet Protocol TV, has given rise to the system of Video on demand (VOD). Available directly online or via high-speed internet subscription, VOD is a service that allows to choose and watch a program at any moment, while taking advantage of the advanced functions, such as rewind, pausing or slow motion (PC Encyclopedia, 2015). The VOD platforms allow for legal download of such videos, individually or as a package. The majority of such platforms allows the users to browse through general catalogs of hundreds of various programs: TV shows, new film releases, oldies, documentaries, animated films and so on. Once the user has selected his program, he must follow the instructions to carry out the payment for the purchase or rental of his video and then proceed to watching it on the computer or via another multimedia player. VOD Platforms may be cable or satellite, such as Comcast, Time Warner Cable or DirecTV, or online, such as Apple iTunes, Amazon VOD/Prime, Vudu, Xbox, Netflix, PlayStation, etc. Cable VOD is considered to be slightly outdated in comparison with online VOD as it has a lower amount of titles available and no search functionality. Purchases through the online VOD channels may be based either on individual purchases, such as Apple iTunes or on a subscription basis, as is the case with Netflix.

The VOD system offers several obvious advantages, including the following: 1) reduction of costs for distributors and consumers: no physical distribution system necessary to deliver movies to vendors; 2) Offers consumers the option to personalize and customize their movie libraries: ability of marketing directly to your target consumer; 3) user experience systems: enable consumers to use their VOD more effectively. However, there are still some drawbacks that are mainly due to its short existence, such as: 1) limited selection of titles in the catalogs: the selection of titles is not exhaustive; 2) relatively high price: especially for new releases with rentals being costing as much as \$5 and purchases as high as \$20.

The timing and the size of each release largely affects a movie's success. For example, the majors are much more apt at securing screen space at cinemas during profitable movie seasons, such as during children's holidays.

### **TV Distribution Channels**

Cable TV allows the consumer to watch programmed content shown at specific times for a certain fee. Free-to-air network TV is distributed by the free airwaves on a specific network and earns its revenues through advertising. Finally, syndication in TV occurs when content is made non-exclusive to just one network and instead sold to different networks, which then have the right to decide on its distribution ("Filmprofit Glossary of Film Terms", 2004).

## **CHAPTER 2: ANALYTICAL AND EMPIRICAL RESEARCH**

### **2.1 Case Studies of Establishing Film Distribution**

As the theoretical part showed, the selection of appropriate distribution strategies can contribute considerably to the success of a feature film. However, many film production companies have already built up established distribution channels and it can, therefore, be quite complicated for inexperienced players to enter. In Hollywood, the majority of the distribution channels are subsidiaries of the Majors, which are in turn owned by conglomerates. These distributors possess multiple factors that allow them to be successful, such as the necessary capital and already existing contractual agreements. This allows them to finance

their marketing and exhibition strategies as well as to select the preferred timing and location of all their releases.

Distributors vary by their scope, which in turn affects the entry fee. Naturally, the larger distributors demand a higher share of profit for their services. Technological advancements and the new capabilities of online distribution have come to challenge their position, however. Netflix is a good example of a distributor that has successfully employed such technological innovations. Besides this, the company is now in the process of producing its own TV shows, which means the Majors are completely removed from the film production process (Scott, 2011).

Having looked over the existing possibilities out there for film distribution, film studios that are newcomers have to decide. What is the best way to distribute their movies? They must find ways to differentiate themselves and discover their niche in such a consolidated market. Not only should they choose among the many international markets for distribution, but, also, the optimal way to enter into them. For example, in some markets that are less familiar or culturally distant, going through a sales agent may prove to be advantageous and less risky. In addition to this, some sales agents are part of associations that take care of entire regions and, therefore, can help out on other adjacent markets as well.

A typical Hollywood sequence of distribution was described in the previous chapter. However, not all companies choose to follow this scheme. The following pages take a look at some successful distribution strategies applied by both large film companies as well as new players on the market.

#### Blair Witch Project Film

The movie “The Blair Witch Project” had an extremely low budget in comparison with other feature-length movies of \$25,000 and was filmed by three students. Not only were there no special effects included, but it was in fact intentionally portrayed as an amateur film shoot without the involvement of any professionals. It was the typical example of a new player on the market struggling to find its way through the tough competition in movie distribution. Following a presentation of the screening at the Sundance Festival, it sold its rights to the film distributor Artisan Entertainment for \$1.1 million to set up its

US national distribution (Young, 2015). Surely, Artisan Entertainment took a major risk with this purchase, as the film had no special effects and no star power. That is why, in this case, an effective distribution strategy together with the implementation of innovative marketing strategies was of utter importance. However, Artisan Entertainment itself was not a major distribution company. It had a small marketing budget and, therefore, was facing some serious competition. The distribution strategy focused on targeting a specific customer segment of teenagers and college students using “guerilla marketing tactics” (Carvell, 1999). Because this customer segment was an avid user of the Internet, the producers created an actual website that provided real documents of the Blair Witch Project. The strategy involved positioning the movie as a real-life documentary using the Internet to start heated debates as to whether the horrors committed in the movie were real or not. In order to create buzz on the film, preview screenings of the movie were also released as campaigns on some college campuses.

To keep their budget to a minimum, the producers employed other inexpensive strategies, such as distributing flyers to raise awareness, designing “Wanted” posters of the actors, published a comic book and created a soundtrack. All this required a marketing budget of less than \$1 million, which is extremely cheap by Hollywood standards, and was done way ahead of the movie’s release building up the necessary buzz in advance. The build-up on the Internet got TV entertainment programs interested. The producers agreed to participate in TV shows on various channels providing the back story to the movie that was to be released.

As the movie was released sequentially and only on a few platforms, it seems like one of the distribution strategies was in fact to limit the film’s availability. The heavy promotion, effective merchandising and the buzz surrounding the product resulted in the fact that tickets to the three late-night screenings were sold out way in advance. The distribution company then began to gradually show the film on a greater number of screens each week. In just one weekend, the revenues of “The Blair Witch Project” were over \$30 million, which was about 100 times more than its actual production costs. Some major studios even adjusted their schedules, so as not to release their movies at the same time.

In summary, it was the movie's clever positioning, appropriate use of the media and a limited release strategy that stimulated demand. This movie is a prime example of a sleeper hit, which is a movie that experiences large success while playing for a long time even though its budget was extremely low and it received relatively little promotion.

### "Stalingrad" Film

The movie "Stalingrad" was produced by Alexander Rodnyansky and Fedor Bondarchuk with a budget of \$30 million. The movie was partially financed with a loan from the VTB bank and in part by the Russian government movie fund, "Fond Kino", which was created in 2009 to increase the efficiency of state support, due to the fact that the distribution of money from the Ministry of Culture caused some scandals. Some examples of companies that receive monies from the Movie Fund include "Art Pictures" of Fedor Bondarchuk and Dmitry Rudovsky, "TaBBak" of Timur Bekmambetov and "TriTe" of Nikita Mikhalkov.

One of the movie's highlights was its use of the IMAX format, which is currently becoming more and more popular. "Stalingrad" became the first Russian film to be released in this format. According to the president of IMAX Entertainment in a statement to Variety magazine, his company had long dreamed of releasing a local film in Russia (Stewart, 2014). "Stalingrad" was a perfect match by all the criteria: it was a large-scale project, oriented towards an international audience and is filled with action scenes. For the creators of "Stalingrad" an IMAX release was not only a source of additional revenues, but it, also, became an important marketing tool. The average costs for converting a film into the IMAX format is about \$1 million, but the conversion of "Stalingrad" had higher costs of almost \$2 million. With regards to the ranking of international market attractiveness for the IMAX productions, surprisingly, the CIS market is the third market after the USA and China. In fact, 40 IMAX movie theaters in the CIS region had total revenues of \$19.6 million in 2013 (Surganova, 2008). 388 IMAX movie theaters in the USA and 173 screens in China in total showed "Stalingrad". On average the IMAX takes about 12.5% as a commission from the release. (Surganova, 2008).

Unlike US films, however, Russian movies have much higher probabilities of losses on international markets since, overall, they have lower quality and are designated almost exclusively for a national release. It is already an exceptional case for Russian movies to extend outside of the national border and have even a limited release in international markets. However, the distributor of “Stalingrad” provided the producer some minimal guarantee, which reduced the risks. A minimal guarantee usually involves a payment in advance for the rights to the movie’s release and the exploitation of the movie on a certain territory. Such guarantees may range from 10-15% of the movie’s entire production costs. The gross box-office revenues of Stalingrad were \$72 million (“Cinema Non-Stop Production”, 2011). Generally, the revenues from the distribution are distributed in the following way: 50% goes to the movie theaters, a negotiated percentage amount (7-20%) to the distributors and then the rights owner or producer receive the remaining amount.

According to A. Rodnyanskii, while the official profit is not disclosed, “Stalingrad” not only proved to be a profitable project, but, also, became one of the first Russian blockbusters (Barracough, 2013). In 2013, it received the first place in terms of box-office revenues in Russia, outperforming even “Iron Man 3”. It was, also, the first Russian movie to become a Hollywood blockbuster on international markets by catching on to the main trends.

#### Wizart Animation: “Snow Queen” and “Snow Queen 2”

The fastest growing Russian animation studio “Wizart Animation” employs the distribution strategy of day-and-date release in over ten countries, including the U.K., South Korea, the Middle East, and others. This means that the film is simultaneously released in theaters as well as sequential channels, such as DVD, the Internet and/or television. There has been an ongoing debate between the supporters of the day-and-date release and that of the sequential release. The study conducted by Isaac Holloway is just one work that discusses the advantages and disadvantages of each strategy (Holloway, 2012). This paper does not intend to go into detail on the specifics of each strategy and instead provides a table in the Appendix that demonstrates the pros and cons. As just one example, while the day-and-date release allows to reduce the negative

effects of international piracy, a sequential release strategy allows for a learning strategy that helps adjust a film's marketing and distribution strategies based on its past performances.

#### Magnolia Pictures distribution: Ultra VOD

Some distribution companies, such as Magnolia Pictures, have realized the increasing importance of VOD distribution and employed the strategy of an ultra VOD distribution. This means that about half of the movies have their premiere release happen on cable VOD or platforms, such as iTunes, about a month before it appears in the movie theaters, if at all. The rest of the movies either have a normal theatrical release or go straight to DVD. Magnolia Pictures owes its financial success largely to an integrated asset system, ranging from its own DVD distribution to a large theatre chain for independent films (Pham, 2013).

When selecting a distribution strategy for a film, it is important to understand its main assets and then choose the appropriate distribution channel in order to capitalize on those assets. VOD, for example, allows to reach a large amount of viewers at a relatively low cost. Therefore, this would be an option to consider for those films that are unlikely to do well with a traditional release scheme due to their low star power or low budget. Ultra VOD, also, allows to significantly reduce P&A (Prints & Advertising) expenses as additional marketing is provided by the cable operators on their VOD platforms. As can be seen from this example, VOD distribution can be attractive not only for consumers, but, also, for film production companies. This distribution strategy is likely to become more and more widespread in the future and should, therefore, be considered. While this may not mean that people will cease going to movie theaters altogether, it does mean that they are likely to become more selective in their choices of films to see at home as opposed to films that are worth paying extra for.

#### **2.2 Glukoza Production: Company Analysis**

*Glukoza Production* is an animation studio based in Moscow that specializes in the creation of cutting-edge high-technology 3D animation projects ("Our Company: Glukoza Production", 2015). Having a well-organized and reliable

production process allows the company to not only effectively execute their own projects, but, also, to carry out works for other film production studios and other organizations. The studio has over 100 animators working in Russia as well as in foreign offices.

While the company has previously focused mostly on creating music videos and short films, in 2008 the company started working on a feature-length 3D animated film entitled “Savva: Heart of the Warrior” with a budget of \$30 million. This family movie features an original exciting story that takes the boy, Savva, through a magic journey in order to save his village and close ones from the attack of evil hyenas. The project is of primary appeal to kids from the age of 3 and up, teenagers and families with kids. The movie has been created in two original versions, a Russian and an English one. In each case the voice-over cast has significant star power: stars, such as Whoopi Goldberg and Mila Jovovich in the English version and M. Galustyan and F. Bondarchuk in the Russian version. In addition to this, the movie has producer power as the original fairy tale was written by the Russian composer and producer Maxim Fadeev. The movie was, also, directed in large part by him. The english version of the script was written by the American scriptwriter Gregory Poirier (*The Lion King 2: Simba's Pride* and *National Treasure; Book of Secrets*). The movie was in the production process for more than five years in Moscow with the engagement of animation specialists from Spain, Holland, Lebanon, Columbia, Italy, South Korea and China. Some of the movie’s production was outsourced to countries, such as India and China, as this allowed for an increased efficiency and a decrease in the costs.

However, the company's plans do not stop with the project «Savva». Instead, an entire pipeline has been set up with plans to produce a sequel to the cartoon «Savva 2» as well as an entirely different project entitled «Baba Yaga» in the future. Of course, it makes sense to capitalize on the infrastructure and assets that were set up for the making of «Savva» and apply it to future projects.

### **Formation of International Distribution for the Animated Film “Savva”**



In an interview with Irina Sekacheva, the artistic director of *Glukoza Production*<sup>3</sup>, she reflects on the issue of getting distributors interested in working with your product. According to her experience, the main way to gain the interest of distributors and favorable distribution channels is by delivering a product that is interesting and of high quality. This means that the material has to be competitive with respect to the other products that are located in the same genre category and niche. Upon viewing the final version of the product distributors should have a clear idea of the benefit and potential for profitability that will result from them placing it in their distribution networks. In the film industry, it is usually possible to judge a movie's quality and approximate payback already upon its preliminary screening. Another way to get a distributor interested would be by way of mentioning the distribution company's name in the film credits, posters and other associated cinema products. Finally, of course, there are financial incentives, such as a share in the revenues from the film's release set out in contracts, which will be signed, documented and legally recognized.

She points out the main features that make the animated film "Savva" competitive on the domestic and international markets:

- Advanced technological developments in the field of 3D graphics, proprietary software developments, execution of production process with the newest programs and equipment.
- Highly-specialized professionals in the field of 3D animation, artistic designers, creative and management groups.
- High budget on the stages of pre-production, the production itself and on post-production.
- Star Power of the voice-over cast (in the Russian version: K. Khabensky, M. Galustyan, F. Bondarchuk, G. Leps, A. Djigarhanyan, Lolita, Glukoza, S. Garmash and others; in the English version: Milla Jovovich, Whoopi Goldberg, Sharon Stone, Joe Pesci, Will Chase, Jim Cummings and others).

One of the best ways for your company and the final version of your product to get noticed is to attend the film markets that take place all over the world. Film Festivals are great opportunities for intense networking on many

---

<sup>3</sup> Interview executed in Moscow on April 20, 2015

issues, ranging from the securing of distribution deals for your current film to co-production opportunities for future projects. They are the places to meet and do business with managers and representatives from the distribution and exhibition sectors. There are many different kinds of film markets, but depending on the potential of your film and your budget for the entry fee, the big ones to try and attend include, but are not limited to, the American Film Market in Santa Monica, California, the European Film Festival in Berlin, Germany, the Cannes Film Festival in Cannes, France and Sundance Festival in Utah, USA. There is a fairly large difference between film festivals as opposed to film markets. Festivals are usually more open to the general public and involve some sort of award ceremony in selecting the best films. The movie selection is, also, usually geared towards a certain audience. In many cases, such as with the Sundance festival and Cannes festival, the film event lures in many tourists who desire to be part of the action. On the other hand, film markets are more exclusive. They are the places where business and distribution deals are made without much media attention. Thus, festivals and markets, also differ in their entry fees. Producers will find it is cheaper to attend festivals, whereas markets require much more investment. In any cases festivals and markets are a great way to get your product noticed as well as showcase some preliminary marketing material, such as posters, trailers, etc. Therefore, companies have to decide which festivals or markets would be more suitable for their purposes.

As was mentioned in the above paragraphs, in order to gain the interest of distributors it is important to show the quality of the product. Film markets are a good way to either screen the entire film, show an excerpt or even just the movie trailer. Each year, the American Film Market allows for many deals to be signed, which are almost one billion dollars in total, including movies in various stages of production and completion (American Film Market and Conferences, 2015). The next paragraph provides an analysis of potential distribution arrangements that may be set up as a result of attending the American Film Market (AFM). The author of the paper has personally attended the AFM and conducted numerous extensive interviews with both the buyers and exhibitors.

According to several interviews conducted with some of the exhibitors at the AFM, in general terms, there are three main ways to set up distribution for a film at the AFM or other film markets.

**i) Individual Foreign Buyers for specific markets**

The founder of Arcana Studio, Sean Patrick O'Reilly<sup>4</sup>, mentions the large presence of individual foreign buyers for specific markets at the AFM. Arcana Studio focuses on the creation of animated series as well as movies based on comic books. However, the majority of the professionals at the AFM have a very concrete idea of what they are looking for and if your film content does not match their requirements, there is no way to gain their interest. Also, foreign buyers prefer to buy "in bulk", so at least having ideas or works-in-progress for future projects is a definite bonus. Foreign buyers differ in the extent of their relationships with film distributors. Sean points out that negotiations with foreign buyers can have fruitful results in case you find the "perfect match" for a potential market. For example, his studio was looking to sell off its Middle East rights and a buyer expressed his interest in their product for the territory. However, this process is not that efficient as each territory has to be searched and negotiated for independently. This significantly reduces the efficiency of your distribution strategy and amount of deals.

**ii) Sales Agents**

The most traditional way of distribution is setting up a Sales Agency Agreement. Especially this makes more sense for those territories where a company has no previous experience, no existing relationships or where there are significant cultural or other barriers to entry. In these cases it might make sense to form a partnership or sign a licensing agreement with a sales agent. Sales agents are valuable because they usually have relationships with both individual foreign buyers as well as distributors. The disadvantage to going through a sales agent, however, would be the fact that they often do not specialize in a certain film type and rather own a catalog of a variety of movies.

A Sales Agency agreement grants an agent the right to be the exclusive sales

---

<sup>4</sup> Interview conducted at the AFM in Santa Monica, California on November 3, 2014

agent for the motion picture in certain territories and for a period of time. This means that the Sales Agent has the right to procure and enter into licensing agreements with third party distributors on behalf of the Licensor in all forms of theatrical, home video/DVD, all formats of television (including, without limitation pay-per-view, video-on-demand, near video-on-demand, subscription video-on-demand, free video-on-demand, pay television, free television, etc.), ancillary (including without limitation hotel/motel and ships and airlines (specifically only those flying the flags of the countries in the Territory)), internet, wireless and mobile rights (subject to acceptable territorial restrictions), clip, music publishing and secondary retransmission rights, and any other rights set forth in the agreement. In return, the Sales Agent reserves the right to a sales agency fee ("Sales Agent Fee") of a certain amount calculated from the "Gross Receipts" derived from the Licensing Agreements procured throughout the Territory. Nonetheless, the Sales Agent shall be required to obtain Licensor's prior written approval in the following circumstances: (i) in the event the Sales Agent elects to procure a Licensing Agreement with a content aggregator; (i) in the event the Sales Agent elects to license the Picture as part of a package deal; and, (iii) in the event the Sales Agent elects to engage a third party sales agent to procure a sale in any part of the Territory.

As was mentioned above, sales agents perform their services for a commission, which ensures that they will try hard to secure the best deal possible. In addition to the financial incentives, the Sales Agent will, also, receive appropriate acknowledgement and credits. Within the Territory, the Sales Agent may be accorded credits on all advertising, in the billing block, as well as a company animated logo credit in the main titles of the Picture, appearing before the start of the Picture and before any other logo. The Sales Agent may include its logo on all artwork and promotional materials throughout the Territory created by the Sales Agent.

It is important to mention that many films gain additional revenues down the value chain through further licensing and merchandising of accompanying products. Sales agency agreements usually include a specific clause on the promotional tie-ins and merchandising of goods. Merchandising here is defined

as products that are based on the movie's storyline, characters or actors, the property rights to which may be licensed to third parties. These could include many things, such as music soundtracks, book tie-ins, toys or any other products that would create a synergy together with the movie. According to the *Licensing letter*, almost \$20 billion dollars out of the total \$73 billion dollars a year of merchandising products originate from movie entertainment (Wasko, 2004). Appropriate agreements will have to be set up in order to specify the usage of elements of the Movie (storyline, dialogues, lines, character representations, etc.) for the creation of games, toys, works of plastic and applied forms of art or as elements of marketing, and in a more extensive sense any usage in the form of goods, as well as the identification of goods, works or services.

### **iii) Film Distributors/VOD Aggregators**

Another option would be to negotiate directly with film distributors, such as Sony Classics, The Weinstein Company, Roadside Attractions, and others, for certain territories. This works best in territories with a familiar business environment or some previous experience of entry. Most international distributors that purchase rights for a worldwide release are interested in movies that are commercially viable with star power. The easier it is to translate a movie across cultures, the higher are the chances of that movie to be noticed by a foreign distributor. Not only will the distributor most likely be able to provide a theatrical release for your film, but, also, it would have the ability to push your movie into subsequent channels of distribution, including Cable Television, DVD and VOD outlets. In addition, they may have relationships with distributors in other countries and markets. The disadvantage of this option, however, is that the terms of the contract are often exclusive and once the movie rights are sold to the distributor there is little room for negotiation. This means that the producer has little or no say in the way their movie will be marketed, sold and through which channels it will be released to the public. VOD aggregators, such as Premiere Digital, BitMAX, and so on, act as intermediaries between the movie producers, film distributors and the platforms. They ensure that files are distributed in the appropriate formats for the platforms and collect the revenues. The platforms (iTunes, Netflix, Google Play) are reluctant to make deals directly

with the film producers and prefer to go through distributors or aggregators. Consumers can purchase or view the film content available on the platforms through many devices and applications, such as Apple TV or smart TV.

Finally, another option to distribute your film would be to upload it to a hosting website, such as VHX, Distrify or Vimeo on Demand. Vimeo, for example, can be viewed by consumers via the Apple TV application, as well. However, if your film has been sold for release in certain international territories, it is important that the release on your website happens at a different time in order to avoid conflicting dates.

Irina Sekacheva, the artistic designer from *Glukoza Production*, mentions that despite the explosion of the home cinema industry and subsequent distribution channels, high-budget films with star power, such as «Savva», still rely heavily on the theatrical release, especially in the key markets, for several reasons, including the establishment of a brand, generating public «buzz» marketing, as well as allowing for the appearance of the star actors at movie premieres and movie events. Especially for feature films that have incurred costs to convert their movie into the IMAX format, a theatrical release would allow the company to capitalize on this asset and increase its competitiveness in comparison with the other films being released at the same time. However, in order to attain higher box-office revenues, it is important to properly position the movie's release, taking into consideration the weekends, holidays, children's vacations, and all other factors that might contribute to higher viewer attendance and spending. Piracy is an issue that may affect box office revenues after the movie's premiere release, however.

### **2.3 Results of Interviews Conducted with Industry Experts**

For the purposes of this thesis, various professionals from the movie industry were consulted, including producers, directors, CEOs of film production companies, film experts and various personnel working in the industry. They represent a variety of businesses from the motion picture industry and possess key knowledge on the subject. The questions did not only focus on several

individual firms, but rather a range of industry experts were consulted. Table 2 below provides a list of the people that were interviewed.

**Table 2.** *List of Interviewees*

<b>Name</b>	<b>Title</b>	<b>Company</b>
Irina Sekacheva	Artistic director	Glukoza Production
Sergey Lubinetsky	CEO	Glukoza Production
Anna Samarskaya	Manager of Film Festivals	Roskino
Anton Malyshev	Executive Director	Cinema Fund
Clement Lafon	Creative director	Michel Lafon Publishing
Steven Fishman	Vice President of Sales	Media Services

While the interviews were executed in an open discussion format, some guiding questions were, also, presented. Table 3 lists them below.

**Table 3.** *Guiding Questions for the Conducted Interviews*

<b>With the development of new technologies in the home cinema industry how important do you think it is for movies to have a theatrical release?</b>
<b>How can you get domestic and/or international film distributors interested in distributing your content?</b>
<b>What impact have Netflix and other forms of online distribution had on the industry of feature-length films?</b>
<b>Why does a production firm find it difficult to practice self-distribution?</b>
<b>What degree of freedom do production companies have from larger distributors?</b>

The answers to the interviews along with the analysis of existing case studies

will then be applied to the real-life case of the company *Glukoza Production* in its release of the movie “Savva”.

Several interviews were conducted with the Russian industry movie experts in order to provide a holistic picture of the new player *Glukoza Production*. In an interview with the CEO of *Glukoza Production* Sergey Lubinetsky, he points out that it is difficult for Russian movies to compete with US films for several reasons. First of all, the budget of some US films is over 200 million dollars, whereas in Russia this is the budget that is intended to support the entire domestic movie industry. Second, Hollywood controls the global distribution networks and the US government spends a large portion of its budget to sponsor the promotion of these films. Finally, not all Russian films find it possible to dub their movies in English and, therefore, are left to release their film with subtitles, which is rather inconvenient for international viewers. While there is demand for Russian films, their international recognition is still very low. The major ways for them to get distributed is through a foreign co-production, the participation of TV channels or an extremely successful performance at festivals. Foreign co-productions, for example, may at times secure guarantees for theatrical distribution in markets that funded the film. Even though the animated film *Savva* was not a co-production for the creation of the actual film content, Sergey believes that partnering with either a local distribution firm or one with previous distribution experience may be a good distribution strategy in markets that are tougher to enter, such as that of the United States. This type of association would potentially give the new player a higher level of credibility and recognition on the foreign territory.

Due to the fact that the Russian movie technology is not extremely advanced, many film studios choose to outsource their production, which eats up a large portion of the budget. As the economy is nowadays doing poorly, especially with the effect of imposed sanctions and the currency fluctuations, this has had a significant effect on the movie industry as a whole. It has become more costly to produce films. This only raises the importance of the Ministry of Culture and the Cinema Fund in sponsoring and helping the industry grow.



Nonetheless, Russia is experiencing some success with its developments in animation. There exists a significant amount of highly-qualified specialists, demand for the product and some companies, such as *Glukoza Production*, even have some proprietary technological software. An increasing amount of movie producers are directing their attention to animated films. Animation has some advantages over other movie types: if the producing company pays due attention to having a high-quality script, voice-overs by well-known stars and unique characters, then the project has high chances to experience commercial success in its release. Animated films, overall, have a longer product lifecycle, worldwide popularity and target a general family audience, so there is basically no age limit. An example of a successful Russian animation company would be Wizart animation that has produced the cartoon *Snow Queen* in 2011 and 2013. This project was released in over ten international markets with a day-and-date release strategy. Upon the cartoon's release, the company plans to try licensing goods, such as toys, sports goods, office materials, clothes and shoes.

The majority of the experts agreed that with the rise of online distribution, the Hollywood system has been challenged significantly. According to Steven Fishman of Media Services<sup>5</sup>, while Hollywood historically controlled all the distribution channels, we are now seeing developments in consumer demand towards video rental and subscription services, such as Netflix and Redbox. This mode of consumption presents a significant challenge to the traditional home video distribution model. The content is not only more readily available, but, also, made more affordable. Also, with digital distribution the P&A costs are tremendously diminished. This has resulted in some changes to licensing contracts. The Digital Millennium Copyright Act ("Criminal Resource Manual", 2015), for example, requires all online distributors to acquire a licensing contract from the content owner, or the distributing studios, in order to stream the film. This has allowed the major studios to secure their dominance. Warner Brothers, for example, has an enormous library that allows major studios to control the growth of the online distribution system. Netflix is, also, much more apt to respond to changes in the environment due to its smaller size, whereas the

---

<sup>5</sup> Interview conducted at the AFM on November 2, 2014

major studios have trouble being as reactive. For them to change such complex processes as distribution would require a great deal of capital and in many ways would likely alter the business models for these companies. Furthermore, all of the studios would have to decide on using the same platform. If not, then this would prove too time-consuming, complex and inefficient. This could be something to consider for the majors as more and more companies, such as Netflix, appear on the stage.

In an interview with Anton Malyshev from the Russian Cinema Fund, he shared that one of the main factors affecting the ability of smaller new players to succeed in signing distribution deals remains the value of its content. Large distributors do often look to smaller production companies to fulfill their demand. If a production company produces a movie that has the potential to generate consumer demand, then it has the power to spark interest. The same was mentioned by Irina Sekacheva as one of the best ways for these firms to differentiate themselves. He, also, mentioned the benefits of having sequential market releases. It is always better to release in the domestic market and then move on to international markets. This allows to adopt the product to the consumers demand. It, also, sustains the “buzz” for the product.

Clement Lafon, who has worked on selecting movies for the distribution studio *Michel Lafon Publishing* comments on the importance of creating awareness for the movie<sup>6</sup>. According to him, if an audience is not created for a film, then it will fail to succeed on any level. In his past experience, the production companies that are smaller in size are the ones that require a more focused approach in designing their distribution system. They have greater difficulties in finding the funds that are needed to provide for the considerable P&A budgets required for wide releases.

On the question of theatrical releases, Anna Samarskaya pointed out that, in her opinion, the amount of traditional multiplex theaters is going to diminish. Instead, theaters will have to find ways to diversify themselves and provide an upgraded experience. Consumers have started to question the real value that

---

<sup>6</sup> Interview conducted via Skype on March 2, 2015

they are getting when they choose to watch a movie in the cinema. Theaters have, therefore, introduced the IMAX and 3D to deliver greater value to the consumers and provide a differentiated experience. However, due to the economic climate in many markets the rising cost of attending movies remains a concern. Therefore, the online space is becoming much more attractive. Besides this, social media can be a powerful tool in targeting audiences and predicting consumption. The smaller production companies would then rely much less on the large marketing campaigns that only the major studios are able to finance.

### **CHAPTER 3: RESEARCH OUTCOMES AND MANAGERIAL IMPLICATIONS.**

#### **3.1 Distribution Strategy Proposal for *Glukoza Production***

The above analysis shows that the film industry is not only highly competitive and risky, but, also, extremely unpredictable. During the time period between each release window, there may be serious changes both in terms of consumer demand as well as from the supply side. Despite this, numerous studies conducted on this topic and presented in the theoretical part of this thesis show some distribution strategies and key factors that can contribute to a company's success.

As can be seen from the previous chapters, distribution has almost become a product in itself. Once a movie is produced, the large issue for film companies becomes sourcing an audience. This means that the company must select distribution channels along with appropriate marketing.

When deciding on a film's distribution strategy, it is important to come up with a marketing plan. This will not only help the company have a clear vision of its distribution goals, but, also, show to the potential distributors that the company has "done its homework". As was already mentioned previously, the film industry is an extremely risky business, so having a clear marketing strategy that is not merely dependent on the distributors reduces some of the risk for them. For the film production company, this offers some leveraging power in the negotiation process with a prospective distributor.

### **Preliminary screenings at Film Festivals.**

The company should look into preliminary screenings at least at several of the major film markets, such as the American Film Market in Santa Monica, California, the European Film Market in Berlin and potentially, also, the Cannes film festival. All three markets are important events in territories with high potential distribution: the United States, Germany and France. The main representative of Russian movies at such festivals is Roskino, so at some markets the company may choose to partner up and establish a presence through them ("Roskino", 2015). As Anna Samarskaya, the manager of Roskino, pointed out, Roskino has established partnerships with industry professionals, which can help filmmakers get distribution deals. However, Roskino works mostly with independent films, leaving the bigger filmmaking companies to represent themselves. Therefore, a better option would be to partner with the Cinema Fund (Fond Kino) that was mentioned earlier as it focuses more on commercially viable projects, such as comedies or animation films. This should be done in order to attract foreign buyers and distributors as well as to raise the future box office profit.

In the domestic market, the company should participate in the Saint Petersburg International Media Forum (SPIMF) that had its first forum in October of 2014. The forum brings together representatives from over 50 countries and, also, hosts the DOORS International Travelling Film market. Screenings of Russian films are presented to industry professionals to catch the interest of buyers of licensing rights. In addition to this, the forum publishes a catalogue containing all the movies presented along with some general information provided.

As can be seen from the increasing participation of Russian film companies in international film markets and festivals, there is both demand and supply for Russian films. For example, just at the European Film Market, for Russian movies participated in 7 out of the 9 Berlinale competitions, all of which received significant acknowledgement ("International Sales of Russian Cinema Starts", 2015). Over thirty movies from Russia were included in the American Film Market that were previously present at the Russian SPIMF in Saint-Petersburg ("Roskino Represents Russia", 2015). The main holdback has to deal

largely with the system of distribution into foreign markets. While it is difficult to compete directly with the Hollywood majors, there are certain tools mentioned in this thesis that Russian movies can employ in order to become more competitive on the international market.

The key lucrative markets for the film “Savva” are the following: Russia, United States, European market (France, Germany, Spain, and the United Kingdom), Australia and the Asian market (Japan, China, South Korea). The focus will be on the major cities with a strong urban culture (London, Berlin, Frankfurt, Paris, Rome, Madrid, Tokyo, Sydney, etc.) The movie should be released in Russia, the domestic market, first, in order to judge its potential, create an awareness and public “buzz”. It is, also, important to remember that in each market, a number of other factors influence the new product’s availability and performance, including product attributes, advertising support, manufacturer/distributor characteristics, word-of-mouth by previous consumers, the competitive environment and, of course, seasonality.

### **Release on the Domestic Russian Market**

As is the case with the majority of worldwide film markets, the Russian national film market is, also, heavily dominated by foreign productions, in particular major Hollywood films. In 2014, only about twenty percent of the total share of movies were held by Russian films (Barracclough, 2014). Due to the film’s high budget, star power and original dubbing in multiple languages, *Glukoza Production* has the potential to attract many top Russian distributors. Having showcased its product at the St. Petersburg film festival, the company should then select a distributor based on factors such as previous experience in distributing family and kids movies, the proposed prints and advertising budget for the film as well as the expected amount of screens for the release. The author of this paper suggests the Russian movie distributor *Central Partnership* as a good potential distribution partner based on the above factors. Not only does *Central Partnership* have the largest content library in Russia, but it is, also, the official distributor of Paramount Pictures on the domestic market (Central Partnership, 2015). High budget animated films, such as “Savva”, are typically released on between 1200 and 1600 screens (Research on the Animated Film

Industry, 2013). The film should, therefore, target to be released on approximately that range of screens in the Russian domestic market. The release date of the film should be scheduled for August of 2015. This is good release timing as children are on vacation and families would be more prone to watch the film in the children's free time. Also, a release in the month of August would potentially allow for higher box office revenues as there is low competition from other animated films. The main animated Hollywood hits, such as *Home* and *The Minions*, would already have had their releases in May and July, respectively. An August release would, therefore, only put it at competition with two non-Hollywood animated films that lack the impressive star power that *Savva* possesses<sup>7</sup>.

The domestic market performance would allow the film studio to judge the movie's appeal as well as the costs it is ready to incur with the subsequent market entries.

### **Release in the CIS and Eastern European countries**

A study done by the major film research company in Russia, Nevafilm, points out that a large portion of Russian movies are distributed to the CIS countries (Armenia, Azerbaijan, Belarus, etc.). Below is a table of the top ten European countries that distribute the most Russian films. This could be due to similarities in culture and language as well as the long-term relationship between film professionals, as is the case with France, for example.

**Table 4.** *Top CIS and EU countries by attendance rate on Russian movies between 2011-2013*

Country	Number of Films	Attendance (thousands)	Movie share (%)	Attendance share (%)
France	8	558.6	14%	19%
Poland	13	517.2	23%	17%

---

<sup>7</sup> *Saving Goola* (A Chinese production); *Oops! Noah is Gone* (A German production)

Great Britain	10	270.2	18%	9%
Italy	3	233.6	5%	8%
Lithuania	21	214.3	37%	7%
Netherlands	9	162.0	16%	5%
Estonia	30	166.0	53%	6%
Spain	4	155.7	7%	5%
Latvia	21	124.8	37%	4%
Germany	4	124.3	7%	4%

*Source: European Audiovisual Observatory, Nevafilm, 2014*

It is, also, important to realize the differences between the amount of Russian films released in these markets as opposed to their actual attendance. The low attendance could be due to poor marketing, low awareness or the differences in cultural appeal.

The movie should then be released in the United States as this is the second market with high star power appeal with the voice-overs done by major stars. The time lag between its release in the domestic market and the United States should range from about three months to a year. As was mentioned in previous chapters all time lags and windows between releases are ultimately a trade-off between allowing more time for word-of-mouth communication and publicity as opposed to losing revenues due to illegal consumption. This date, also, happens in advance of the Oscar buzz in February of 2016.

### **Release in the United States**

As was already mentioned, *Savva* has multiple winsome qualities that differentiate it from the other films produced by smaller studios and make it appealing to the US market and its viewers. However, since this is the first feature-length film that the company has produced, this significantly reduces the

amount of credibility that potential distributors would have towards the project's success. The producer should, therefore, consider partnering with another production entity that has an existing track record and some experience in this market. Art Pictures Studio, which has been mentioned in the previous chapter, has successfully released the film "Stalingrad" in multiple major markets, including the United States, and would be a good fit. Both companies would invest certain resources, thus increasing the chances of the film's success, which would allow to then reap the financial and other benefits. It is up to the producers to decide how to split among themselves the financial, promotional and marketing contributions as well as the eventual revenues in accordance with the signed deal. Such a cooperation would build credibility, generate more trust and help to secure distribution, if not from the major distributors, then at least from some of the smaller ones, such as New Line and Picturehouse. This would, also, reduce the risks and the costs.

A good timing for the United States release would be the Thanksgiving holidays of 2015. Similarly to the domestic market release, it is important that children are on vacation and that there is a small amount of family movies and cartoons being released in this time period, which allows for a weaker competitive environment. As for publicity and advertising, an independent studio, such as Focus Features, could be used for this purpose. Based on comparative research data, a conservative P&A estimate for this would be around \$15 million (Byrd, 2010; Gong et al., 2011).

The international release date should then be scheduled for a few months after the US premiere, around Christmas time. After its theatrical release, the cartoon should be distributed on the next sequential channel, most likely DVD, after two months. The analysis in Luan and Sudhir (2006) discusses that an optimal release lag between sequential channels is about two months, especially for films with high budgets and star power or animated films, as they have less substitutes.

In the study by Hennig-Thurau et al. (2007), the writers state that even though the releases of DVD rentals will vary for different countries, they, also, believe that a delay of three months is optimal.



**Release in the “Major” territories.**

The “Major” international territories are herein defined as highly attractive markets based on the research presented in the previous Figures. These are markets that the company should consider entering sequentially because of either their large market size, fast growth, widespread use of English language and/or high box-office revenues. They include China, Japan, France, U.K., India, South Korea, Germany, Australia, Brazil, Italy, Spain and Turkey. Since it is the company’s first time producing, releasing and setting up distribution for a feature-length film, it is better for the company to go through an effective, tried and tested, mature distribution scheme in the “Major” international territories. He should, therefore, consider setting up their distribution through a sales agent, since they would already have the network of distributors built up in these areas. Highland Film Group could be a good example of a firm that has an established reputation and an expansive network. This can, also, guarantee a reduction of risk. The sales Agent shall be entitled to sales agency fee (“Sales Agent Fee”) of ten percent (10%) calculated from the “Gross Receipts” derived from the Licensing Agreements that have been procured throughout the Territory. Sales Agent shall be entitled to receive a one-time, non-accountable market overhead charge of Fifty Thousand US Dollars (\$50,000), payable from Gross Receipts. Outside of the Territory, the Sales Agent shall be accorded a “Worldwide Sales by Highland Film Group” credit in the end credits.

**Distribution Channels.**

The appropriate choice of distribution channels and retailers contributes largely to the success of a movie’s release. Due to the experiential nature of movie products, it is difficult to account for the potential changes in the demand for them. This is especially the case with theatrical releases. For example, while the movie *Home Alone* opened only on a thousand screens, a positive buzz increased the movie’s release to two thousand screens by its eighth week (De Vany & Walls, 2007).

### **Theatrical Release.**

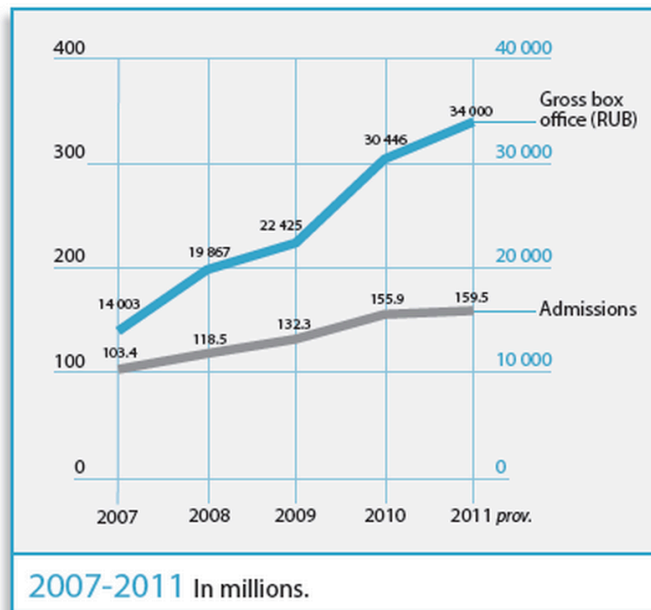
When considering a theatrical release, it is important to think about the size and the scope of each platform. Because the movie “Savva” is a relatively large budget production and has some blockbuster attributes with high Russian and American star power, it should open in the form of a wide release, especially on the Russian, U.S. and CIS market. This approach will allow for the largest profit maximization in the shortest amount of time. Since most movies, besides some exceptions, receive the majority of their profits within the first week of a wide release, it is, therefore, important to release on as many screens as possible. This is a good strategy in the attempt to break even on the movie’s production costs. Past research indicates a positive correlation between the number of screens and the movie’s box office performance (Prag & Casavant, 1994).

On the other markets, such as the European and Asian market, where the company is less certain of the movie’s appeal, it should implement a limited or platform release. This type of release will allow the film to gain a general understanding of the existing demand for the movie in the opening weeks and then decide whether to expand or contract the film’s release. For example, if the movie experiences good buzz and word-of-mouth promotion, then the distributor may decide to release the film on more screens.

The domestic Russian Market as well as the CIS market are especially attractive in terms of theatrical release as they have experienced a steady growth in the cinema admissions as well as gross box office revenues. Starting with the movie’s theatrical release first would allow to capitalize on the box office revenues and set a precedent for the film’s lifecycle.

**Figure 9.** *Admissions and Gross Box Office on the Russian Market, 2007-2011*

**Admissions & gross box office**



*Source: European Audiovisual Observatory, Yearbook 2012, Volume 1*

According to a report on the Russian film industry carried out by Nevafilm (“DVD Popularity in Russia”, 2013), the main channel for movies of the blockbuster format in major cities is still the theatrical release. While theatrical distribution is seen as a successful match for the movie “Savva” on this market, the latter channels of distribution must not be ignored.

### **TV Channels, DVD and VOD.**

Film distribution in Russia happens through various private distribution channels, including theatrical distribution, DVD/Blu-ray, TV Channels, airlines and video-on-demand (VOD). While movies run in theaters for a maximum period of two months, the sales of home videos, such as DVDs, provide additional revenue streams and allow to boost the profit margins pretty much indefinitely. A direct release to DVD is not recommended as this would not only involve large overhead costs, but, also, lower the company’s reputation. This is due to the fact that consumers usually associate this type of release with content of lower quality.

Some Russian TV Channels get involved in co-productions with domestic feature films and offer them sponsorship. Overseas, additional promotion should be carried out through Russian-speaking channels in international markets.

Digital technology services are, also, present and developing at a fast pace. For example, the online platform “Hulu” has distributed many Russian films from the Saint-Petersburg film forum (Roskino, 2015). “Hulu” has, also, been recognized as one of the few online platforms that is allowed to distribute Russian movies with the option of English subtitles on the territories of Europe and the United States. While Netflix largely holds films from the times of the USSR, Hulu is already carrying modern Russian projects. The promotion of such online platforms could spread the “buzz”, add extra promotion and create an ancillary source of revenues. However, DVD sales and video-on-demand subscription channels are still important as many consumers believe the quality and scope of content would be better than online.

Video-on-demand distribution channels should, also, be considered. According to one estimation by Keane, by the end of 2014 video-on-demand services generated 1.3 million on the European market and, continuing at the same rate, the figure is bound to reach 4.3 million by 2020 (Keane, 2014). However, the video-on-demand services market in Europe is an extremely fragmented one. The German market presents a good option for a video-on-demand release as it already has a significant customer base not only with established players, such as Netflix and Hulu, but, also, with streaming websites, such as Watchever.de and Maxdome.de. The European market, overall, presents many opportunities for online promotion via digital platforms.

### **Online Distribution.**

Online distribution should be considered for markets that are not key target markets or are difficult to enter. Online distribution offers the ability to enter many markets at the same time easily. This ultimately breaches the gap of specific geographic location releases. Printing and advertising costs would, also, significantly diminish. However, the top online distributors, such as Netflix, do not provide all of the content demanded by consumers. This is largely due to the reluctance of major studios signing licensing contracts.

On one hand, the movie “Savva” produced by *Glukoza Production* possesses qualities that put it among the ranks of major blockbusters. It has a star cast, a high budget and is of comparable quality. On the other hand, however, it is a new player on the international film market and it is the company’s first time distributing a feature-length film internationally. Therefore, in key markets that are either familiar, such as Russia and the CIS countries, or have existing production relationships, as is the case with the United States through the WMA, the film should definitely aim for a theatrical release with a large marketing and promotion budget. However, in less familiar markets, such as the European and Asian markets, the company should be prepared to focus rather on alternative distribution channels, such as video-on-demand services.

### **Release Windows.**

Release scheduling can be in the form of a limited engagement, a platform release or a wide release. As was already mentioned previously, distribution can both incite changes in consumer behavior as well as respond to them by modifying the supply and demand of the entertainment product.

When planning the movie releases it is important to keep in mind the time lag between each phase of the revenue stream and select an appropriate model of release windows. Since the movie “Savva” has significant star power, similarities to a Hollywood type of movie and a large theatrical potential, in the key international markets it should follow the traditional sequence of movie theaters, then, after three to four months, a release on DVD. After about the same time period, it should become available on Pay TV as well as VOD services, both subscription and pay-per-view. After about two years, the film should become available on free-to-air TV.

As for the “major” territories and secondary markets, the film may be distributed outside of the traditional sequence, especially as pirate versions spread and become more abundant.

### **3.2 Concluding Remarks**

The purpose of this thesis was to evaluate the current existing methods and strategies for the formation of international distribution channels for new

players in the film industry. Interviews and research revealed that the standard Hollywood distribution system may not be the best solution for new smaller players. The online space has become more developed and there now exist various innovative solutions that allow to effectively distribute one's movie. Moreover, the analysis of the opportunities and weaknesses of the current business environment were then applied to the Russian film production company *Glukoza Production* in its preparation to release the movie "Savva" on both the domestic and foreign markets.

The analysis consisted of a theoretical and an analytical/empirical part. The theoretical part was based on literature, articles and opinions of experts from the film industry. The theoretical part was, therefore, presented as a comprehensive overview of the available secondary data. As for the analytical/empirical part, first of all, the author analyzed several case studies to serve as examples of film distribution design and set-up. Second of all, the author conducted interviews with a number of experts from the film industry. Some of them were present at the film festival that the author personally attended, while others were interviewed at the Moscow office of *Glukoza Production* to gain further insight on the challenges faced by new players in the film industry when designing their distribution chain.

Many international film markets are seeing the rise of smaller new players despite the domination of the Majors. Moreover, demand for animation and action movies is rapidly growing worldwide as this product is seen to be universal and appealing in a majority of markets. Participation in international film festivals allows new players to not only pitch their product to potential distributors and investors, but also to increase its recognition on the market as well as to generate some promotional buzz. Upon generating some interest on the part of the distributors, the company can then select the most suitable distributors, begin the negotiation process and set-up a distribution deal. Although there exists sufficient demand for Russian movies, the international audience is often not familiar with these products, which is largely due to a lack of promotion and/or an inappropriate selection of distribution channels.

In the final chapter, the paper discussed a proposal that includes the movie's release strategy in multiple markets, the selection of potential

distributors and the distribution channels. Various distribution strategies were proposed for the domestic market, the CIS market, the US market and the foreign “major territories”.

In the domestic market, the movie *Savva* has the potential to generate high box-office and subsequent channel revenues similar to that of a successful Hollywood blockbuster and should, therefore, prove attractive to top distributors, such as *Central Partnership*, for example. The CIS countries, also, present an attractive market as these countries are familiar with the Russian film culture and there is a high percentage of the Russian speaking population. This means that the exported movie will not require much customization for the new market. For the markets that are harder to enter due to cultural differences, market saturation or high competition, it was suggested that new players cooperate with larger studios, which have an existing track record and some previous experience. For example, in the US market, as part of its distribution strategy, *Glukoza Production* should consider cooperating with another production studio, such as Art Pictures Studio, which has already had a successful release of the “Stalingrad” film.

Distribution strategies were provided for the key markets of interest for the movie. Needless to say, there is no single universal strategy for all the film production companies in distributing their films. Studios have to find their own audiences in the markets that are most lucrative for them.

### **3.3 Limitations of the research**

It proved difficult to gain access to some interviewees and to find an opportunity to speak with them. Hence, many of the interviews were conducted at the American Film Market, which the author personally attended. While the collected responses are generally sufficient for the purposes of this paper, it is, of course, impossible to consult all the necessary sources of information.

Another limitation was the lack of reliable statistics data, as it was not always the most recent available data and may have changed to this day.

### **3.4 Recommendations for further research**

In terms of future research, there are several areas that could be examined. One area of interest could be the industries or products that share key characteristics with motion picture markets, which is a clear correlation between performance and availability and a sequential international release strategy. Research could be applied to other media and entertainment products, such as computer games and TV shows, as well as fashion products, such as designer clothes, for example. All these products have experiential properties, fickle demand and require constant innovation.

Because constant innovation is extremely important in digital technology, the issue of speed to market should be considered. Research could be conducted on the relationship between faster and more efficient marketing for motion pictures worldwide, as this may lead to serious savings. Studies on the possibility of creating one unique platform for instantaneous worldwide distribution could, also, be of interest.



## **REFEFENCE LIST**

1. All Time Worldwide Box Office Grosses. N.p., 2015. Web. 21 May 2015.  
<<http://www.boxofficemojo.com/alltime/world/>>.
2. American Film Market and Conferences. Industry Attendees. N.p., 05 Feb. 2015. Web. 22 May 2015.  
<<http://www.americanfilmmarket.com/attendee>>.
3. Anderson, Casey. "What Is Joint Venture Marketing?" Chron: Small Business. Web. 22 Feb. 2015. <<http://smallbusiness.chron.com/joint-venture-marketing-30933.html>>.
4. August, Terrence, Duy Dao, and Hyoduk Shin. "Optimal Timing of Sequential Distribution." N.p., March 2013. Web. 21 May 2015.  
<[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1708226](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1708226)>.
5. Barraclough, Leo. "'Stalingrad' Producer Alexander Rodnyansky Ramps Up Russian Production Slate." Variety. N.p., 07 Dec. 2013. Web. 21 May 2015. <<http://variety.com/2013/film/box-office/stalingrad-producer-alexander-rodnyansky-ramps-up-russian-production-slate-1200927011/>>.
6. Barraclough, Leo. "Roskino." Variety. N.p., 09 Oct. 2014. Web. 22 May 2015. <<http://variety.com/t/roskino/>>.
7. Bassi, Francesca. "Experiential Goods and Customer Satisfaction: An Application to Films." QTQM (n.d.): n. pag. Dec. 2007. Web. 21 May 2015.  
<[http://web.it.nctu.edu.tw/~qtqm/qtqmpapers/2010V7N1/2010V7N1\\_F4.pdf](http://web.it.nctu.edu.tw/~qtqm/qtqmpapers/2010V7N1/2010V7N1_F4.pdf)>.
8. Byrd, William. "The Economics of Film Distribution." Diss. Auburn U, 2010. 2010. Web. 22 Mar. 2015.
9. Carvell, Tim. "How The Blair Witch Project Built Up So Much Buzz." Web. 21 May 2015.  
<[http://archive.fortune.com/magazines/fortune/fortune\\_archive/1999/08/16/264276/index.htm](http://archive.fortune.com/magazines/fortune/fortune_archive/1999/08/16/264276/index.htm)>.
10. Central Partnership. N.p., 2015. Web. 22 Apr. 2015.  
<<http://www.centpart.ru/en/information>>.
11. Cinema Non-Stop Production. N.p., n.d. Web. 22 May 2015.  
<<http://nonstopkino.ru/en/cinema/#>>.
12. Corts, K.S., "The Strategic Effects of Vertical Market Structure: Common Agency and Divisionalization in the US Motion Picture Industry," Journal of Economics and Management Strategy 10, no. 4 (2001): 509-528.
13. Criminal Resource Manual 1854 Copyright Infringement. Offices of the United States Attorneys, n.d. Web. 21 May 2015.  
<<http://www.justice.gov/usam/criminal-resource-manual-1854-copyright-infringement-first-sale-doctrine>>.
14. De Vany, Arthur, and David Walls. "Uncertainty in the Movie Industry: Does Star Power Reduce the Terror of the Box Office?"(n.d.): n. pag. 1999. Web. 21 May 2015.  
<<http://people.stern.nyu.edu/wgreene/entertainmentandmedia/Devany%26Walls.pdf>>.

15. Duginski, Paul. "Summer at the Box Office - Los Angeles Times." LA Times. N.p., 02 Sept. 2013. Web. 22 May 2015.  
<<http://graphics.latimes.com/towergraphic-la-et-summer-box-office/>>.
16. DVD Popularity in Russia. Nevafilm Research. N.p., 2013. Web. 22 May 2015. <<http://research.nevafilm.ru/reports/cinemagoers/1stage>>.
17. EAO: European Audiovisual Observatory. Focus 2000: Film World Market Trends. A Report by the European Audiovisual Observatory. 2001. Web. 22 May 2015. <<http://www.obs.coe.int/en/home>>.
18. Eliashberg, Jehoshua and Elberse, Anita. "Demand and Supply Dynamics for Sequentially Released Products in International Markets: The Case of Motion Pictures", Marketing Science, Vol.22, No.3, Summer 2003, pp. 329-354.
19. Eliashberg, Jehoshua, Elberse, Anita, and Leenders, Mark. "The Motion Picture Industry: Critical Issues in Practice, Current Research, and New Research Directions." Marketing Science: 2006. Web. 12 Mar. 2015.  
<[http://www.researchgate.net/profile/Mark\\_Leenders/publication/227442456\\_The\\_Motion\\_Picture\\_Industry\\_Critical\\_Issues\\_in\\_Practice\\_Current\\_Research\\_and\\_New\\_Research\\_Directions/links/02e7e52741a43075f9000000.pdf](http://www.researchgate.net/profile/Mark_Leenders/publication/227442456_The_Motion_Picture_Industry_Critical_Issues_in_Practice_Current_Research_and_New_Research_Directions/links/02e7e52741a43075f9000000.pdf)>.
20. Epstein, Edward Jay. "Forget about the Box Office." Slate. The Hollywood Economist, May 2005. Web. 22 May 2015.  
<[http://www.slate.com/articles/arts/the\\_hollywood\\_economist/2005/05/gross\\_misunderstanding.html](http://www.slate.com/articles/arts/the_hollywood_economist/2005/05/gross_misunderstanding.html)>.
21. Film Profit Glossary of Film Terms. FilmDependent.com. Web. 22 Feb. 2015.<<http://www.filmdependent.com/glossary.html>>.
22. Gil, Alexandra. "Breaking the Studios: Antitrust and the Motion Picture Industry." NYU Journal of Law & Liberty 3.83 (2008): n. pag. 2008. Web. Feb. 2015.  
<[http://www.law.nyu.edu/sites/default/files/ECM\\_PRO\\_060965.pdf](http://www.law.nyu.edu/sites/default/files/ECM_PRO_060965.pdf)>.
23. Global Filmed Entertainment Market. Rep. N.p.: PWC, 2014. Web.
24. Gong, James, Wim Stede, and Mark Young. "Real Options in the Motion Picture Industry: Evidence from Film Marketing and Sequels. "Contemporary Accounting Research 28.5: n. pag. 2011. Web. 11 Feb. 2015. <<http://onlinelibrary.wiley.com/doi/10.1111/j.1911-3846.2011.01086.x/abstract>>.
25. Holloway, Isaac. Learning via Sequential Market Entry: Evidence from International Releases of U.S. Movies. Thesis. Tsinghua University, Beijing, 2012. N.p. Web. 13 Jan. 2015.
26. International Sales of Russian Cinema Starts. N.p., 05 Feb. 2015. Web. 22 May 2015. <<http://eng.fond-kino.ru/news/36/785/>>.
27. Keane, Jonathan. "The Rise and Future of Video-on-demand." Techeu. N.p., 09 Sept. 2014. Web. 22 May 2015. <<http://tech.eu/features/2646/video-on-demand-europe-growth-future-report/>>.
28. Kenneth S. Corts, "The Strategic Effects of Vertical Market Structure: Common Agency and Divisionalization in the US Motion Picture Industry," Journal of Economics and Management Strategy 10, no. 4 (2001): 509-528.
29. Koselska, Rita. (1992). "Distribution Revolution." *Forbes*. May 25<sup>th</sup>, 1992 pp. 54, 58, 60, 62

30. Luan, Jackie, and K. Sudhir. "Forecasting Advertising Responsiveness for Short-Lifecycle Products." Thesis. Yale School of Management, 2005. Print.
31. McClintock, Pamela. "Netflix Books Adam Sandler for Four Movies." *The Hollywood Reporter*. N.p., 10 Jan. 2013. Web. 22 May 2015.  
<<http://www.hollywoodreporter.com/news/netflix-books-adam-sandler-four-737500>>.
32. Movie Terminology Glossary. IMDb, 2015. Web. 22 May 2015.  
<<http://www.imdb.com/glossary/B>>.
33. MPAA Research and Reports. MPAA. N.p., 2015. Web. 22 May 2015.  
<<http://www.mpa.org/research-and-reports/>>.
34. Nevafilm Research. N.p., 2014. Web. 22 May 2015.  
<<http://research.nevafilm.ru/index.html>>.
35. Our Company: Glukoza Production. N.p., 2015. Web. 10 Apr. 2015.  
<<http://www.glukoza-production.com/company/>>.
36. PC Magazine Encyclopedia. Definition. N.p., 2015. Web. 10 May 2015.  
<<http://www.pcmag.com/encyclopedia/term/56186/video-on-demand>>.
37. *Perspectives Filmed Entertainment: Cost Capitalization, Amortization, and Impairment*. Rep. PWC, July 2009. Web. 02 March 2015.  
<<http://www.pwc.com/us/en/industry/entertainment-media/assets/pwc-perspectives-costcap.pdf>>.
38. Pham, Annika. "Magnolia Pictures CEO." Nordisk Film & TV Fond, 08 Mar. 2013. Web. 04 May 2015.  
<<http://www.trustnordisk.com/content/magnolia-pictures-ceo-futures-extraordinarily-bright-scandinavian-cinema>>.
39. Porter, M.E., *Competitive Strategy*, Free Press, New York, 1980.
40. Prag, Jay, and James Casavant. "An Empirical Study of the Determinants of Revenues and Marketing Expenditures in the Motion Picture Industry." *Journal of Cultural Economics* 18.3: n. pag. 1994. Web. 02 Mar. 2015.  
<<http://link.springer.com/article/10.1007%2FBF01080227>>.
41. Prasad, Ashutosh, Bart Bronnenberg, and Vijay Mahajan. "Product Entry Timing in Dual Distribution Channels: The Case of the Movie Industry." *Review of Marketing Science* 2.4 (2004): n. pag. 2004. Web. 12 Feb. 2015.
42. PWC's 2013 Entertainment Report. Rep. N.p., 2013. Web. 22 Mar. 2015.  
<[http://www.hollywoodreporter.com/sites/default/files/custom/Documents/PWC\\_chart\\_rev21012x5711px.pdf](http://www.hollywoodreporter.com/sites/default/files/custom/Documents/PWC_chart_rev21012x5711px.pdf)>.
43. Research on the Industry of Animated Films. (n.d.): n. pag. 2013. Web. 02 May 2015. <[http://res.cloudinary.com/just-be-nice/image/upload/v1386155325/0\\_x0jel8.pdf](http://res.cloudinary.com/just-be-nice/image/upload/v1386155325/0_x0jel8.pdf)>.
44. Roskino Represents Russia. NEWS. N.p., n.d. Web. 20 Jan. 2015.  
<<http://roskino.org/news/roskino-predstavilo-rossiyu-na-mezhdunarodnoy-konferentsii-v-ramkakh-american-film-market-afm?lang=en>>.
45. Roskino. News. Roskino. N.p., n.d. Web. 22 May 2015.  
<<http://roskino.org/>>.
46. Schatz, Thomas. *Hollywood*. London: Routledge, 2004. Print.
47. Schwartzel, Erich, and Ben Fritz. "Fewer Americans Go to the Movies." *WSJ*. N.p., 25 Mar. 2014. Web. 22 May 2015.

- <<http://www.wsj.com/articles/SB10001424052702303949704579461813982237426>>.
48. Scott, Jeremy. "Netflix Buys TV Series Rights, Jumps Into Content Creation Game." ReelSEO. N.p., 16 Mar. 2011. Web. 21 May 2015.  
<<http://www.reelseo.com/mastered-distribution-netflix-produce-content/>>.
  49. Silver, Jon. "Digital Dawn: A Revolution in Movie Distribution?." Business Horizons (2003): n. pag. Web.
  50. Silver, Jon. "Hollywood's Dominance of the Movie Industry." Thesis (n.d.): n. pag. Queensland University of Technology. Nov. 2007. Web.
  51. Silver, Jon. Are Movie Theaters Doomed? Thesis. Queensland University of Technology, 2007. Print.
  52. Sklar, Robert, "The Hollywood Studio System." Encyclopedia Britannica Online. Encyclopedia Britannica, n.d. Web. 19 Apr. 2015.
  53. Smith, Emily. George Lucas Handbook - Everything You Need to Know about George Lucas. S.l.: Emereo, 2013. Print.
  54. Stewart, Andrew. "Russian Box Office Smash 'Stalingrad' Gets U.S. Release in Imax." Variety. N.p., 09 Jan. 2014. Web. 22 May 2015.  
<<http://variety.com/2014/film/box-office/russian-box-office-smash-stalingrad-gets-u-s-release-in-imax-1201040843/>>.
  55. Stoller, Bryan Michael. Filmmaking for Dummies, 2nd Edition. Indianapolis, IN: Wiley Pub., 2009. Print.
  56. Surganova, Elizaveta. "How Alexander Rodnyanskii Manages to Earn a Profit on Movies." Forbes. N.p., n.d. Web. 22 May 2015.  
<<http://m.forbes.ru/article.php?id=264985>>.
  57. Theatrical Market Statistics 2014. Rep. N.p.: MPAA, n.d. Print.
  58. Thorsten Hennig-Thurau, Victor Henning, Henrik Sattler, Felix Eggers, and Mark B. Houston (2007) The Last Picture Show? Timing and Order of Movie Distribution Channels. Journal of Marketing: October 2007, Vol. 71, No. 4, pp. 63-83.
  59. Towse, Ruth. A Textbook of Cultural Economics. Cambridge, UK: Cambridge UP, 2010. Print.
  60. Wasko, Janet. *How Hollywood Works*. London: SAGE, 2003. Print.
  61. White, Michael. "Paramount, Ellison's Skydance Extend Co-Financing Deal." Bloomberg.com. Bloomberg, 16 July 2013. Web. 22 May 2015.  
<<http://www.bloomberg.com/news/articles/2013-07-16/paramount-ellison-s-skydance-extend-movie-co-finance-agreement>>.
  62. Young, John. "'The Blair Witch Project' 10 Years Later: Catching up with the Directors of the Horror Sensation." Entertainment Weekly's EW.com. N.p., 09 July 2009. Web. 22 May 2015.  
<<http://www.ew.com/article/2009/07/09/blair-witch>>.
  63. Young, John. "'The Blair Witch Project' 10 Years Later." Entertainment Weekly's. N.p., 9 July 2009. Web. 21 May 2015.  
<<http://www.ew.com/article/2009/07/09/blair-witch>>.

## **APPENDIX**

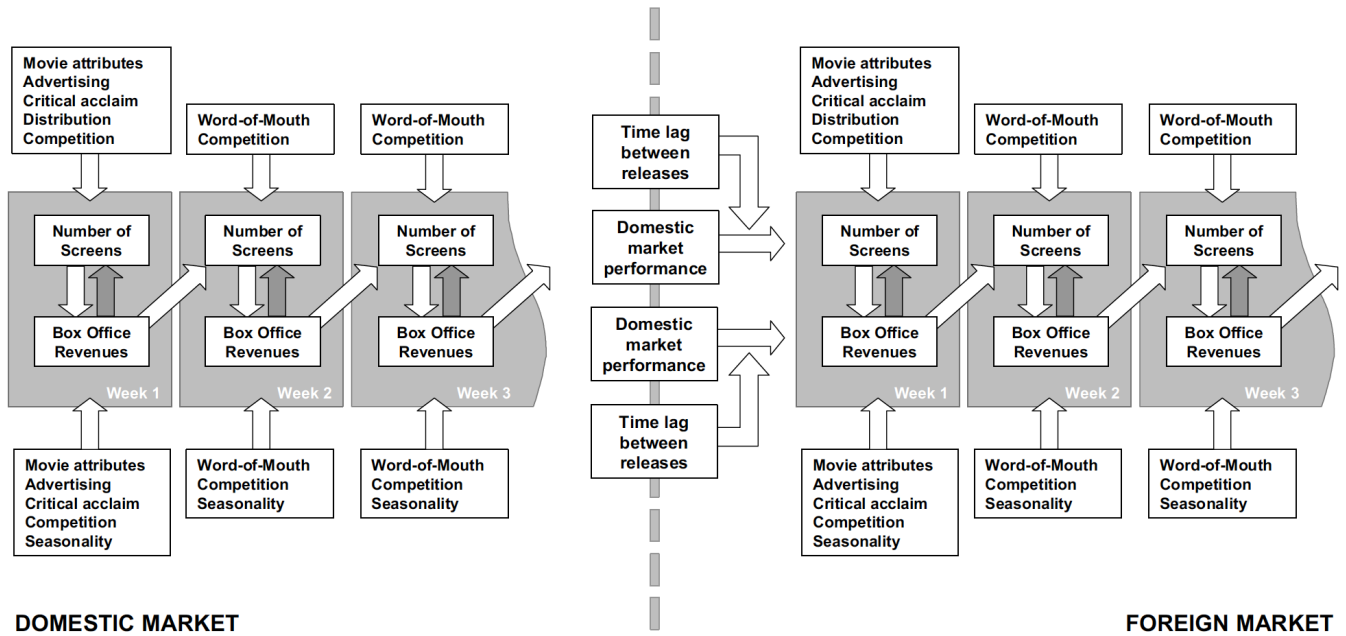
### **ADDITIONAL FIGURES AND DIAGRAMS**

<b><u>DAY AND DATE</u></b>	<b><u>SEQUENTIAL</u></b>
Promotional spending is lower	Substitution effect: consumers wait for lower prices
Less promotion necessary	Congestion effect
The faster, the “fresher”	Lower cannibalization
“Buzz” generated	Better for Documentaries
Competition against a strong film in theaters	Appearance of higher movie quality
To maximize availability	Viewers have more time to get used to the characters
Avoid large congestion costs	Meet different consumers’ willingness-to-pay
Theater demand may be cannibalized	Piracy

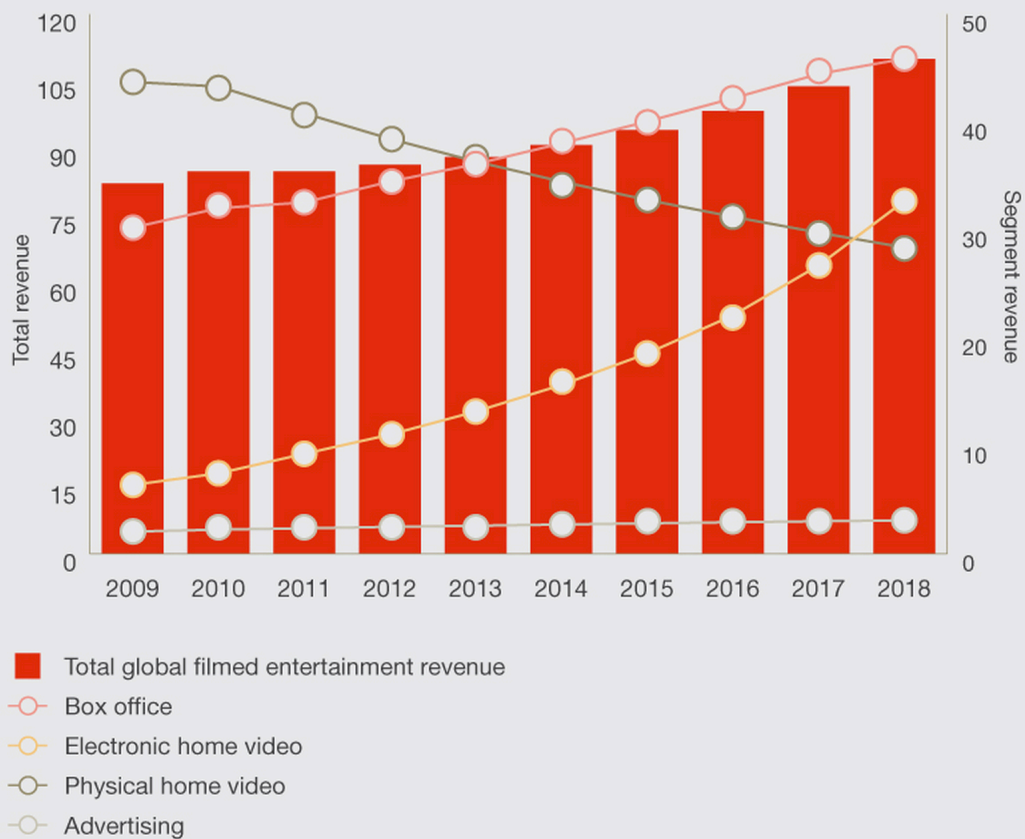
Source: created by author from sources, including ( Silver, 2003) and (Silver, 2012)

### **Domestic and Foreign Market Releases**

Source: Eliashberg, et al., 2003



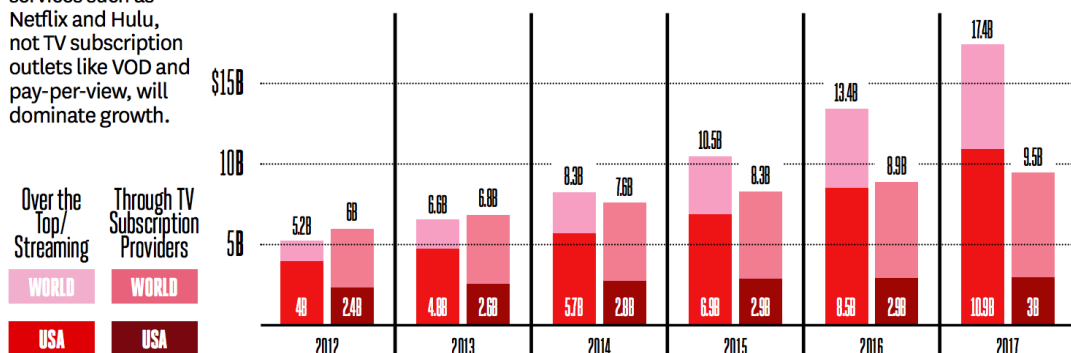
Global filmed entertainment revenue (US\$bn), total and by segment, 2009–2018



Source: PWC's 2013 Entertainment Report

## Electronic Home Video

"Over the top" services such as Netflix and Hulu, not TV subscription outlets like VOD and pay-per-view, will dominate growth.



Source: PWC's 2013 Entertainment Report