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CHAPTER 3

DISTRIBUTION AND MARKETING IN CONTEMPORARY HOLLYWOOD

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Distribution and marketing are amongst the least widely understood aspects of the contemporary Hollywood film industry yet, in comparison to film production, these sectors are the focus of activity for many of its workers. Marketing costs, usually referred to by the industry as "print and advertising" (or "P&A"), now account for around one-third of the total cost of a major studio-released feature film, equal to around half of the "negative cost" (the cost of production). According to the Motion Picture Association of America (MPAA), the average marketing cost of a studio film in 2005 was $36.19 million, which, once added to an average production cost of $60 million, took the average total cost of a major released film to nearly $100 million (MPAA, 2006). This has led commentators in trade magazines such as *Variety*, *The Hollywood Reporter*, and *Screen International* to question the sustainability of blockbuster economics in the industry. The long-term trend in costs has clearly been upwards although, as table 3.1 below shows, total costs have leveled out in recent years and may even have started to fall in real (inflation-adjusted) terms.

TABLE 3.1 Average production (negative) and marketing (p&a) costs of a major Hollywood motion picture*

	Negative cost $m	*P&A cost $m*
2005	60.0	36.19
2004	62.4	34.35
2003	63.8	39.05
2002	58.8	30.62
2001	47.7	31.01
2000	54.8	27.30
1995	36.4	17.74

* Figures not adjusted for inflation.
Source: MPAA, 2003, 2005, 2006.

Over the last two decades the Hollywood film industry has seen a number of important developments, including the consolidation of video and the rise of DVD as the largest studio revenue earners, which now eclipse the theatrical box office. Box-office takings currently account for less than a quarter of total revenues and have become increasingly "front-loaded," earning the majority of receipts in the opening two weeks of exhibition, meaning that films need to make an almost instant impact in order to avoid being dropped from screens by exhibitors. According to market analysts Merrill Lynch, by the early 2000s as much as 50 percent of theatrical box office was generated in the first week of release, compared to only around 20 percent in 1990 (cited in Marich, 2004: p. x). A consequence of front-loading has been a reduction in time allowed in the exhibition window for theatrical release, and the further embedding of movie marketing into Hollywood's mode of production. For medium- to high-budget films the "opening weekend" – usually defined as the three-day period, Friday to Sunday – is seen as an indicator not only of predicted theatrical revenue but also of the value of the film in overseas markets and a partial determinant of its sell-through price in distribution windows such as television and home video – what is known in the industry as its "marquee value." Theatrical box-office figures are seen as a measure of how the film can be valued and exploited as a licensable property over its life-cycle, and across different formats. Box-office data therefore matters not simply in terms of immediate financial receipts but, more importantly, by operating as a signal of value in other media markets.

Before we consider each of the different aspects of film marketing and distribution it is worth examining the nature of film and the cinema experience as products. The peculiarities of Hollywood films as cultural goods are: (a) the ticket price of cinema admission is not variable across individual films but set at the same level for all films; (b) films are product-differentiated in more complex ways than other categories of product; (c) film revenues are streamed across a lengthy time period; (d) consumption of the product does not exhaust it; for it is not "used up" by watching or depleted for other viewers, so there is an element of non-rivalry in consumption; and (e) admission might buy the social experience of cinemagoing rather than to see a particular film. Cinemagoing can therefore be considered a risky activity for consumers in that they are buying a product based only upon the promise of a pleasurable experience, and risky for film financers in that they cannot guarantee demand for a particular film and cannot alter ticket price to balance supply and demand for each film. The satisfaction gained by consumption can only be judged afterwards, feeding into positive and negative word-of-mouth recommendations by audiences. A consequence of this, as Arthur De Vany (2004) has demonstrated, is that box-office receipts are notoriously difficult to predict. Marketing is therefore a key means for the industry to establish product recognition and differentiation, and attempt to reduce these risks by highlighting the marketable elements prior to a film's release. This is important because often only a week is given by exhibitors to evaluate whether a film will attract a wide audience.

Such factors mean that Hollywood is often characterized as a risky industry. Major films require a massive financial investment without any guarantee of recouping

their cost at the box office. Indeed when faced with criticism (as, for instance, during the 1993 GATT negotiations) the MPAA emphasizes risk in defense of Hollywood's economic dominance in overseas markets. It argues that only the major Hollywood studios are willing to take the major risks that lead to global success, and should not be penalized for risk-taking by trade tariffs or quotas. According to such industry rhetoric only a few films become profitable in their theatrical release, and blockbuster smashes are needed to offset box-office failures. Leaving aside the circularity of such an argument (for critiques see Wasko, 2003; Miller et al., 2005), we should note that the definition of success requires further scrutiny. Hollywood has always had a vested interest in being seen as a risky business, yet has evolved elaborate mechanisms over the last 30 years to ensure financial survival. Later in this chapter we will examine the claim that most studio films lose money by exploring how box-office "profits" are calculated. What is true is that the market for Hollywood films operates under what economists call "asymmetric information" – incomplete information between producers and consumers – and this leads to difficulties in reliably predicting success or otherwise, hence surprise box-office "hits" and "flops." Marketing, especially saturation marketing targeted at the opening weekend, can be seen as one industrial response to this issue.

The rest of this chapter aims to offer an overview of film marketing and distribution by the major studios in the domestic North American market. There are currently six major studios, taking into account the acquisition in 2005 of MGM/United Artists by Sony Pictures, and of DreamWorks SKG by Paramount Pictures in early 2006. The dominant big multi-media conglomerate studios are Warner Bros./New Line, 20th Century Fox, Universal Pictures, Walt Disney/Miramax/Touchstone, Sony Pictures/Columbia and Paramount Pictures. These "Big Six" all distribute their films and the films of others, mainly through their eponymous domestic distribution divisions which include Warner Bros. Pictures, 20th Century Fox Pictures, Universal Pictures, Buena Vista (part of Disney), Sony Pictures, and Paramount Motion Picture Group (which includes Paramount Pictures and DreamWorks SKG). The "domestic" market includes both the United States and Canada, which in theatrical distribution is conceived of as a single territory and equal to approximately half of global box-office revenue. Some aspects of overseas distribution, which accounts for around half of revenues, are considered later in this volume in the chapters exploring Hollywood's presence in international territories. Hollywood is a transnational industry and the majors have significant distribution interests in international markets, an example of this being United International Pictures (UIP), a joint venture between Paramount and Universal Pictures, which distributes films in numerous overseas territories. The majors also form alliances with local distributors, such as Metrodome in the UK, or star-owned companies such as Mel Gibson's Icon Pictures.

Broadly, the rest of this chapter will be divided into three sections: first, it will explain the basic processes involved in motion picture marketing and their place in the contemporary Hollywood mode of production; second, it will examine

distribution agreements and the calculation of profits, and finally it considers the implications of Hollywood's dominance in these areas.

Motion Picture Marketing and Distribution in Hollywood: An Overview

Marketing is of great importance to Hollywood, and necessary to the process of building consumer awareness about studio products. Marketing is not simply reactive, responding to consumer demand, but also attempts to both anticipate and create demand. The film industry has long recognized the importance of marketing its products, as exemplified by the elaborately designed and much-loved posters used in the earliest years of the twentieth century. Traditionally Hollywood studios managed their marketing through in-house publicity departments by carefully controlling the publicity generated around their stable of stars and limiting advertising spend to trailers, newspapers, and radio. As film consumption was a regular activity for many audiences, the studios were able to rely upon information gathered by frequent cinemagoing and exposure to trailers and posters, together with the mass appeal of stars or popularity of particular genres. In the decades of the classical Hollywood studio system between approximately 1920 and 1960, the studios also became associated with particular genres – most famously MGM musicals and Warner Bros. gangster pictures – which gave them brand identity.

After the 1948 Paramount decree the major film studios gradually became less associated with a particular roster of stars or identifiable genres, and the well-documented decline in theatrical audiences meant that marketing departments needed to create greater awareness for their products against a backdrop of the rise in popularity of television and reduced control over cinema exhibition chains (Bordwell, Staiger, and Thompson, 1985). Due to anti-trust restrictions, films had to be sold in blocks of five titles, and so the major studios resorted to a greater reliance on individual stars, marketing, and wider release patterns to draw audiences. They soon discovered that their market power lay in financing deals, controlling access to distribution networks (including television) and the exploitation of film rights, rather than maintaining costly and under-utilized studio production facilities (Wasko, 2003). As the international and television markets became increasingly important so the value of their film archives began to rise, and this strategy began to make sound business sense. In economic terms the marginal cost of distributing a film is low compared to the fixed costs of its production. As attendances fell and ticket prices went up, the small cost of additional prints made a reduction in production, wide release strategies and large marketing campaigns all effective ways of maximizing revenues. These changes were a rational response to shifts in the structure of the industry, encouraging the proliferation of blockbuster-driven release and marketing strategies pioneered by the hugely successful *Jaws* (Steven Spielberg, 1975, US) and *Star Wars* (George Lucas, 1977, US), amongst others (see Earnest, 1985; Wyatt, 1994).

Since the 1970s marketing has thus been a central part of Hollywood's business. As a result of the challenge to cinema presented by television, the 1960s shift in audience demographics towards a youth market, and a competing range of leisure activities, the film industry had to work hard at attracting an increasingly fragmented audience (Vogel, 2001). In response Hollywood started to utilize network television for its advertising, a move that significantly raised costs but allowed a far greater advertising reach than other media. These factors also brought changes in film distribution, with a national saturation release replacing the road-shows that once toured films across the US slowly building audiences. "Platform releasing," running a film in a few key cities before gradually widening the release to provincial areas, is still used for films which primarily recruit audiences through word of mouth, or art-house films with a limited P&A spend; however, most major Hollywood films are now simultaneously released in many cities. Previously so-called "wide" domestic release patterns of 500 film theaters in the mid-1970s were regularly extended to over 2,000 screens by the 1980s (a "saturation" release) and over 3,000 screens ("super-saturation") by the turn of the twenty-first century. With multiple screens showing the same film in many multiplex cinemas, major films can now be domestically released on over 4,000 screens – opening on so-called "playdates" – capitalizing on nationwide marketing campaigns and providing an additional marketing push for spin-off ancillary products such as video games and toys. For example, in November 2001 the film *Harry Potter and the Sorcerer's Stone* (Chris Columbus, 2001, US) was released in 3,672 locations in the US but on over 8,000 screens, grossing over $90 million in its opening three-day weekend (Fellman, 2006: 366).

Robert Friedman, a former Chief Operating Officer at Paramount studios and President of Advertising and Publicity at Warner Bros., suggests that the competition for audience awareness invariably now requires a blanket push in terms of both release strategy and marketing spend to avoid being forced out of the cinemas by other films (Friedman, 2006: 284). However, films that are platform-released do occasionally perform spectacularly well at the box office. *My Big Fat Greek Wedding* (Joel Zwick, 2002, US), for instance, cost only around $5 million to make but grossed $241.4 million with a marketing spend of around $30 million (Marich, 2004: 57). *The Passion of the Christ* (Mel Gibson, 2004, US) generated record-breaking box office of $370 million for an independently produced and distributed film costing only $30 million, largely due to publicity and word of mouth generated through churches and their congregations. Table 3.2 shows recent top-opening, three-day-weekend grosses, clearly dominated by major studios.

High Concept and Beyond

According to Justin Wyatt in his 1994 book *High Concept: Movies and Marketing in Hollywood*, there are strong links between marketing and contemporary Hollywood filmmaking, and these can be encapsulated by the term "high concept." High concept refers to a mode of filmmaking where the core narrative premise can

TABLE 3.2 Top weekend openings, costs, and gross box office 2002–2005 (ranked by opening weekend)*

	Estimated negative cost $m	*Distributor*	*Release date*	*Opening weekend box office $m*	*Gross box office $m*
Spider-Man 2	200	Sony	6/4/04	115.8	373.4
Spider-Man	139	Sony	5/3/02	114.8	403.7
Star Wars: Episode III – Revenge of the Sith	113	Fox	5/19/05	108.4	380.3
Shrek 2	75	DreamWorks	5/19/04	108.0	436.7
Harry Potter and the Goblet of Fire	150	Warner Bros.	11/18/05	102.7	289.2
Harry Potter and the Prisoner of Azkaban	130	Warner Bros.	6/4/04	93.7	249.4
The Matrix Reloaded	150	Warner Bros.	5/15/03	91.8	281.5
Harry Potter and the Chamber of Secrets	100	Warner Bros.	11/11/02	88.3	253.0
The Day After Tomorrow	125	Fox	5/28/04	85.8	186.7
Bruce Almighty	81	Universal	5/23/03	85.7	242.6

* Figures not adjusted for inflation.
Source: MPAA, 2003, 2004, 2005, 2006.

FIGURE 3.1 Platform releasing helped *My Big Fat Greek Wedding* (1982) to take over $241 million at the North American box office. Produced by Gary Goetzman, Tom Hanks, and Rita Wilson; distributed by IFC Films; directed by Joel Zwick

FIGURE 3.2 *Top Gun* (1986), high-concept filmmaking *par excellence*. Produced by Jerry Bruckheimer and Don Simpson; distributed by Paramount; directed by Tony Scott

be easily summarized and communicated, with an assembly of elements that foreground narrative transparency and didacticism. For example *Under Siege* (Andrew Davis, 1992, US) could be described as "*Die Hard* on a boat." From the early 1980s producing partners Don Simpson and Jerry Bruckheimer became exemplary exponents of the high-concept philosophy with their films *Flashdance* (Adrian Lyne, 1983, US), *Beverly Hills Cop* (Martin Brest, 1984, US) and *Top Gun* (Tony Scott, 1986, US).

Analyzing industrial changes in Hollywood during the 1980s, Wyatt suggested that film marketing began to directly feed into production and aesthetic decision-making. Thus a particular project might be described in terms of its "elements" and "properties" – the hooks upon which a marketing campaign might be based, such as stars or spectacular special effects. Wyatt, in appropriately high-concept fashion, summarizes the strategy as "the look, the hook, and the book": the linking of market branding and film style, the use of elements to hook audiences, and the maximizing of synergies in ancillary markets through licensing of movie tie-in products such as novels and merchandising. Film style therefore became an important component of high-concept movie-making, as the "total look" of the film provided a way of differentiating between films in the marketplace. Perhaps the most famous example of integrated marketing is Steven Spielberg's blockbuster *Jurassic Park* (1993, US), where the theme park shown in the film was branded in the same manner as the film itself, and the merchandising depicted in the film was available for film audiences to purchase (Balides, 2000). Such films can be described as "commercial intertexts" (Meehan, 1991), integrating aesthetics with marketing opportunities, and conforming film form to the economic imperatives of Hollywood as a profit-making industry.

Movie Marketing Practices

The importance of marketing, in terms of success of a film, is like air to all of us. It is a crucial resource that you must be breathing from the beginning. The minute you

> start the process of deciding to make a film and you're communicating that vision to anyone, you're in the process of selling. If you don't understand that, you're not in show business. You're just not.
>
> – Peter Guber producer and former chairman and CEO of Sony Pictures (Guber, 2001)

> Lucas spent US$115 million to produce *The Phantom Menace*, Fox spent about US$50 million to make anyone who lived in the US know "Star Wars" was back. Fox also lined up deals for further merchandising and publicity. Toy-maker Hasbro paid a quarter of a billion dollars for toy rights; Pepsi agreed to spend US$2 billion to promote *The Phantom Menace* – and two future sequels – along with its soft drinks. *Star Wars: Episode 1 – The Phantom Menace* opened to a record US$28.5 million-worth of tickets on its first day, setting a new record. The twentieth century's final blockbuster was born. (Gomery, 2003: 72)

Marketing a film involves conceptualizing it as a brand. Often this brand may already have existing consumer recognition, as in the *Spider-Man* and *Batman* franchises or film sequels, which assume a familiarity based on the earlier films. For other films the function of marketing is to establish the film as a recognizable brand with strong audience appeal. Film marketing can be broadly divided into the following activities: (1) product marketing, advertising, and promotion; (2) market research; (3) publicity; and (4) ancillaries and merchandising. We will now briefly examine the first three of these in turn. The final category is dealt with in the later section on distribution and in more detail elsewhere in this volume in chapters 7 and 8, on video games and recorded music.

Product marketing, advertising, and promotion

Even before a large-scale project enters production, planning will have started on its marketing campaign. Indeed marketing may play a role in deciding whether a film is even put into production in the first place (see the market research section below). Friedman argues that marketing a film is "like a race, in that each discipline may start at different times, but all finish together, at the target, opening weekend" (2006: 284). For major studio releases, marketing and advertising strategies are formulated during pre-production and constantly revised throughout. The casting of the principal actors and other significant elements will determine marketing strategy. For instance the marketing campaign might focus upon a major star such as Julia Roberts or Brad Pitt, or a highly recognized narrative, such as the film adaptations of the massively successful *Harry Potter* books, or it might showcase spectacular action sequences or special effects, as in the *Matrix* trilogy. Brand recognition of studios is weak in Hollywood but, possibly uniquely amongst the contemporary studios, Disney and Pixar have been able to achieve recognition through their distinctive style of computer-generated animation, displayed in the family-oriented hits *Toy Story* (John Lasseter, 1995, US), *Finding Nemo* (Andrew Stanton and Lee Unkrich, 2003, US), or *Cars* (John Lasseter and Joe Ranft, 2006, US).

The starting point in developing a marketing campaign for a particular film is the formulation of a marketing strategy. This will involve reviewing the screenplay and production schedule in order to put in place arrangements for the creation of promotional materials, such as the shooting of a "making of" documentary, interviews with the principal actors and creative personnel, and publicity photographs from the set. Taglines are reproduced on posters, summarizing the basic concept of the film, for instance "In space no one can hear you scream" used for *Alien* (Ridley Scott, 1979, UK). The most important and costly element of a campaign is the creation of advertising trailers and subsequent buying of media space or "spots." This usually involves the employment of specialist outside boutique agencies. The aim of the trailer is to condense the film's highlights and showcase its elements, creating a narrative image of the film in the minds of audiences. The boutique agencies will produce a variety of trailers for cinema, television, and internet advertising from either the dailies or the rough cut of the film, if available. Usually different materials will be produced for different markets. Advertising appealing to a particular demographic, for instance, may run in niche media outlets, or different trailers may be produced for overseas territories. These will usually include a 90-second "teaser" trailer, often screened by cinemas many months before release, as well as a full two-minute trailer used for theatrical and television distribution. Trailers can cost upwards of $250,000, and between 20,000 and 30,000 prints are distributed to cinemas in the domestic market. Similarly key art for the graphics of the marketing material – the design that forms the center of all promotional material produced for the film and its print campaign – can cost around $200,000 (Marich, 2004: 10). Print advertisements usually include a striking image from the film or of its stars, and later may carry a favorable quote from a review by a critic as a form of product endorsement. Work will also be conducted upon a film website, often at a pre-production stage of the film, as this is now an important and cost-effective means of film marketing. Creating a launch website allows a potential audience to follow the production process, which can be especially beneficial if the film is a recognizable franchise such as the *Spider-Man* or *Star Wars* series, which already have significant and active fan bases. Film websites often also host exclusive promotional material such as downloads of behind-the-scenes footage, interviews, previews, games, posters, and other free promotional material that can be circulated amongst fans and spread "buzz" about the film.

The largest part of the promotional budget is the media spend – the amount of money paid to purchase media spots. The huge rise in spending on advertising in the last 20 years can be mainly attributed to rises in the cost of reaching a wide audience on network television, now costing up to $600,000 for a 30-second commercial during peak audience viewing times, such as the Thursday evening comedy slot on NBC (Marich, 2004: p. x). The cost of television advertising is measured in levels of gross rating points (GRPs), the level of audience per dollar reached. In a recent study on the effectiveness of film marketing spending it has been argued that the increased cost of television advertising reflects the decreased reach of the media networks due to audience fragmentation (Gilbert-Rolfe,

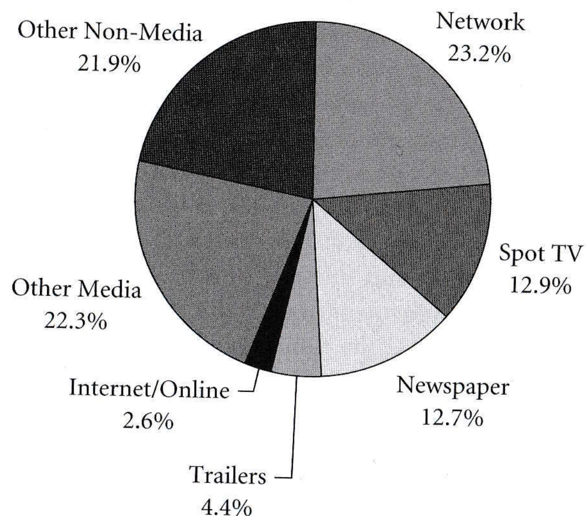

FIGURE 3.3 Distribution of advertising costs in 2005
Source: MPAA, 2005.

Merchant, and Moroian, 2003: 5). In 2003 Nielsen Media Research estimated the Hollywood film studios were the fifth largest spenders on advertising in the United States, paying a total of $3,472 million, of which over $2,500 million was on television, with the next largest spend, a surprisingly high figure of $546 million, on local newspaper advertising. According to Robert Marich (2004) an industry rule of thumb is that the creative costs of marketing are usually about five percent of the total media spend, hence an average $100 million major film will have a marketing budget of around $30 million, of which approximately $1.5 million will be spent on creating marketing materials and the rest spent on advertising spots. James Gilbert-Rolfe et al. (2003: 30) estimate that approximately 85–90 percent of the marketing costs are committed or spent prior to the opening weekend as a way of securing product recognition with audiences. The allocation of spending by the major studios on different media spots can be seen in figure 3.3.

The relative decline in box-office revenues compared to those from DVD and television also means that marketing strategies now conceive of films as potential franchises producing revenues over longer-term life-cycles. This leads to a willingness to invest larger amounts in marketing as a way of brand-building. The theatrical release for a film therefore also functions as an important advertisement for the film in other windows such as DVD and television sales, justifying a high media spend.

Market research

Market research assesses the opportunities and potential success of the marketing strategy for a particular film, and includes previewing, market analysis, and tracking

surveys. It will often "test" marketing material, for instance by asking a sample audience to respond to a particular advertising campaign idea or measuring their recall of a trailer. Marich (2004: 26) divides market research into the following practices: (1) concept testing, which evaluates reactions to a film idea and is fairly rare; (2) positioning studies, which analyze a script for marketing opportunities; (3) focus groups, which probe viewers' opinions about a film in small groups prior to release; (4) test screenings, which involve the previewing of films prior to theatrical release; (5) tracking studies, which gauge (often by telephone polling) an audience's awareness of a film on a weekly basis prior to and during theatrical release; (6) advertising testing, which measures responses to marketing materials such as trailers and television advertisements; and finally (7) exit surveys, that measure audience reactions after seeing the film in the cinema. Market research also tends to divide audiences into what is known as "quads" – a quadrant dividing audiences into male/female and aged under or over 25.

Like advertising, the studios usually outsource market research to specialist firms. There are three main market research companies serving the Hollywood studios: the National Research Group (NRG, founded in 1978 by Joe Farrell and part of VNU who also own Nielsen Media Research), MarketCast (part of Reed Elsevier) and Online Testing Exchange (OTX). It is not unusual for a studio to spend over $1 million on market research for a single film, a relatively small investment when $30 million may be spent on advertising and another $60 million on production. Test screenings have garnered the most media attention of the above methods, not least due to well-publicized disputes that sometimes occur when a film tests "badly" and where the creative talent is requested to change the film. For example, the endings of both *Fatal Attraction* (Adrian Lyne, 1987, US) and *The Interpreter* (Sydney Pollack, 2005, US) were changed due to negative feedback from testing. A more recent problem, compounded by the internet, has been the leaking of preview results. If exhibitors hear of poor results they are less likely to book the film for as many screens, meaning it has less chance of being successful. Notoriously the *Ain't it Cool News* website run by Harry Knowles acquired a reputation for breaking news about upcoming Hollywood films in advance of their release. The site came to public attention in 1997 when it posted negative reviews from preview screenings of *Batman and Robin* (Joel Schumacher, 1997, US), claiming to have obtained test screening data from industry insiders. The film performed badly at the box office, leading to speculation about whether the leaked reviews had damaged ticket sales. By contrast *The Blair Witch Project* (Daniel Myrick and Eduardo Sánchez, 1999, US) is often cited as an example of a film that generated huge box-office revenues without any major marketing spend, relying instead on positive word of mouth and an ingenious internet campaign (which included leaking trailers to *Ain't it Cool News*). Its domestic box office of $140.5 million was very impressive against a much-publicized budget of $35,000, although the marketing spend to achieve this probably did eventually run into many hundreds of thousands of dollars.

Publicity

Whilst promotion is the paid-for marketing coverage bought by the studios to keep the product in the mind of the customer, publicity refers to media coverage for which no payment is made. Reviews, interviews, and suchlike do not usually involve a direct payment to the media, and are therefore less directly controlled by the studio and, arguably perhaps, more trusted by audiences. Not that such publicity is entirely independent of Hollywood, however. Studios have long used publicity departments to manage and regulate media coverage of their products, and their ability to control access to stars gives them a degree of editorial control and gatekeeping power (able, for instance, to refuse interviews with unsympathetic journalists). One famous early example of studio manipulation was the much-mythologized publicity stunt that took place in 1910 around the apparent "death" of the star Florence Lawrence. It is claimed that Carl Laemmle, who had lured the star from Biograph to the Independent Motion Picture Corporation (IMP), started a rumor about her death in a car accident. After gaining worldwide media attention he placed an advertisement in *Moving Picture World* announcing "We nail a lie," denouncing the story and including a photo of Lawrence with information about her new film.

Whilst such faked stories announcing the death of stars are rare, Hollywood has always worked closely with the media in order to manage and court publicity. This is unsurprising, as the studios know that carefully placed "exclusives" with film stars are an extremely valuable and cost-effective means of bringing audiences into the cinema. For newspapers, magazines, and television shows such "exclusives" are a reliable means of increasing their own audiences, hence publicity is often of mutual benefit assuming negative coverage can be avoided. Television chat shows, interviews, premiere appearances, and the like are all ways in which star profiles can be leveraged in support of film marketing, and often amount to world tours in support of a particular film. One staple of film publicity is the press junket. This is a very cost-effective way of garnering media coverage and involves the principals (usually the stars and director) being interviewed by a large – often international – assembly of journalists over two to three days in a location such as a prestigious hotel. Junkets tend to involve a series of heavily regulated interviews, where ground rules are stipulated and questions about the film on release are encouraged.

Most major films also have a unit publicist, an on-site publicity manager who is available during the making of the film. Material such as behind-the-scenes footage, interviews with cast and crew, filming of special effects construction, stills of set design, storyboards, and so on are all compiled during the making of the film, as these are not only used for electronic press kits but also for supplementary material for website and DVD promotion. According to Friedman a half-hour behind-the-scenes show can cost from $75,000 to $350,000 (2006: 286). Traditionally the publicity department arranged for still photography of the film production. Whilst this is still a key activity, their role has dramatically widened to become a form of media manager. It is not uncommon for television film review shows, such as the BBC's long-running *Film* series in the UK (which started in 1972), to report from

the set of a film whilst in production, helping to create "buzz" about a film and reaching a large television audience at negligible cost.

Other important components of film publicity include film reviews and awards. Film journalists are invited to special previews of the film, and if their reviews are positive, quotes will often feature in subsequent advertising. It is unclear whether negative reviews are able to seriously damage a film's commercial prospects, but it seems likely that this may depend upon the kind of film. For example critics are often seen as more influential over the success of arthouse films than they are for blockbusters, whose audiences are thought to take less notice of reviews. Nonetheless Hollywood publicists build close relationships with film journalists and use the lure of access to creative talent and lavish film premieres as a way of wooing critics. Finally, awards given to talent at ceremonies – most significantly the annual Academy Awards, but also the Golden Globe Awards and the Cannes film festival – are all prized by the studios as they both bring artistic credibility and prestige to the studio and also usually translate into substantially increased revenues in all windows (Wasko, 2003: 209–10).

Distribution and Ancillaries

> The bulk of our business is distribution. Probably three quarters of our employees are involved in generating revenues. Out of the other quarter, most are involved in counting revenues, and then we have about twelve people who are involved in actually making movies. The bulk of our business is financing, distribution and accounting. We have a huge staff that does nothing but license our pictures in all markets around the world.
> – Strauss Zelnick, former President and Chief Operating Officer of 20th Century Fox (Zelnick, 1996: 21)

> Having a blockbuster film allows you to charge more for almost everything else you do that year, because of the way movies are packaged in with other business deals and other films. So the hits are really the locomotives that drag the rest of the train down the tracks. (Gerbrandt, 2001)

As we have seen, during the last 30 years the major Hollywood studios have sought to maintain indirect control over film distribution networks and adopted a saturation release strategy as the most effective way of establishing brand recognition, minimizing their risk and maximizing their revenues. Asu Aksoy and Kevin Robins (1992) have described distribution and finance as the "critical hubs" of Hollywood, so important are they to the industry. Virtually all films that are widely distributed are distributed through the major studios. Although about three-quarters of US productions are "independent" in the sense that they are not financed by the majors, these films also need to be distributed by the major studios if they are to gain access to marketing and distribution techniques such as a saturation release and high-budget media advertising. Independent producers often view a distribution deal with

a major studio as a prerequisite to obtaining financing for production, and many independent production companies obtain such agreements by doing pre-production development for the majors, who often then have "first-look" options on new projects. Furthermore acquisitions are frequently made of films that are completed and produced outside of the studio and then distributed by the majors. These are termed "negative pick-ups" and comprise a substantial part of studio output, often outnumbering the studio's own production slates and offering an attractive risk-sharing alternative to in-house productions.

The studios' distribution divisions are highly profitable in their own right. The charges levied by Hollywood distributors, including upon their own films, are nearly always far more lucrative for the studios than the direct profits returned from the pictures themselves, although they are extremely coy about revealing exact figures. To understand why this should be the case we first need to explore the process of film distribution. A simplified description is as follows: producers make a deal with a distribution company (usually a division of a major) to book their film in cinemas. This will usually involve a run of two to six weeks with a sliding scale of payments made to both the distributor and exhibitor (the theater) and a minimum guaranteed to the former ("the floor"). The exhibitors deduct the "nut" from the weekly "gross" (box-office receipts) to pay towards the cinema's weekly overheads, although they primarily rely upon massive mark-ups on soft drinks and confectionery for their revenues. The distributors of the film collect the "rental" receipts (box office minus the nut and minus the sliding percentage for the exhibitor) and collect a distribution fee charged for releasing the film. Major distributors then receive a substantial percentage of the gross, usually starting at around 60–70 percent in the first week and falling to 30–40 percent later, when the arrangement tips back in favor of the exhibitor. The distributor also deducts marketing costs and overheads such as interest charges. Finally, fees for any gross participants (personnel whose contracts give them a percentage of the gross box-office revenues) are deducted, and the remaining revenue is returned to the producer. These are termed "net profits," and from these the producer can theoretically pay net profit participants. However, as we shall see, in theatrical release films rarely declare any "back-end" net profits due to the many "off-the-top" deductions listed. This does not mean, of course, that the Hollywood studios receive no profit, only that the revenues made from the theatrical release are primarily channeled back to the studio in the form of distribution charges, an accounting sleight of hand.

In addition to the theatrical release, the major Hollywood studios – as the above quotes by the industry insiders suggest – generate substantial additional revenues through ancillary markets. According to a recent study, domestic theatrical box office grosses now represent less than 15 percent of the total revenues, with the remaining 85 percent from these so-called "ancillary" markets (Gilbert-Rolfe, Merchant, and Moroian, 2003: 65). The word ancillary is thus somewhat misleading, as ancillaries can include the international theatrical market, DVD and video, pay television and network syndication, and further windows for films and related spin-off products. As table 3.3 shows, in the case of the hugely successful *Spider-Man*

TABLE 3.3 Counting the revenues of the *Spider-Man* franchise ($m)

		Spider-Man	*Spider-Man 2*
Production budget		139	200
P&A budget			
	US	50	57
	estimated worldwide	100	110
Box-office gross			
	US	403.7	373.5
	worldwide	821.7	783.5
US TV rights			
	Fox, TBS/TNT	60	
	Fox, FX		50
Related tie-ins			
	toy sales licensing revenue split with Marvel	109	
	marketing deal with Burger King		40
US DVD revenue			
	to July 2004	338.8	
	to end 2004		162
US VHS revenue			
	to July 2004	89.2	
	to end 2004		11

Source: Nash, 2005, 2006.

franchise, the success in theatrical markets led to a "tent-pole" effect, supporting revenues from other windows, including merchandising and television rights. Put simply, the success of the films in theaters directly fed their success in other markets. The significance of DVD as an important source of income is evident in the table, and revenue from windows such as DVD sell-through and television rights continue to accrue well into the future, returning profits to the studio and gross participants of the film.

This strategy of releasing a film over time across different media windows is known as "windowing." Traditionally it follows a predetermined sequence – the theatrical release is followed by licensing to pay cable and satellite distributors, home video/DVD, and television networks. The timing of these windows is important, and marketing strategy will be closely linked to the timings of the various releases. Recent trends, however, have closed the time difference between windows, in part an effect of industry attempts to combat illicit internet downloading of films. Industry commentators have speculated about whether in the near future the major studios will adopt similar models for film distribution over the internet, with the introduction of new payment mechanisms (Silver and Alpert, 2003; Taylor, 2006). Recent innovations in the internet distribution of music, such as the commercial

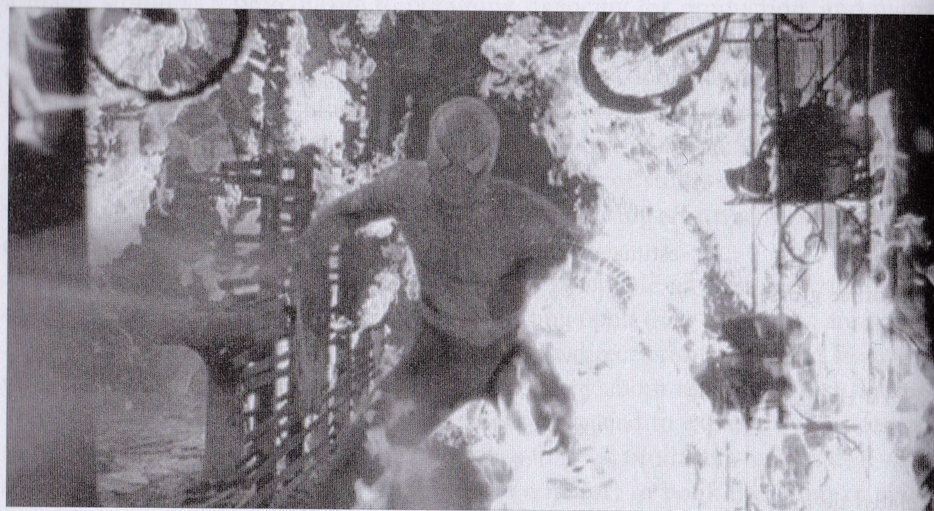

FIGURE 3.4 *Spider-Man* (2002), reaping the revenues across all exhibition windows. Produced by Ian Bryce and Laura Ziskin; distributed by Columbia; directed by Sam Raimi

success of Apple's iTunes music store, and the widespread take-up of broadband internet access in the US, suggest that similar mechanisms for the downloading of films by payment transaction will become increasingly important as sources of revenue for the Hollywood studios in the near future.

Distribution and Creative Accounting

I'm not interested in box-office and I never have been. I'm interested in profitability.
– Sherry Lansing, former Paramount Chairman and CEO (cited in Epstein, 2005: 125)

To understand why most films do not make any net profit, yet Hollywood thrives, we need to consider Hollywood's so called "creative accounting" in more detail (Daniels, Leedy, and Sills, 1998). As we have seen, net profits give little indication of the overall profitability of a film. The accounting amortization and profit-participation procedures adopted during the last two decades mean that the studios have an incentive to reinvest (and add these charges) so revenues can continually be offset against ongoing costs, thus avoiding tax and pay-outs to net participants. In an astute analysis of financial accounting in the film and television industries, Harold Vogel has shown, by comparing the balance sheet of *Who Framed Roger Rabbit?* (Robert Zemeckis, 1988, US) with that for *Commando* (Mark L. Lester, 1985, US), that a higher-grossing film may in fact make a "net loss" while a film which sold far few tickets may record a profit (2001: 132). Despite grossing over $200 million in worldwide theatrical revenue, television rights, and home video, the former film declared a net loss of nearly $20 million after distribution

fees, marketing costs, production costs, interest on capital, and gross participations and deferments were taken into account. The second film, despite grossing only $65 million, actually made a $2.7 million profit, due to its much lower participation and deferments costs and a lower interest on capital due to its smaller budget. As revenues are top-sliced so early in the accounting process, then "failures" are not uncommon. However due to lucrative "first dollar gross" deductions by distributors, these failures can be extremely profitable for the distribution divisions of the major studios.

A more recent example of a "successful failure" is *Forrest Gump* (Robert Zemeckis, 1994, US), which despite grossing $382 million domestically declared a reported net "loss" of $62 million (Pfeiffer, Capettini, and Whittenburg, 1997: 320). The calculations for this "loss" were as follows. From $191 million in gross receipts (after the exhibitor deductions of 50 percent of revenues) the distributor Paramount charged a distribution "cost" (that included P&A) of $67.2 million, plus a further distribution fee of 32 percent of receipts (another $61.1 million) and interest overheads on the distribution cost of 10 percent (another $6.7 million). Gross participants (principally star Tom Hanks and director Robert Zemeckis) received 16 percent of gross revenues at $30.6 million, and the studio deducted an overhead of 15 percent or $14.6 million as well as an additional interest charge for financing the film of $6 million. This left a loss of $62 million once the production (negative) costs of $66.8 million had been deducted. The film therefore declared a net loss despite returning substantial revenues to the studio through distribution ($128.3 million) and finance ($21.3 million). This brings to mind Arnold Schwarzenegger's speech at the 1998 Academy Awards, where he joked that so extraordinary was the box-office success of *Titanic* (James Cameron, 1997, US), the highest-grossing film of all time, that even the Hollywood film industry could not believably argue that it had made a loss.

The relationship between distributors and exhibitors in terms of box-office revenue also gives studios a far larger share of box office in the early weeks of release

FIGURE 3.5 *Forrest Gump* (1994), a "successful failure." Produced by Wendy Finerman, Steve Starkey, and Steve Tisch; distributed by Paramount; directed by Robert Zemeckis

and therefore incentivizes a high marketing spend and wide saturation release. Furthermore, the power of high-profile creative talent creates an upward push on costs, as the gross participants, high distribution costs, and overheads strip out revenues and prevent films from ever moving into net profits, despite being profitable ventures overall. As Vogel comments:

> The existence of profitable studio enterprises in the face of apparent losses for the "average" picture can be reconciled only when it is realized that the heart of a studio's business is distribution and financing and that, therefore, the brunt of marketing and production-cost risk is often deflected and/or transferred to (sometimes tax-sheltered) outside investors and producers. (2001: 97)

Understanding Hollywood's profitability requires a close scrutiny of its arcane accounting procedures and costs, such as this practice of amortizing costs against receipts over time. If gross receipts are misleading, "net profits" are even more so, merely reflecting what remains of gross receipts after deductions of the distribution fees, expenses, taxes, overheads, interest, negative costs, deferments, all gross participations, and a number of other charges have been deducted. In the *Art Buchwald vs. Paramount* legal case (1990), the film *Coming to America* (John Landis, 1988, US) grossed $350 million but declared a net deficit, leading to legal action by writer Art Buchwald. During the case the star Eddie Murphy famously referred to net participation as "monkey points," so unlikely were they ever to declare a profit. The actual profitability of major films is thus almost impossible to calculate, as it is necessary to untangle all charges and revenue streams (present and deferred) that flow to studios, stars, distributors, and all other parties, hence the common saying within the industry that net profit is that which is left to be apportioned after everyone has participated in and profited from the grosses.

Conclusions

This chapter has described contemporary Hollywood's marketing and distribution activities. Identifiable trends over the last two decades include an escalation of spending on marketing and the normalization of a saturation release schedule that allows only around six weeks for theatrical release. Marketing positions each film in order to attract an audience in the opening three-day weekend and avoid being forced out by other products, hence the symbolic significance of the opening three-day weekend box-office figures. In terms of revenues the theatrical release has been displaced by other windows as Hollywood's core sector although, as we have seen, its precise financial contribution depends largely upon how we calculate profitability. Cinema exhibition retains an important price-setting and marketing role for these windows and is the most significant determinant of their success. Extensive media coverage of Hollywood means that the opening box-office performance is also often seen as a judgment about popularity and quality, meaning that opening weekend grosses also convey word-of-mouth information to consumers. Thus

theatrical box office may in part be exactly that: theater, the "show" of Hollywood's business, a marketing platform for a product that reaps its major profits in other windows such as DVD, pay television, and network syndication over long periods of time.

The preceding discussion has also stressed the need to conceptualize Hollywood as a *rights* industry. The major studios are conglomerates that maintain their economic power primarily through their access to and control over global distribution networks, where these rights are exploited (Miller et al., 2005). As much as Hollywood makes movies, Hollywood is in the business of acquiring, licensing, and regulating media rights. Strategic alliances with international distributors, and their own distribution divisions overseas, enable the major Hollywood studios to sell each film at a different price and maintain arm's-length control over international film markets by regulating the supply and timing of their products. Due to both geographical and technological changes, such as the consumer adoption of DVD and the opening of new markets (for example, China), Hollywood's content libraries have dramatically increased in value in the last two decades. This allows the risk of current productions to be continually offset against the flow of revenues from their back catalogs. As revenues from the international box office often now exceed domestic box office, and revenues from ancillaries often exceed box office itself, control over distribution – whether in cinemas, on television, or on the internet, domestic and international – is and will continue to be of primary importance to the Hollywood film industry for the foreseeable future.

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