

The Business of Film



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Week 1: The value of film

Introduction

The film business aims to make money, just like any other business. However, it's also an important cultural aspect of our lives, and a key part of the creative sector.

The usual norms and expectations of a business are sometimes tempered by other considerations. This free course, *The business of film*, will highlight particular areas of business learning relevant to film and the creative sector as a whole, and provide pathways to further information and study.

Throughout this course, you'll see video clips with Bharat Nalluri. Bharat is a film and television director, whose films include *Miss Pettigrew Lives for a Day* and *The Man Who Invented Christmas*, and he's worked on shows such as *Spooks*, *Life on Mars* and *Hustle*. He also directed the film that's used as a case study in this course, *Spooks: The Greater Good*. Bharat will meet you at the beginning of each week to introduce the different elements of the course. You'll meet several other key figures in the UK film industry, who play roles from the very beginning of the film-making process through to the end product and its distribution and sales.

In order to understand the film business, it is important to understand some key business concepts and perspectives within the film industry. How is value created in the world of film? What are the different stages of a film's lifecycle? How are films paid for? Who is involved in the film production process? Watch the first clip with Bharat now, before you move on to the first week's materials.

Video content is not available in this format.

[Video 1 Bharat Nalluri talks about film-making](#)



1 Cultural and economic value of film

Film is part of the creative sector – a broad and often loosely defined area which represents a relatively fast growth sector of the economy (certainly in the UK). Along with other creative art forms, film also occupies an important place in cultural life.

To begin this course, think about film's importance as both a cultural and a commercial activity, and how it compares in this respect with other activities in the creative or cultural sector.

Activity 1 Relative value in the creative sector

Allow about 10 minutes

In Figure 1, examples of different types of creative industry are listed to the right of the 'target'. The centre of the target represents the least commercial activity. As you move outwards, the coloured rings represent increasingly commercial activity. Decide where on the target you would place each of these industries.

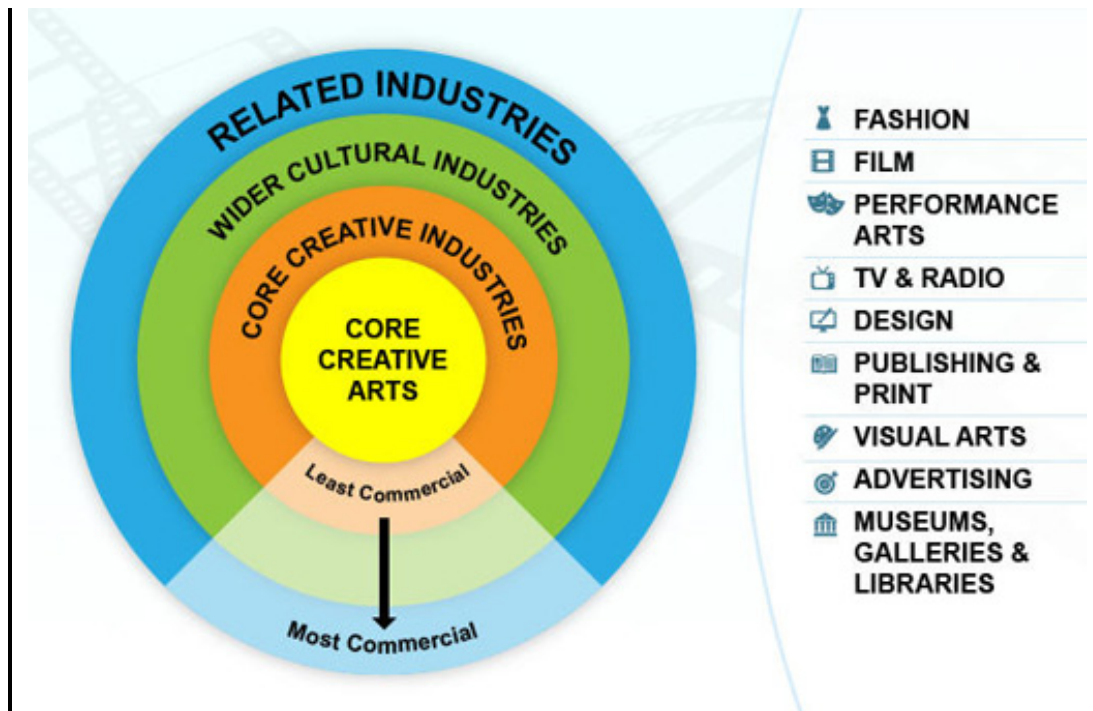


Figure 1 How commercial are creative activities?

Note down which colour ring you would place the industries in. You can use the boxes provided to note down some ideas, or you could draw your own version of the diagram if you prefer.

Here are some questions you might reflect on during this exercise:

- Do you think film is primarily a cultural artefact?
- Do you think film is primarily a commercial proposition?
- Do you think film should be both?
- How does film compare to other creative activities in this regard?

Fashion

Provide your answer...

Film

Provide your answer...

Performance arts

Provide your answer...

TV and radio

Provide your answer...

Design

Provide your answer...

Publishing and print

Provide your answer...

Visual arts

Provide your answer...

Advertising

Provide your answer...

Museums, galleries and libraries

Provide your answer...

Answer

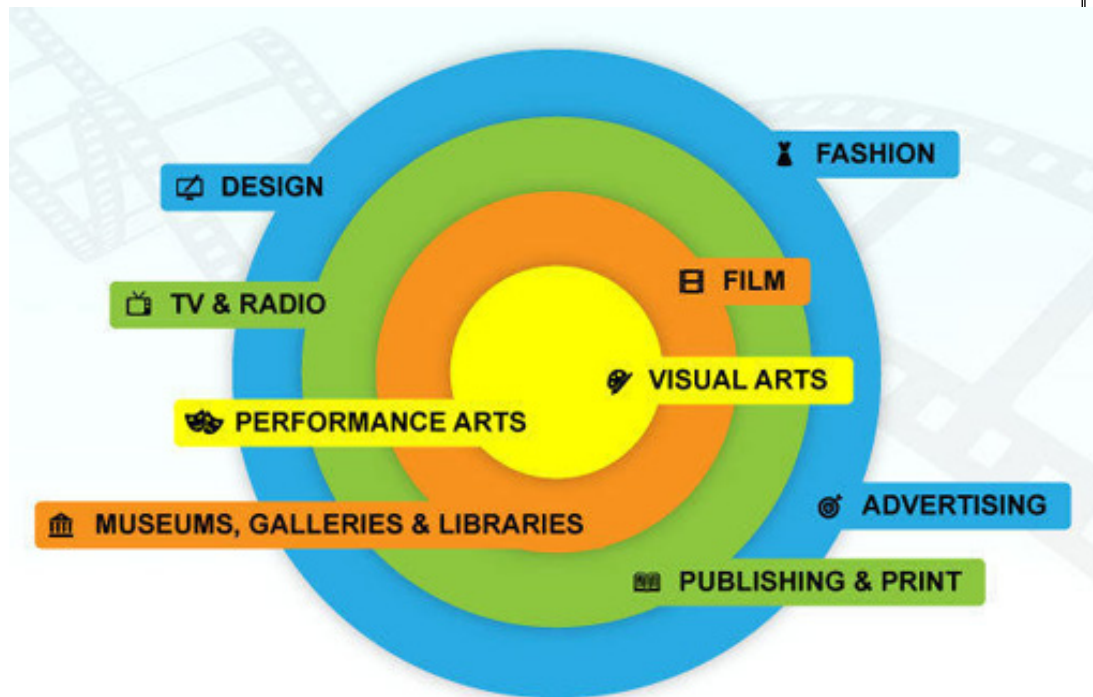


Figure 2 Throsby's view of the creative sector

This is how David Throsby aligned those industries. David Throsby is an economist with specialist interests in the economics of the arts and culture. The diagram above reflects his attempt to make sense of this debate. He bases his point of view on a definition of value that encompasses cultural value (Throsby, 2001).

1.1 What is the cultural value of film?

When it comes to public expenditure or assistance in the arena of arts and culture, including film, policy-makers need to be able to measure and articulate the 'value' of their intervention. As you just saw in Activity 1, David Throsby's definition of value encompasses cultural value.

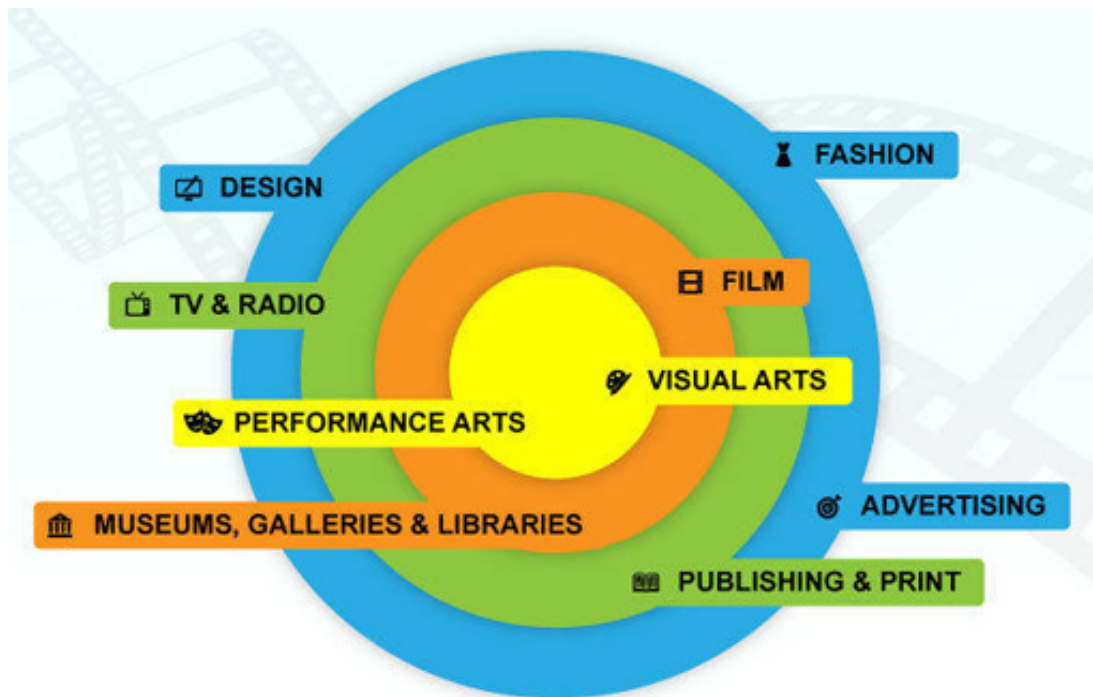


Figure 2 Throsby's view of the creative sector

In the UK, the British Film Institute (BFI), and its predecessor the UK Film Council, have published a number of reports on the economic and cultural value of film. The 2015 report on economic impact found that film contributed £3.67 billion to the UK economy. Studies on cultural impact have shown how films, apart from being popular leisure activities, carry powerful personal and political messages for viewers, give new insights into other cultures, and help reflect our own cultural identity back to ourselves.

If you're interested in finding out more about this from the BFI, and reading about why governments might want to support film and similar creative endeavours, these links are in the Further Reading section at the end of the week. Any week of the course with relevant further resources will have an appendix collating links and references that you may like to use to extend your learning.

1.2 Value and the creative and cultural industries



Figure 3 What is culture's relationship to value, and the consumer market?

Within cultural industries, goods and services are largely symbolic. They are based around the communication of ideas, rather than functional value.

Activities that produce films are part of the cultural industries. Those such as fashion design, advertising and architecture, where there is symbolic content, but where functionality comes first, are not considered to be part of the cultural industries, but **are** part of the wider creative industries.

So what is culture's relationship to value, and the consumer market? There is a long-standing debate about culture as a public good, and the uplifting role of art and its civilising effect on society. Does treating creative cultural production as a commodity allow business and management to encroach on cultural life?

David Throsby (2001) presented a definition incorporating the issue of 'use value'. This brought in consideration of both the economic and cultural sides of the cultural industries. He argues that:

1. the activities of the cultural industries involve some form of creativity in their production
2. the cultural industries are concerned with the generation and communication of symbolic meaning
3. their output includes some form of intellectual property.

Individual productions achieve this to varying extents, but these industries should properly be defined within the cultural sector because generating and communicating meaning is the main output of each.

Economic production is also the production of value. As the practices of business and markets take hold, might the non-financial value of 'culture' and 'art' be lost?

1.3 Why should we support film?

This video clip features Ben Roberts, who is responsible for the Film Fund at the BFI. Ben discusses the BFI's support for film in the UK.

While you watch the clip, consider the notion of the cultural value of film. How much consideration should this value be given across the wider film industry? Should this be a factor when making decisions and taking action, and if so, how should this be done?

Depending on your particular knowledge and experiences, you may want to think about how this compares to other countries or other creative industries.

Video content is not available in this format.

[Video 2 Ben Roberts, BFI Film Fund](#)



Ben describes one example of how public money is used to support film in the UK. If you're not in the UK, it's more than likely that the country where you work or live will have such policies too. Many governments all over the world operate a mix of public funding and incentives designed to promote film. This topic will be explored in further detail later in the course during Week 4, which looks at how films are financed.

2 Why film matters to the economy

The graph below (BFI, 2014, p. 180) shows the amount of money spent in the UK on the production of feature films over a recent 20 year period.

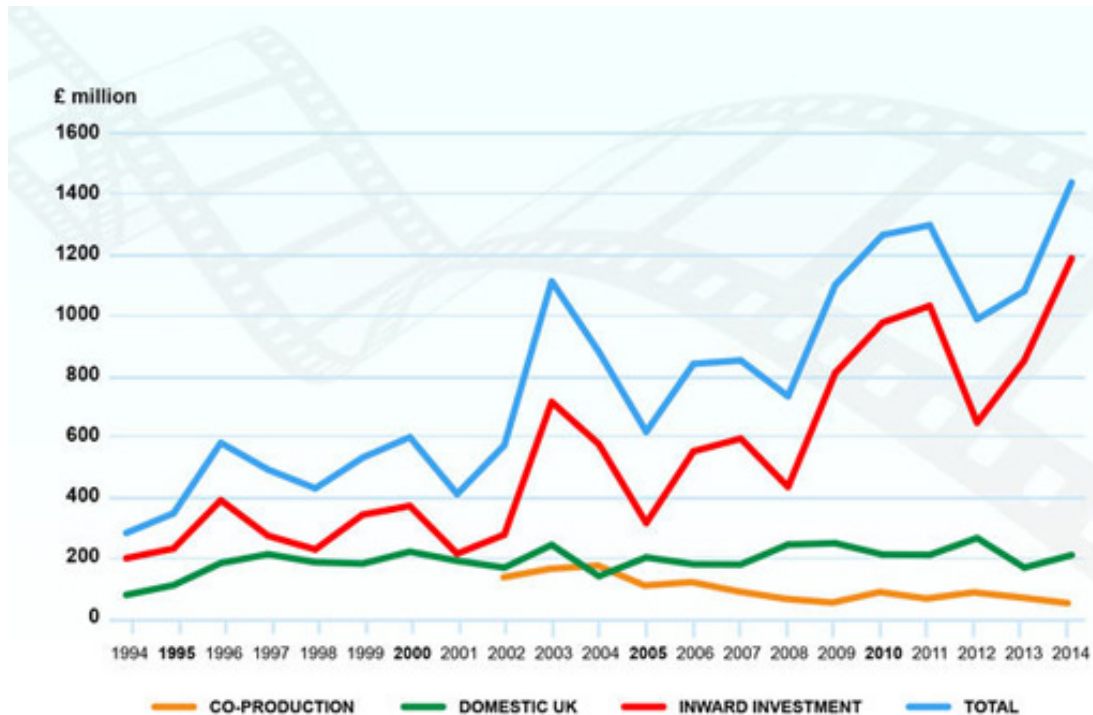


Figure 4 UK spend of feature films produced in the UK, 1994–2014

You can see that UK spend of domestic UK films (the green line) has been reasonably constant over this example period. The UK makes many independent films that are identifiably British, such as *Paddington*, *The Imitation Game*, *Mr. Turner*, *Pride*, *Philomena*, *I, Daniel Blake*, *God's Own Country*, and *The Favourite*.

Many of these films perform well during awards season, obtaining BAFTAs and even US Academy awards. This is, naturally, a source of pride for the UK, and one of reasons that so many Hollywood stars are British.

Another increasingly important aspect of film and screen production is tourism. Film tourism – visiting a place that features in a film or television programme – is becoming ever more popular. Approximately £840 million of tourism spending by overseas visitors in 2013 was attributable to film-induced tourism (Olsberg SPI, 2015).

Film is often regarded as a driver of the other creative industries, in that it is high profile and often makes use of the highest design and creative skills. In the UK, film was the first creative industry to be supported by film incentives in recognition of its importance. Now fiscal incentives are available for high-value television, animation, games and for certain theatre productions.

So all is well for film in the UK?

Well, yes and no. Like in most other countries in Europe and around the world, American films take most of the money at the UK box office. UK independent films took only 10% of

the UK box office takings in 2018 (We Are UK Film, 2018). There is no large British film production or distribution company based in the UK. American films distributed by American distributors take most of cinema-goers' money and the profits belong to the American-based Hollywood majors (such as the so-called "[Big Five](#)"). Digital technology makes it possible for large global online firms to distribute worldwide, and again, most of these companies – Netflix, Amazon, iTunes/Apple – are US-based.

Does all this matter? Maybe. Maybe not, as long as audiences get the mass entertainment they want and there are some British films in our cinemas and opportunities for British talent.

However, it's also worth bearing in mind the fragile balance between culture and industry components of film. The industry has a strong reliance on public funding and the extensive regulation framework that accompanies this. There is also a weak relation between the quality of a film and the price of a ticket (which remains stable regardless of production costs or demand).

In other words, films need to achieve critical mass to be profitable (so-called 'blockbusters') and to offset the costs of less lucrative productions. Risk has always been an inherent aspect of film-making, and for many years, the industry's main focus has been on developing strategies of control. One way of dealing with risk is spreading out fixed costs across larger international markets.

Before you move on, take another look at the graph above. You'll see that one line closely follows the line for total UK spend – inward investment.

2.1 Money spent by inward investment films

UK spend of inward investment films has varied dramatically. Inward investment films, according to the BFI, are those films 'substantially financed and controlled from outside the UK'.

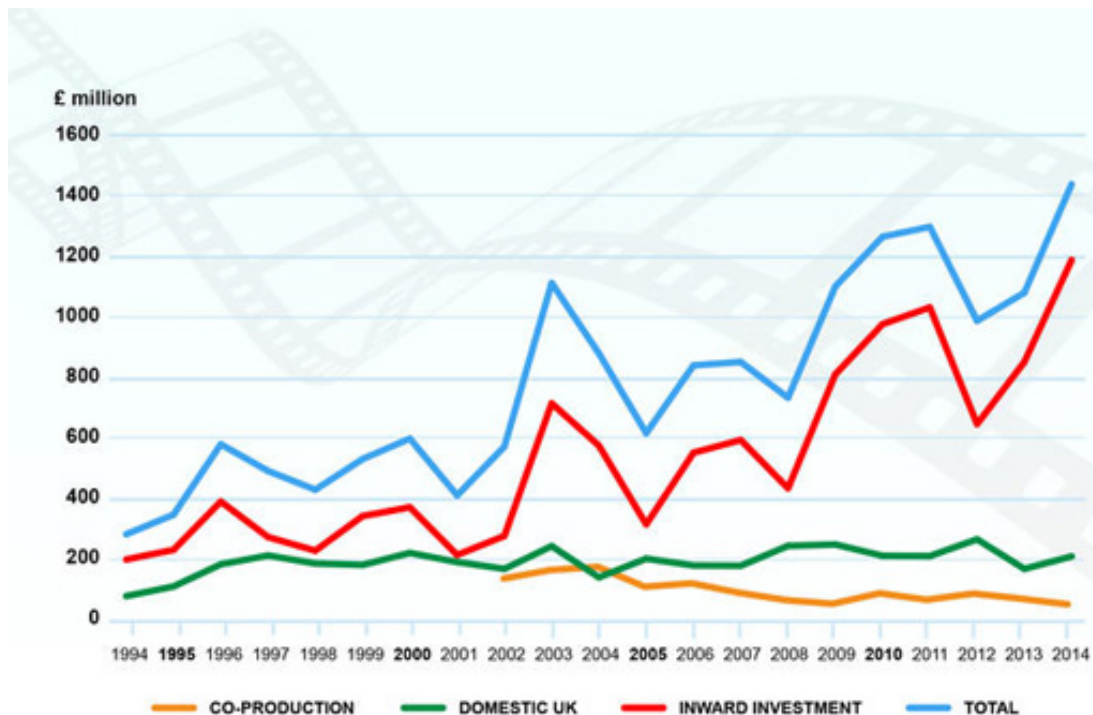


Figure 4 UK spend of feature films produced in the UK, 1994–2014

Most of these films are major US studio pictures attracted to the UK by script needs and UK fiscal incentives, which are among the more generous available internationally. Another important factor is the US dollar to UK pound exchange rate. When the pound is strong, it increases the costs of production in the UK. When the pound is less strong, UK production costs are cheaper in dollars.

In order to qualify for the UK fiscal incentives, films have to get sufficient points on the UK's cultural test and so be 'UK qualifying'. Examples of UK qualifying inward investment films are the seven Harry Potter films and the James Bond franchise. These have an obvious British nature but are inward investment because they are financed by US studios. Other UK qualifying inward investment films which might be surprising are titles including *Gravity*, *The Dark Knight Rises*, *Captain America*, the *Star Wars* sequel trilogy and *Solo*, *Justice League*, *Fantastic Beasts 2*, *Mission: Impossible – Fallout*, *Artemis Fowl*, and *Detective Pikachu*.

You can see from the graph why film is so important economically to the UK, and the importance of inward investment to that impact (the red line). In the most recent period shown in the graph, of £1.4 billion of production spend, 85% was due to inward investment.

This degree of production spend helps support a multitude of film companies including equipment rental firms, companies providing studios and shooting stages (such as Pinewood Studios), visual effects (VFX) companies and picture and sound editing companies.

2.2 The benefits of inward investment

Ben Roberts talks about the benefits to the whole industry of inward investment.

Video content is not available in this format.

Video 3 Ben Roberts talks about inward investment



In addition to the BFI Film Fund, which Ben runs, there are two other very important public service organisations that provide much of the support to British independent film-making. They are [BBC Films](#), the film arm of the BBC, and [Film4](#), the film arm of Channel 4.

These organisations, like the BFI, have funding for development and production. You will be learning more about their activities later, but in the mean time you might want to take a look at their websites.

2.3 Should we protect home-grown production?

Alex Hamilton is Managing Director of a film distribution company, and you'll see much more of him during the course. In this video he argues that there is a natural capacity limit for British film-making that is purely home-grown. There are only so many resources and so much money available.

Video content is not available in this format.

[Video 4 Alex Hamilton talks about inward investment](#)



The fiscal incentives offered in the UK to film production are generous. In order to qualify for such tax relief, a film is scored in a test designed to see whether it qualifies as being a British film.

You might think that it is obvious what is meant by a 'British film', but it's not as simple as that. The term encompasses a much wider range of films than you might imagine.

A film such as *Gravity* qualifies as British, despite its global, US studio credentials, because UK post-production played a significant part in its production. In addition to UK-specific criteria, the test is heavily influenced by European Union (EU) regulation and therefore, in certain aspects, is not just about the UK.

There is a broader cultural measure: subject matter and lead characters can be British, or from any country from the EU. Similarly, a film can qualify on the basis of its language – any EU indigenous language qualifies, including English.

3 Thinking about the value chain

In the film industry, the term 'value chain' is used to describe the series of steps that run from the first creative spark that inspires the film-makers to begin the project, through to the end of the commercial life of the completed feature film. The same term is used in a slightly different way to help analyse business processes in many industries.

The concept of the value chain will be referenced throughout this course, so it's an important idea to get familiar with.



Figure 5 The stages of the film value chain

Activity 2 Stages of the value chain

Allow about 5 minutes

To get you thinking about this, take a look at the main stages of the film value chain in Figure 5 above – there are seven of them randomly displayed:

- distribution
- concept origination
- development
- finance
- creative packaging
- production
- exploitation.

Take some time to think about what the correct chronological order should be to create and deliver the film. Note down your ideas in the box below.

Provide your answer...

Discussion

As you might expect, there is more than one way to describe the value chain, so there is some flexibility involved. Also, not all of these stages will take place for all films.

In general, the film producer is the one film-maker that accompanies the film on its entire journey through the value chain until it is safely in the hands of the distributors. In many ways, this course will give you a producer's perspective on the film production process.

3.1 The film business value chain

Figure 6 is a representation of the film value chain. This is a summary of a very complicated process.

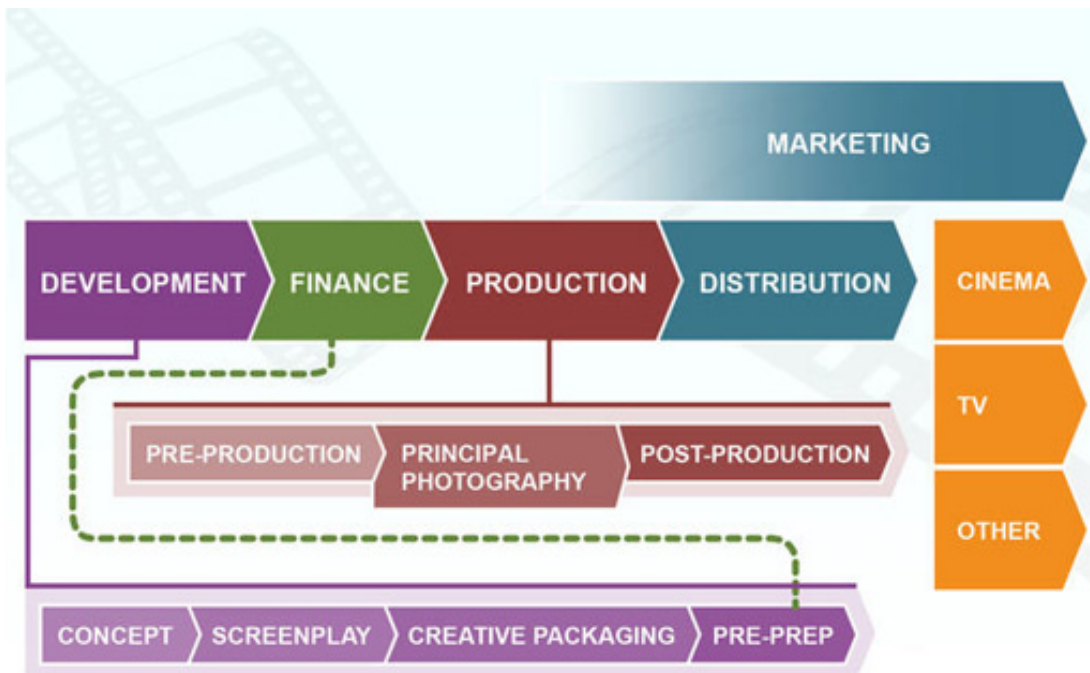


Figure 6 A representation of the film value chain

This chart is not definitive, but it highlights the different stages in the creation and consumption of an independent feature film. Terminology may vary, and stages can be broken down differently.

Here is some closer explanation of these principal stages:

Development: This is a crucially important process in its own right, which you'll learn more about next week. A lot of effort goes into getting a film idea and script right, before the project 'goes to market' to be financed.

Finance: In the world of independent film, in general, each film is financed on its own terms and in its own way. Major studios are able to apply their own funds or secure long-

term investment for film funding, so the finance process is not such a concern for them, but in the world of independent film, finance is the most difficult stage.

Pre-pre-production (pre-prep): Note the last development stage, with a dotted line relationship to finance. It is called pre-pre-production and refers to a very difficult stage in the life of some films that are working under tight timeframes.

The film is not yet officially financed. However, money needs to be spent in order to secure key cast and crew, and start to find locations, and so forth. Someone needs to fund pre-prep, but this is a highly risky investment, because the film might collapse at the last minute.

Production: In some ways the simplest part of the chain. Though it has its own risks and uncertainties, it is a very established 'industrial' process. It is divided into pre-production, the official 'prep' period, principal photography, when the camera is rolling, and post-production when the editing and sound and visual effects (VFX) and music aspects are incorporated.

Distribution: The process of getting the film into the hands of the theatre chains, broadcasters, video stores and video on demand (VoD) operators. The companies that do this are called distributors. In general a producer uses a sales agent to license a film to distributors outside the producer's own country.

Exploitation: The process by which consumers actually experience the film. The most important and first exploitation market is the cinema; the companies that run cinemas and cinema chains are called exhibitors. However, as you may know (and will learn more about soon), films are consumed in many different ways, with digital technologies growing ever more important.

Remember that the term 'value chain' is also used to analyse business processes in different industries. Its usage here, referring to all the stages of life that a project goes through from the very beginning to the very end, is specific to the film industry.

This course is structured around the different elements of the value chain. Week 2 talks about development. Week 3 jumps to distribution and exploitation. A major source of finance is from distributors and sales agents paying for the rights to the film before it is made. Therefore, you really need to have a sense of how distribution works before you can understand finance. Week 4 then explores finance. Week 5 covers production itself. Then in Week 6 – the final week of the course – you will take a step back and consolidate.

Activity 3 What happens along the value chain?

Allow about 5 minutes

Now that you have a good idea of the general process, try to match the activities below with the relevant stages of the value chain (these are the seven stages listed in Figure 6 on the previous page).

Find ideas, secure rights, option agreement

Secure finance, hire writer, hire director

Hire casting director, secure key cast, preliminary budget

Prepare estimates, secure pre-sales, certify as British

Pre-production, principal photography, post-production

Marketing campaign, broadcast licence, video/DVD/VoD licencing

Cinema exhibition, DVD rental and sales, download to own

Match each of the items above to an item below.

Concept origination

Development

Creative packaging

Finance

Production

Distribution

Exploitation

Discussion



Figure 7 The stages of the film value chain

This is generally how you'd allocate the activities to the listed stages of the value chain, but it's important to note that this can all vary, case by case.

Is there anything here that surprises you in how the activities are allocated? Some of these terms may not yet be familiar to you – don't be put off. By the end of the course, you'll be well up to speed on what these activities and concepts are.

As you progress through the course you will quickly realise that a strictly chronological representation of the value chain is not accurate. In real life, activities from one stage merge into another. For example, activities such as preparing sales estimates and pre-production can be regarded as part of the development stage or as part of financing.

You can find out more about the value chain in the Further Reading section.

3.3 The value chain stages and power

From the wider business perspective, to develop a successful film, which is a product for an organisation, it is important to add value as the product goes through its life cycle. The best possible value can be achieved in the film development process by adding value at each stage. Porter (1980) classified the generic value added activities into two:

1. primary activities which are classified as product and market related activities
2. support activities that are related to infrastructure, technology, procurement, and human resource management.

Each film has its own life cycle, individually defined by many factors and negotiations, such as the following::

- Is it an existing brand or franchise?
- Are there any big stars in it?
- What audience would be drawn to this particular film?
- What is its potential to attract public support?

The answers to these questions often determine who has the most influence in the journey a film takes from idea to screen: who has the most power.

3.4 Who has the power?

There are lots of different players in the film industry, and you'll learn about a lot of them during this course. So who's in charge? Who has the ability to get things done?

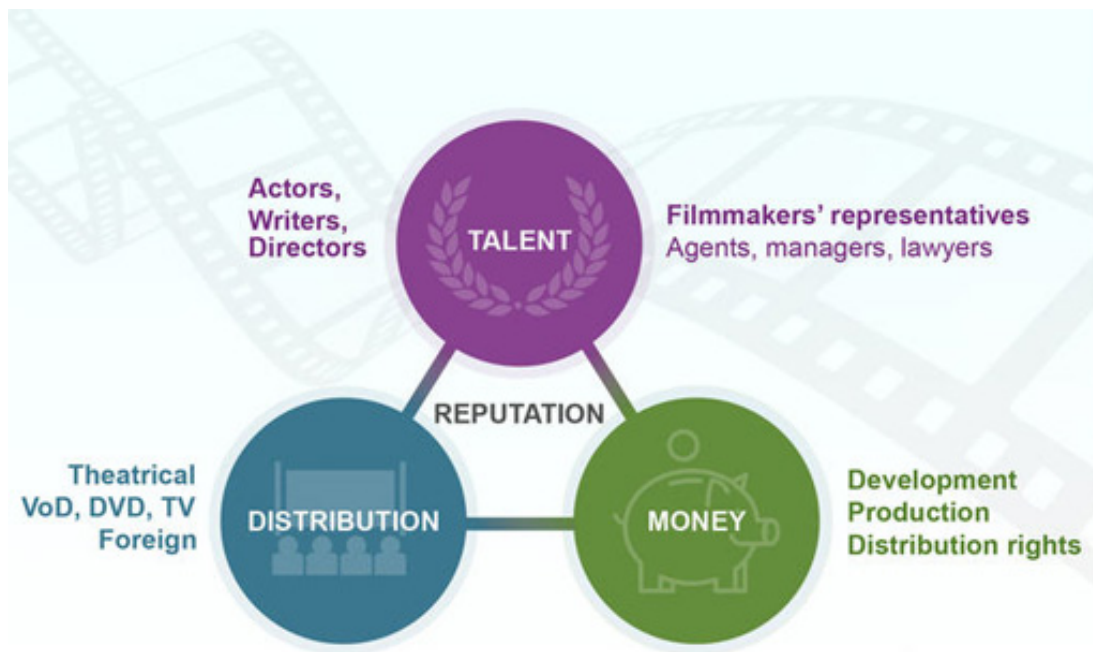


Figure 8 The triangle of power

The triangle of power (Figure 8) suggests that there are three key ways for an individual or organisation to have the 'power' to get films made in the way they want to.

First, **talent** always has bargaining power. ('Talent' doesn't mean people that are talented, it mean people who are recognised as talented, i.e. have some kind of star power.)

As in many industries, **money** talks. Independent films are produced on a project-by-project basis and so need money. Studios like to share the risk of their films by using outside investors. Money always brings power.

Lastly, having a **distribution** network or capability gives power because it grants the ability to get a film in front of audiences. Without distribution capability, no film will make any money.

Overlaying all this is the matter of reputation. This will be explored further throughout the course, but because film is a 'deal' business where people come together to make arrangements all across the value chain, the reputation of someone to actually do what they say they'll do is crucial.

Do these factors seem different to those in other industries? You might want to think about this if you have experience of working in another sector. Film production is project-oriented, involving freelance workers on large complex processes and making use of lawyers to write contracts for the various agreements. There may be other industries that work in the same way and for which the power factors featured above might apply.

4 Week 1 quiz

If you'd like to test and apply your knowledge of the material in Week 1 with a few questions, click the link below. Note: this is not a requirement in order to continue studying, or to complete the course.

Complete the [Week 1 quiz](#) here.

Open the quiz in a new window or tab then come back here when you're done.

5 Culture, economy, value and power

This week you have explored how the film industry has both economic and cultural value and how it is also part of the creative industries.



Figure 9 Reels and 16mm film stock

As you have seen, while film provides a service that can be bought and sold in the marketplace, it also provides value in terms of cultural benefits, which may be social or symbolic.

Public policy plays an important role in the film industry, particularly in markets outside the US. You've examined the concept of the value chain in the business of film and you've seen who the key holders of power are.

You have looked at the concepts of power and bargaining power. From the wider business perspective, this concept is addressed by Michael Porter's five forces framework for industry analysis (Porter, 1979). This framework was originally developed to assess the attractiveness (profit potential) of different industries. The five forces make up an industry's structure:

- the **threat of entry** into an industry
- the **threat of substitutes** to the industry's products or services
- the **power of buyers** of the industry's products or services
- the **power of suppliers** into the industry
- the extent of **rivalry** between competitors in the industry.

Talent can be seen as being in the supplier position as they are supplying the industry with the product or service it needs. Buyers are those paying for the talent, including the distributors.

The five forces framework can provide useful insight into the powers at play in the film industry. Your analysis of the industry throughout this course may well prompt many questions about the implications of these forces.

Coming up in Week 2

Next week you are going to take a look at the development process, the process that takes an idea for a story and turns it into a valuable film project worth investing in. You'll focus on what happens right at the very beginning of the value chain and meet some of the key players. Go to Week 2.

Week 2: Developing a film

Introduction

This week explores the development process, which takes an idea for a story and aims to turn it into a valuable film project worth investing in. First, you'll hear again from director Bharat Nalluri.

Video content is not available in this format.

[Video 1 Bharat Nalluri talks about developing ideas](#)



This week will focus on what happens right at the very beginning of the process, and you will meet some of the key players. It's at this stage that you begin to turn your idea into an 'asset' that people are prepared to invest in. You'll hear from Ollie Madden, the producer of the case study film, *Spooks: The Greater Good* and also from the film's writers, Jonathan Brackley and Sam Vincent. Simon Bowles, production designer on *Spooks*, will also be contributing this week.

They will be talking in general about the development process and in specific terms about the development process around *Spooks: The Greater Good*. The development process is not an exact science but there are some basic steps that will be shown in the course of this week.

1 Where do films come from?

This week starts at the very beginning of the process. The key question is identifying what underlying material a film is based on.

You need a good idea or story in order to progress to the development process itself. So, let's start at the very beginning and consider the various sources for film ideas. *Spooks: The Greater Good*, for instance, is a continuation of a successful TV series. Other sources would include original ideas, books, magazine articles, real life stories and events.



Figure 1 Five film posters

Activity 1

Take a look at the film posters in Figure 1, and think about where the stories or ideas for the films came from. Make some notes in the box below.

If you haven't seen the films you're allowed to do some research online!

Provide your answer...

1.1 Where films come from

Good film ideas are not that easy to come up with. That's one of the reasons that film projects are often adaptations of other material.

It can also be valuable for film projects to already have audience recognition from books or plays or the lives of well-known people. This is often referred to as a film project being 'pre-branded'. One of the strongest ways a film can be pre-branded is if it is a sequel to a previously released film. Having a film based on a recognisable existing property is thought to reduce the risk in an uncertain business.

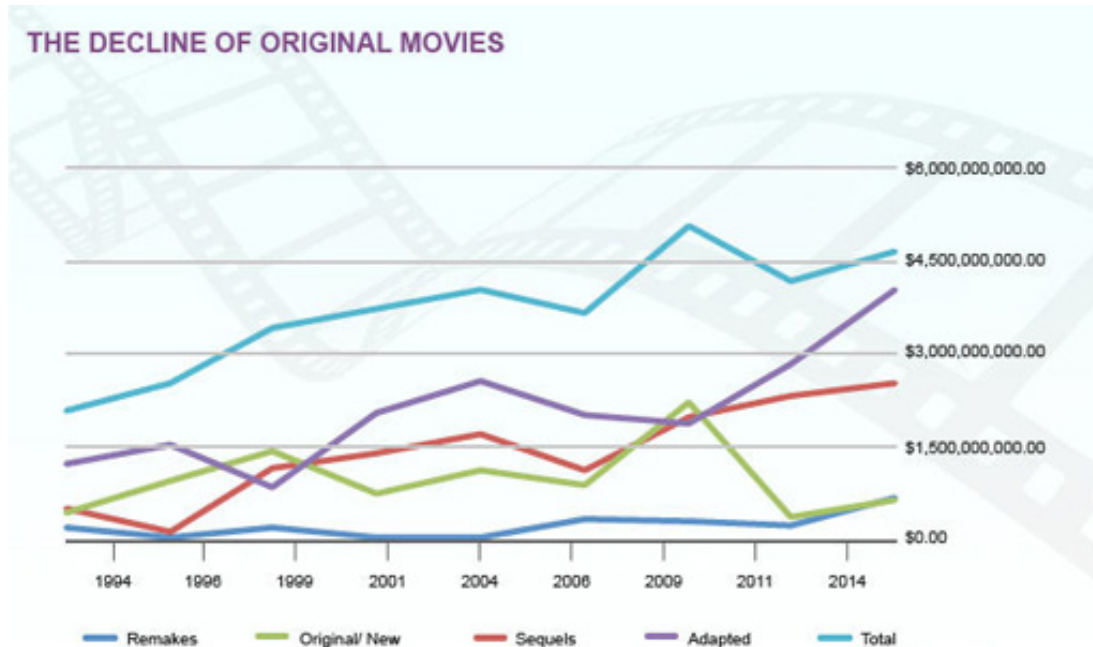


Figure 2 The decline of original movies (Infographic based on GeekTyrant, 2014)

Some commentators feel that cinema is suffering from too many pre-branded feature films. They feel that there is a loss of creativity in many of the big budget films that are made nowadays. A number of observers have noted that more and more big budget high box office films are sequels, prequels or remakes. They argue that, though this may be OK in the short term, it means that movies may end up being less appealing to audiences in the long term.

What do you think? Do you think that too many sequels and remakes is a problem for the film industry? In the independent film sector, of course, remakes and sequels are less of an issue. However, independent producers also often feel that having a pre-branded project – based on a known book or the life of a known personality – will make film development and production finance easier to obtain.

You can find some further sources around these issues in the Further Reading section at the end of this week.

2 Development stages

Now let's take a more detailed look at what is involved in the development process. Because it's difficult to know whether an idea will develop into a promising feature film project, the development process generally proceeds in stages.

At each stage, the project may get dropped or it may proceed further. In practice, these stages might occur in a number of different ways, but here's one example of how they might take place.

Stage 1: Secure funding

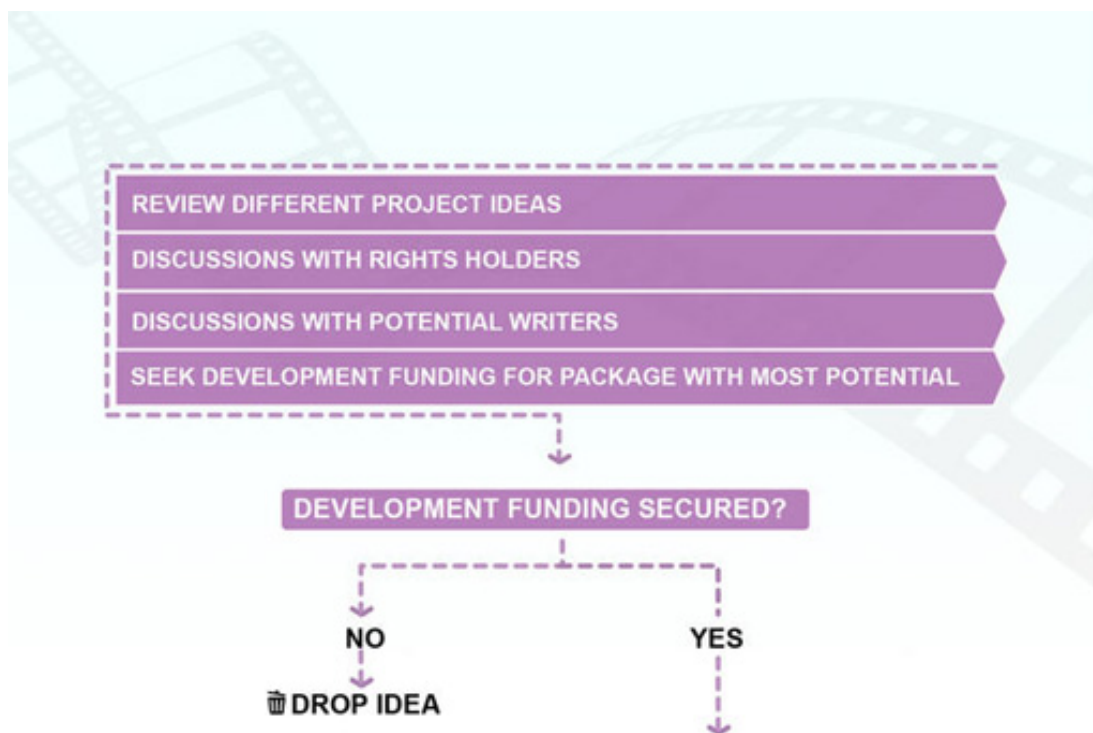


Figure 3 Stage 1: secure funding

Take a look at the diagram in Figure 3. It describes the first of a four-stage process which will now be looked at stage by stage. This is a pretty thorough development process – not all films will experience every element of it. There may be some terms you are not familiar with, but these will be covered them later in this week of the course.

The first stage involves coming up with project ideas and determining whether they have the potential to result in good films. If they are based on existing copyrighted material, the likelihood of securing the rights to the material has to be investigated. In addition, most producers are not in a position to pay option costs and writers' fees themselves, so they will need to secure development funding. If the project is not sufficiently attractive to development funders, the project may be dropped right there.

Stage 2: Initial contracts

In this hypothetical example, stage 2 is where any required rights are secured and the idea is articulated into a first draft of the complete screenplay.

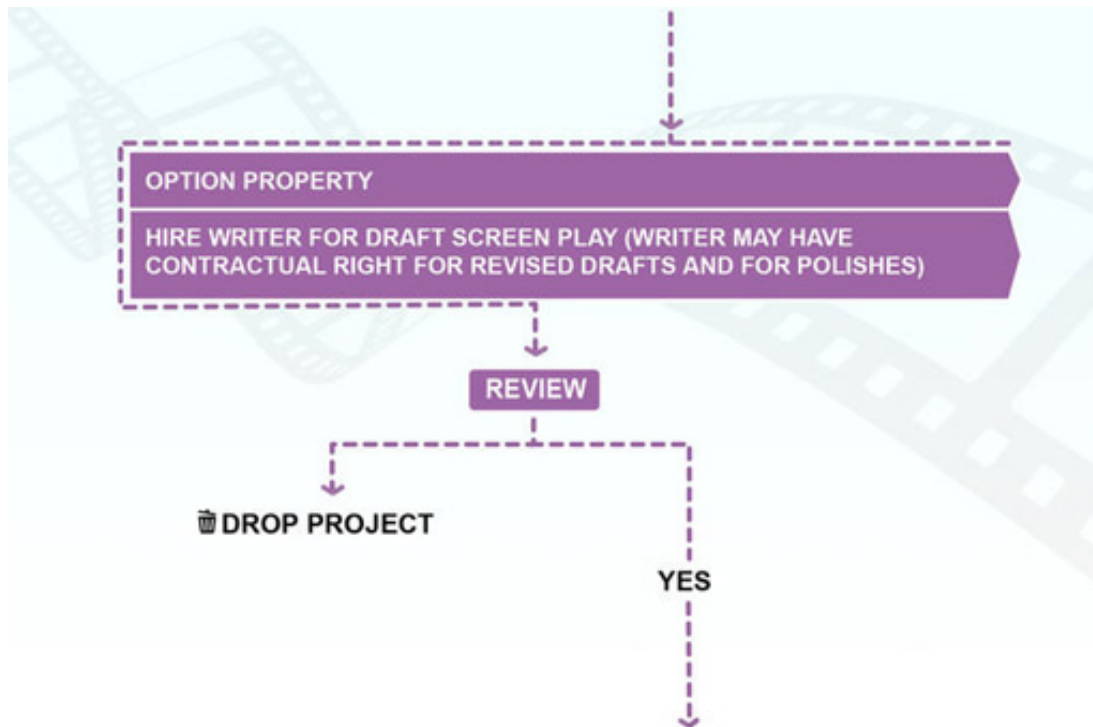


Figure 4 Stage 2: initial contracts and the treatment

Along the way, the writer will probably have done a treatment, but the first draft is the first chance to see if the project works as a feature film. Again, the project could be dropped here – but it will probably continue to the next stage.

A device that is commonly used to secure rights to an underlying property such as a book or a play is called an option. This is a legal agreement where a producer pays a certain amount to secure the rights for a fixed period (usually 12 or 18 months with the right to renew). The producer also has the right to buy the underlying property rights completely for a pre-determined price (usually a percentage of the film's production budget). Thus, the producer can work on the film project for a comparatively low upfront investment, knowing no one else can work on the project. The producer also knows that, if he or she is able to develop and finance the film during the period of the option, the price of the property rights is known in advance.

Stage 3: Is it working?

In stage 3 of this example, creative elements start to be attached to the project in addition to the writer.

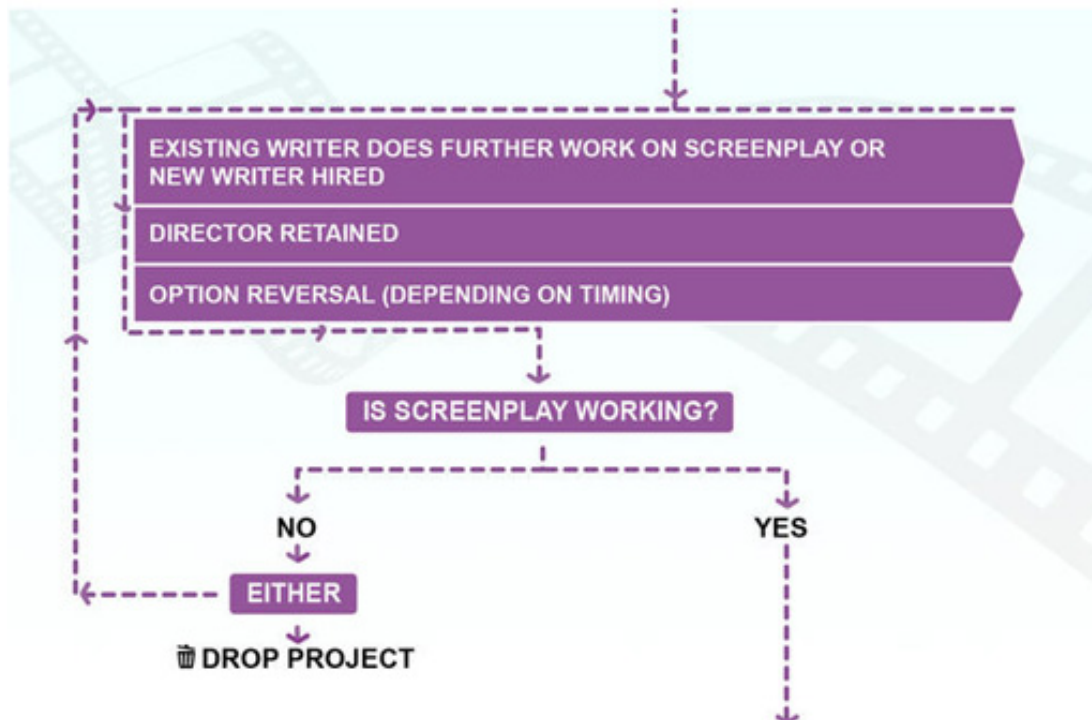


Figure 5 Stage 3: progressing the screenplay

Usually, the first and key creative element is the director, whose creative vision for the project needs to be incorporated into the screenplay. However, in some circumstances, a key star cast member might come on board before the director.

Stage 4: Can we proceed?

In this hypothetical stage 4, the project starts to move into the pre-pre-production process that was mentioned in Week 1 (more on this later this week).

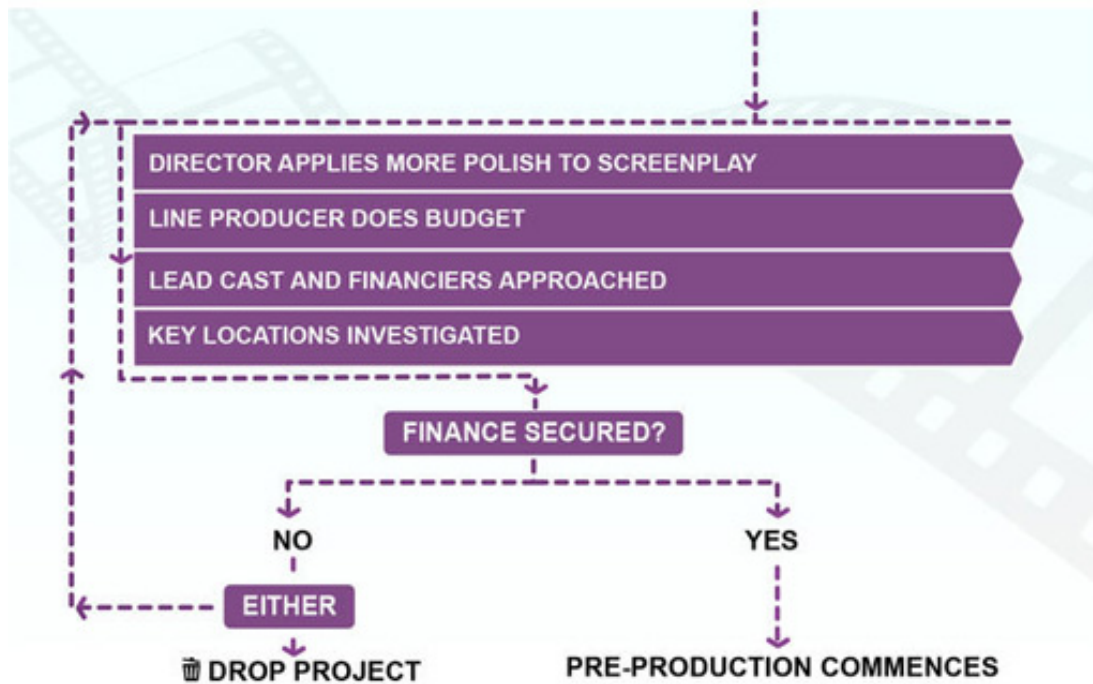


Figure 6 Stage 4: securing finance

A budget is prepared, more cast attached, locations are investigated and, hopefully, the finance is secured. If not, more rewriting may be required, or the film may need to be reconfigured at a lower budget so that it can be financed.

If you'd like to see these stages combined into one continuous flowchart, you can download the [Complete film development process](#).

You may have noticed some alternating use of the words 'financing' and 'funding'. For the purposes of this course these are completely interchangeable terms.

2.1 Making sure your project is legal

With the kind of complex and iterative processes that film production entails, it's really important for a producer to know that they fully own the rights needed in order to develop the project.

This is where lawyers come in. Lawyers have a very important role in the film industry because so much of the value chain works on the basis of agreeing contracts. The terms of those contracts vary depending on the circumstances of the property and the deal. Here's lawyer Charles Moore talking about how he approaches the development process when working with his clients.

Video content is not available in this format.

[Video 2 Charles Moore talks about the development process](#)



2.2 Why development is so important and so hard

Because development is such a risky process, it is not something that all players in the film value chain are able to do – particularly those that are commercial players.

Here's Alex Hamilton, who you met earlier, telling us why it's hard for his company to justify the investment of time and money into the development process, despite the fact that he's running one of the most successful distributors in the UK.

Video content is not available in this format.

[Video 3 Alex Hamilton talks about investment into the development process](#)



As you have seen, the source of the film itself is a key factor. For the major studios the 'star' system is crucial as well as the development of major franchises that spawn one blockbuster after another. However, in the world of independent feature films, it's much harder to predict outcomes.

2.3 The development budget

You're going to look now at a development budget for the process that's just been outlined. This is not for a real film, but provides a very useful example. The figures used are typical.

Activity 2 Allocating development costs

Allow about 10 minutes

Table 1 contains a number of cost items and their amounts. Take a look at the items and try to allocate them to the four stages of development. Take a look back if you need to. Add the stage number into the table.

Table 1: Development budget

Items	Cost	Stage
Option renewal payment	£5,000	<i>Provide your answer...</i>
Line producer's fee for production budget	£5,000	<i>Provide your answer...</i>
Writer's fee for polish under director's supervision	£5,000	<i>Provide your answer...</i>
Director's retainer	£5,000	<i>Provide your answer...</i>
Writer's fee for second completed draft	£10,000	<i>Provide your answer...</i>
Hiring a location manager	£2,000	<i>Provide your answer...</i>
First option payment	£10,000	<i>Provide your answer...</i>
Costs of trip to Cannes Film Festival to meet with financiers	£2,000	<i>Provide your answer...</i>
Travel costs of scouting trip to review locations	£1,000	<i>Provide your answer...</i>
First draft screenplay plus one set of revisions	£20,000	<i>Provide your answer...</i>
Producer's supervision fee	£2,000	<i>Provide your answer...</i>

Answer

Development costs would appear as Table 2: Development costs in stages.

Development costs in stages

Stage	Item	Cost
Stage 1	No direct out of pocket costs	£0
Total cost: £0		
Stage 2	First option payment	£10,000
Total cost: £30,000		
Stage 3	First draft screenplay plus one set of revisions	£20,000
	Writer's fee for second completed draft	£10,000
	Total cost: £20,000	
Stage 4	Director's retainer	£5,000
	Option renewal payment	£5,000
	Writer's fee for polish under director's supervision	£5,000
	Total cost: £17,000	
	Line producer's fee for production budget	£5,000
	Costs of trip to Cannes Film Festival to meet with financiers	£2,000
	Travel costs of scouting trip to review locations	£1,000
	Hiring a location manager	£2,000
	Producer's supervision fee	£2,000
	Total Production Cost	£67,000

The development process requires a producer to spend money on things such as: securing rights; hiring writers and other individuals required for the development process; other research costs, and budgeting the film. The producer needs to raise this money from development funders (or use their own private funds, which is not the usual practice). In order to do this they need a development budget.

The development budget is a tool to enable the producer to plan the development process and ensure that they will not run out of money during that process. In addition, the development budget will be required by almost all development funders.

Who are the development funders? In the UK, the principal funders include:

- the BFI
- BBC Films
- Film4
- certain private funders.

Most other countries in the world also have funding bodies that can be approached for development funding – for example, Telefilm Canada in Canada, the Swedish Film Institute in Sweden, the CNC in France, Screen Australia in Australia.

Generally, development funders get their investment returned with a premium (e.g. 50% or 100%) if the film goes into production. If the film is not made, the producer does not have to repay the development funding.

2.4 From idea to screenplay

So far, the course has explored the many ways that films come about. Now it's time to look at a real example as it came to fruition.

In this video clip, Ollie Madden, the producer of the case study film, *Spooks: The Greater Good*, and the writers talk about some of the challenges they faced in adapting a long-running, extremely popular BBC TV show into a film. When the show was brought to an end by the producers in 2011 they started to talk about the feature film. The feature film was eventually released in May 2015.

Video content is not available in this format.

[Video 4 Ollie Madden talks about developing a screenplay](#)



2.5 Money upfront: 'pre-pre-production'

Before you even approach potential financiers to make your film, it is necessary to spend money. In addition to the costs of writers and other script development costs, you have to create your schedule and budget. These are critically important documents to plan and finance your film.

In this video, Ollie Madden talks about some of the activities in this stage of his film's development.

Video content is not available in this format.

[Video 5 Ollie Madden talks about pre-pre-production](#)



Ollie was fortunate that the pre-pre-production stage of his film was funded by his own company, Shine Pictures, parent company of the television production company behind the original TV show, Kudos. However, funding this important part of the process can often be quite problematic. As you will learn, films are often financed by a number of different parties. If one party funds pre-prep before all the financing arrangements have been contracted, that party is taking a risk that the financing might not close and the film might not happen at all, in which case their pre-prep investment would be wasted.

Nevertheless, some parties are prepared to finance pre-prep costs if they are committed to the film. In particular, the two UK broadcasters active in film – BBC Films and Film4 – will sometimes provide support for this stage.

3 What does the public funder look for?

In this video you hear from one of the key sources of development finance in the UK for established and emerging film-makers. Ben Roberts, who you met first in Week 1, is Head of Film Fund for the BFI.

He has a fund of £27 million to support film development, production and distribution. The BFI is one of three key sources of public funding for film in the UK.

Video content is not available in this format.

[Video 6 Ben Roberts talks about public funders](#)



Ben Roberts outlines an approach to film development and films that have – in his words – ‘a different tone of voice’.

From his point of view, there are wider economic and cultural factors to consider when deciding on what film projects or film-makers to develop. Success is just as much about developing the film-making talent as the film itself. The two go hand-in-hand.

Video content is not available in this format.

[Video 7 Ben Roberts talks about measuring success](#)



4 Week 2 quiz

If you'd like to test and apply your knowledge of the material in Week 2 with a few questions, click the link below. Note: this is not a requirement in order to continue studying, or to complete the course.

Complete the [Week 2 quiz](#) here.

Open the quiz in a new window or tab then come back here when you're done.

5 Building the case

At the start of this week it was stated that the development process ‘takes an idea for a story and aims to turn it into a valuable film project worth investing in.’ You have seen how confidence in a film project is required even before the writer gets started.



Figure 7 16mm film and reels

In a wider business context, this is often described as building a business case. A business case is usually focused around a particular proposal, such as the investment in a film project.

A business case should:

- Focus on strategic needs. The focus should be on a few key issues with priority given to those that are strategically important and easy to address.
- Be supported by key data. Financial data needs to demonstrate the appropriate returns on any investment. This can include interviews with talent or cases of success or failure in your organisation or competitors. Include background information on the rigour of the information provided.
- Demonstrate solutions and actions. The team should discuss how proposals will be acted on and who would be responsible. Alternative scenarios should be recognised and the feasibility of implementation presented.
- Provide clear progress measures. When you are looking for significant investment over time it is reassuring to offer clear measures to allow for regular monitoring of progress. Proposing review mechanisms also adds credibility to your proposal.

Any project, including a film, can be dropped at any moment if confidence in its success is low. Building a strong business case, or development process, can help to prevent this.

Coming up in Week 3

In Week 3 you'll see what happens at the other end of the value chain: sales and distribution. This determines how and where a film is released. You'll also examine the way that revenue from the box office flows back to the various participants in a film project. Go to Week 3.

Week 3: Where do films go to?

Introduction

Last week you saw how stories come about, and how they're turned into a valuable asset worth investing in. This week you'll see what happens at the other end of the value chain. Bharat will now introduce this week's material.

Video content is not available in this format.

[Video 1 Bharat Nalluri talks about distribution](#)



In an independent film project, strategies around sales and distribution – how and where a film is released – are an essential part of the finance process further up the value chain. You'll be hearing more from our distributor, Alex Hamilton, this week as you learn about how the distributor builds value in the market for a film. His job is to exploit the film as much as he can globally and in many different ways. You will also take a close look at how the box office works: what it tells you about your film and how revenues work. But first, some more information about the system for getting a film out to audiences.

1 What distributors do

Before you get started, some terms need to be clarified. In the world of independent film, distribution companies tend to work on a territory by territory basis.

So, for example, the UK distribution company (also known simply as distributor) will buy the film for the UK. That means the distributor will have the right to arrange for distribution in all media (cinemas, DVD, video-on-demand [VoD], television, airlines, etc.) in the UK only. A French company will buy the film for France. A German company will buy for Germany. This continues for all the territories around the world.

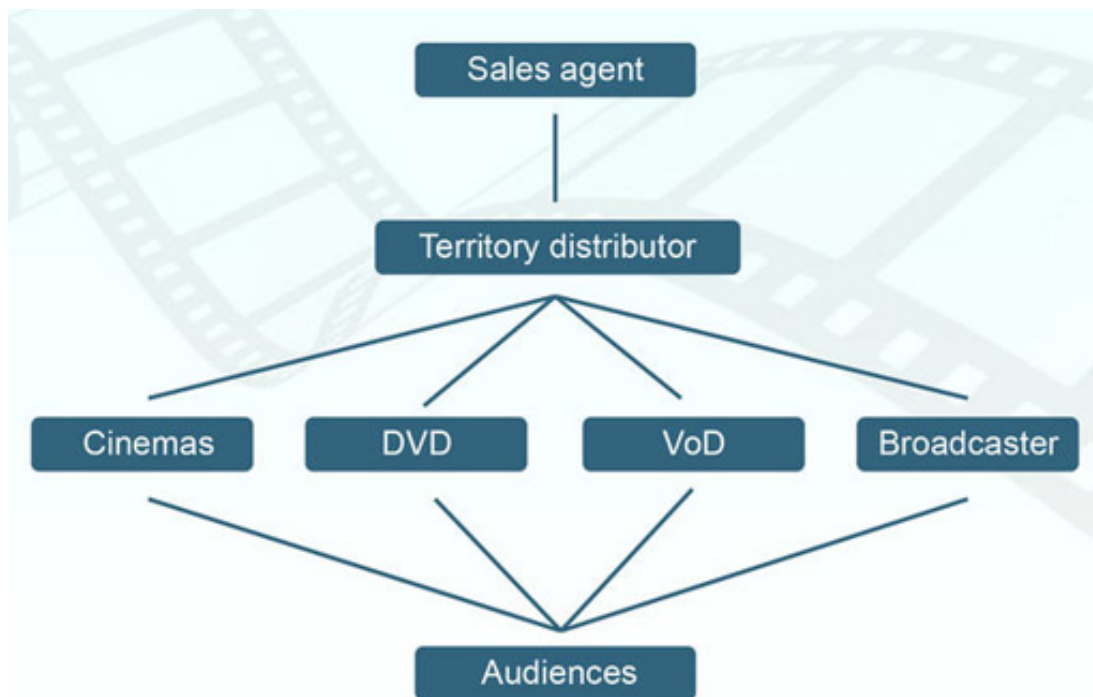


Figure 1 Path of distribution

The distributor then makes the decisions (subject to contractual arrangements with the producer) as to when and how it will release the film, what sort of marketing campaign it will create and how much it will pay for marketing expenses, which are known as P&A (for prints and ads) in the case of territory distribution. The distributor is responsible for the financial success of the film in its territory.

In actual fact, the distributor is usually not making an outright purchase of the film. The distributor will be entering into a license agreement, whereby the distributor has the right to distribute the film in its territory for a particular length of time – usually known as the ‘term’. However, everyone in the industry often speaks colloquially of the film being ‘bought’ for the territory.

Now, because there are many different territories in which a film may be sold around the world – too many for the producer to deal with themselves – the producer generally employs an intermediary, the **international sales agent**, to advise on and to make the sales to the various distributors. The sales agent has the expertise on the range of distributors in the different territories. They have relationships with many distributors from

previous films and so will make a judgement as to which distributors are likely to be suitable for the film and will pay appropriately.

2 The distribution life cycle of a film

Alex Hamilton is Managing Director of Entertainment One UK, one of the more significant independent film distribution companies in the UK, with operations all around the world.

His company operates in the UK, Spain, the Benelux Union, Australia and Canada.

The distributor of a film is responsible for exploiting the film once it has been made. As you will see later on in the course, the distributor, along with the sales agent, can also play a critical role in how the film is financed, but let's focus here on distribution.

The existing model for the exploitation of films is the concept of 'windows'. This refers to the fact that films can be seen in many different ways – in the cinema, on television, via VoD, etc. Over the years, the film industry has developed a pattern of releasing films on these different platforms, in a particular sequence, over an established time frame. In the video, Alex gives a step-by-step guide to the life cycle of a film.

Video content is not available in this format.

[Video 2 Alex Hamilton talks about the life cycle of a film](#)



The focus on cinema release and promotion is instrumental for recouping investment, but the current system of 'release windows' is under increasing pressure from changes in audience behaviour. The standard sequence of release for a feature film places cinema release at the top, followed by video/DVD/BluRay, VoD, pay-TV and finally free-to-air TV. However, Europeans watch films mostly on free TV, on DVD, and via on-demand services.

2.1 A journey through windows

In Figure 2 you can see the various 'windows' that a film passes through as it is exploited by the distributor for its maximum value.



Figure 2 Film distribution windows

The journey from theatrical exploitation to the catalogue stage can take some time. Generally, after theatrical release (the first 'window'), it will be approximately four to six months before the film becomes available on DVD, VoD and pay-per-view (PPV) platforms. It will also be on airlines. Then, 18–30 months after initial release, it may be on free TV (the standard broadcast channels, as opposed to pay TV).

There are many, many outlets for a film throughout its life, and at each stage, each outlet (each window) tries to maximise its exclusive or non-exclusive access to the film.

Activity 1 Major brands and companies

Allow about 5 minutes

Take another look at Figure 2. What do you think are some of the major brands and companies within the windows depicted? Think about who they are in your country, and spend a couple of minutes researching big film brands and companies operating in another country of your choice.

Make notes in the box below.

Provide your answer...

Discussion

In the UK, the BBC and ITV are TV channels that sit in the free TV window, whereas Sky and Amazon Prime Video, for example, are companies that exploit films in the pay TV and subscription video-on-demand window.

2.2 The changing life cycle of the film

In this video, Alex Hamilton describes how technology and economics are producing pressure points along the value chain.

Video content is not available in this format.

[Video 3 Alex Hamilton describes the changing life cycle of the film](#)



This system of controlled release has developed not by accident, but because the industry has created a system intended to make as much money as possible from an individual film.

For example, people see a film in cinemas because they enjoy the cinema experience, but also because they can't yet see the film in any other way. Windows evolve and change over time. VoD only started taking off quite recently, in the 2000s. The airlines used to be a much later window, back when only one film was available on a flight. But now, having individual screens on planes has increased the demand for films and brought the window forward.

The system – sometimes referred to as an economics of scarcity – is vulnerable, however, in an age of digital technology. Pirated DVDs are attractive when commercial DVDs are not available in shops. So more and more independent films are released in different ways – for example, VoD alongside cinema.

2.3 The marketing plan

The windows system is designed to extract the maximum value throughout the life of a film. However, the film's performance in the cinema is still critical to its future success.

It follows, then, that how you choose to market your film and when you release it are critical. It is what distributors do. Alex Hamilton, in another step-by-step guide, explains the key elements of a marketing campaign.

Video content is not available in this format.

Video 4 Alex Hamilton explains the key elements of a marketing campaign



You may be surprised that the cinema box office is not generally the area where a film makes most of its money. Actually, it often makes a loss because of the level of marketing cost incurred at this stage.

3 Theatrical performance

Although films are released in many different windows, distributors often focus most on the cinema performance of a film (often called 'theatrical' in North America). This is for a number of reasons.

Firstly, under the traditional model of film exploitation, cinema release is the first window for the film, so it is the first opportunity to see how audiences actually respond to the film. As a result of this, it is generally a film's performance in this first window that determines its value in other windows. This can be an implicit relationship – the film would be expected to sell more DVDs if it did better in cinemas. It can also be an explicit relationship – the amount a broadcaster pays for a pay TV window might be directly related to box office performance. Lastly, it is the window for which performance information is most publicly available. Nowadays, many general interest publications (print and online) and television programmes will report box office performance.

These are some key terms people in the distribution business use to analyse the performance of a film:

Opening weekend gross

Though there are exceptions, films tend to perform best when they are first released. This is because all the marketing and publicity, and the reviews in newspapers, magazines and television shows, are all timed to the opening weekend. Films generally open on Friday (though there may be previews in the day or two previous) and the opening weekend is considered to be from Friday to Sunday. A film's opening weekend gross is a key statistic in analysis of the film's attractiveness to the public, and films that do not meet expectations in this regard will be quickly considered as disappointments, and will not remain in cinemas long.

Per screen average

Obviously, the more cinemas a film is shown in, the more opportunities there are to buy tickets. So, a statistic that is frequently examined, especially for smaller independent films, is per screen average, sometimes referred to as site average. This is the amount of box office (for the week or for the weekend) divided by the number of screens it is being shown on. This is measured in screens rather than cinemas because a film may be showing on more than one screen in a particular cinema complex.

Second week/weekend performance

Because the biggest performance is in opening week/weekend, the comparison between opening week/weekend and the second week/weekend gives useful information about the film's 'staying power' and about the 'word of mouth' – whether people that see the film tell their friends to go or to avoid it. Usually, there is a significant second weekend drop – both on an absolute basis and on a per screen basis. But if films do not exhibit this pattern, it may be an indicator that the film is getting very good word of mouth or, in some cases, repeat visits, and so will perform better than expected.

3.1 Analysing the box office

You'll now use some of the concepts you've just learned to analyse the performance of some films.

Download the [box office document](#). Use this to answer the questions in the following short quiz. This is just for fun and won't contribute to your final score.

Activity 2 Analysing box office performance

Allow about 5 minutes

In the UK, the BFI publishes selected box office figures each week.

Use the [Box office figures PDF](#) to answer the questions below. These statistics are for the performance of films in May 2015.

1. Which film performed best over these two weekends indicated?

- ☐ *Pitch Perfect 2*
- ☐ *Mad Max: Fury Road*
- ☐ *Avengers: Age of Ultron*
- ☐ *Spooks: the Greater Good*

2. What was the change in its weekend gross over the period?

- ☐ No change
- ☐ 37% decline
- ☐ 47% increase
- ☐ 47% decline

3. Was its per screen average weekend gross change higher or lower than this?

- ☐ Higher
- ☐ Lower
- ☐ No change
- ☐ Impossible to tell

3.2 How profitable is the theatrical release?

You've read quite a bit about how the release in cinemas is the first window. It helps to build value for the film in other windows, but it is often not very profitable in itself.

You're going to take a look now at how the cash flows for cinema release work, so you can see for yourself how difficult it is for a film to make money simply from cinema release.

Take a look at Figure 3, then read on for some explanation of conceptual terms.

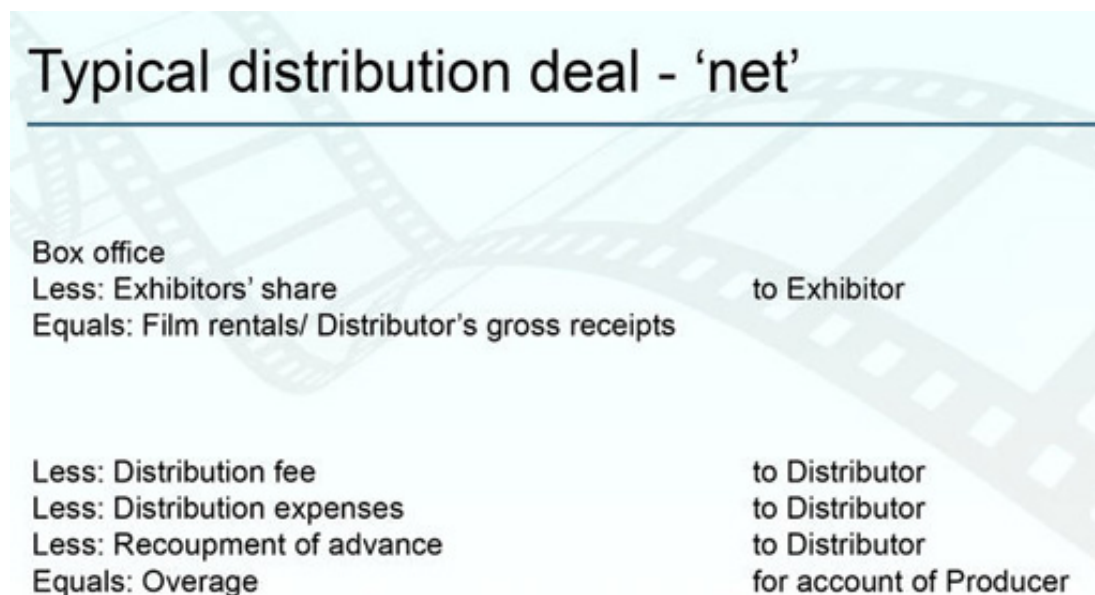


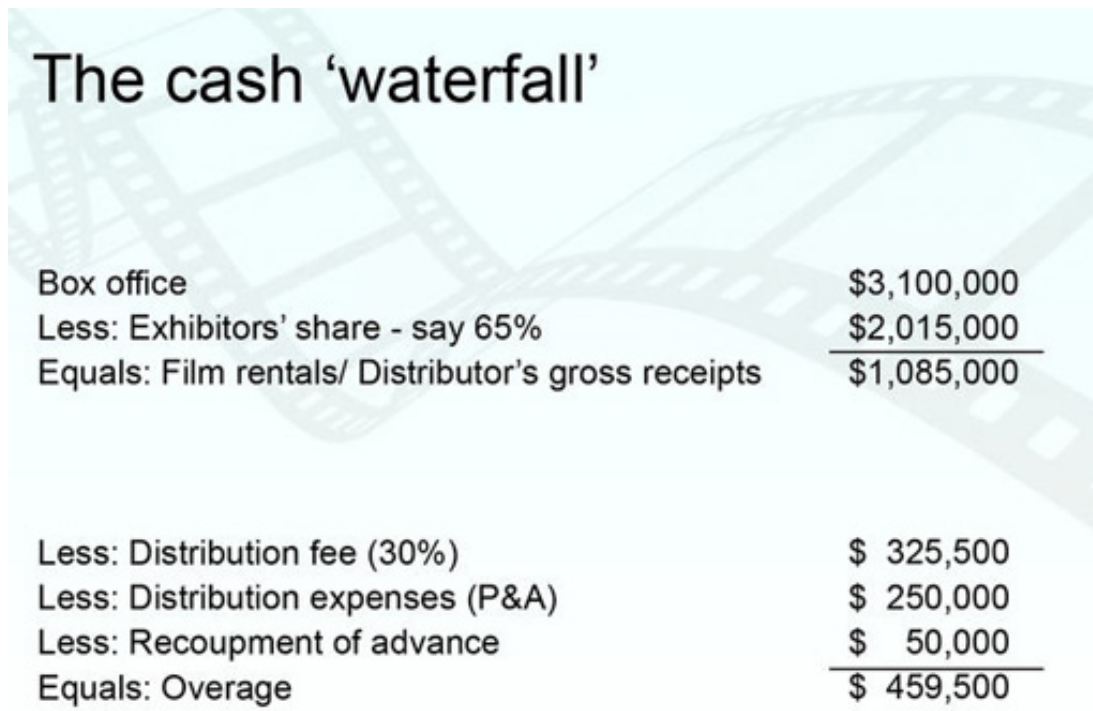
Figure 3 A typical distribution deal

- **Box office** is the amount of money the film takes in cinemas. One way to look at it is as the number of cinema admissions multiplied by the average ticket price. (Note that all the money from popcorn and fizzy drinks and other 'concession sales' is kept by the cinema).
The amount of money taken at the box office is split between the exhibitor (the cinema) and the distributor.
- The money returned to the distributor is called **film rentals**.
- The distributor earns a **fee** from film rentals.
- The distributor then recoups, or recovers, the money it advanced in marketing costs, or **prints & ads costs (P&A)**.
- The distributor recovers money it paid to 'buy' or license the film, sometimes called the **advance**.
- Finally, what is left over goes to the **producer**.

So that's a lot of different ways to split money before the producer sees any return.

3.3 What do the numbers look like?

Now let's look at how those numbers play out with a pretty successful film that takes \$3.1m at the box office.



The cash 'waterfall'

Box office	\$3,100,000
Less: Exhibitors' share - say 65%	\$2,015,000
Equals: Film rentals/ Distributor's gross receipts	\$1,085,000
Less: Distribution fee (30%)	\$ 325,500
Less: Distribution expenses (P&A)	\$ 250,000
Less: Recoupment of advance	\$ 50,000
Equals: Overage	\$ 459,500

Figure 4 The cash waterfall

- The exact percentage of box office that is returned to the distributor varies according to a number of factors, but on average a surprisingly small amount is generally returned. In this case 35% goes to the distributor with 65% retained by the exhibitor, the cinema.
- That means that just over \$1m goes to the distributor.
- The distributor takes a distribution fee (30% is typical) and recovers expenses, and the advance, the amount paid for the film.
- After all this, the producer only earns a little over \$0.5m for a film that took over \$3m at the box office.

This is a pretty successful film, and proportionally little is going to the producer. So you can see that most films in fact do not make any money for the producer at the box office. They make a loss that is made up by revenue in all the other windows.

Does this surprise you? Why do you think this is? Obviously it was not the case 50 years ago when other windows were not present to make up for the loss made in cinemas.

3.4 Marketability versus playability

As viewers, we often think about how 'good' a film is. But those whose job it is to get people to see films have to look at this a little more deeply. Alex talks about two concepts often used in the marketing of a film.

They are 'playability' – how the audience responds to the film when they see it – and 'marketability' – how easy it is to get audiences interested in wanting to go to see it.

Video content is not available in this format.

[Video 5 Alex talks about playability and marketability](#)



Think about a film you've seen recently. Consider your own decision process for seeing it, and then whether you ended up liking it or not. These are, of course, quite different judgements.

3.5 Case study – the release of *Spooks: the Greater Good*

Ollie describes the process around the release of *Spooks: The Greater Good* in May 2015 in the UK. He describes the performance in cinemas in the first four weeks of its life.

Video content is not available in this format.

[Video 6 Ollie talks about the release of *Spooks: the Greater Good*](#)



Activity 3 Spooks box office performance

Allow about 10 minutes

Take a look at the performance of Spooks at the box office in the UK and elsewhere at the [BFI weekend box office figures](#) (look at the May figures from [the 2015 archives](#), starting with 8–10 May) and consider how well it performed after the first month of its release.

4 Week 3 quiz

If you'd like to test and apply your knowledge of the material in Week 3 with a few questions, click the link below. Note: this is not a requirement in order to continue studying, or to complete the course.

Complete the [Week 3 quiz](#) here.

Open the quiz in a new window or tab then come back here when you're done.

5 Digital solutions

This week has demonstrated how important it is to work out the route a film will take to reach the viewer, and customer. You have examined the concept of 'windows' of distribution and seen how integral the cinema box office still remains to a film's success, even though it may not be profitable in itself.



Figure 5 Cinema

In response to the changes in market conditions, producers are innovating in their use of digital technology to manage uncertainty about consumer demand. There are two strategies to make this happen:

- The first is harnessing the power of internet-enabled content (extra video, online games, cross-platform storytelling) and dissemination tools (social networks, blogs, streaming and download services). These can increase consumer demand and revenues by creating a more popular experience or product. Further, they allow new marketing strategies including social media data mining, crowd financing, early stage audience engagement and hugely increased consumer interaction.
- The second strategy is to dodge some of the traditional segments of the film value chain in order to take a greater share of revenues. Traditional models of returning investment are based on territory-by-territory, consecutive distribution of each analogue product in a strictly imposed series of windows. Whereas, digital dissemination of film (or any media or message) is essentially global and immediate.

But it's not just about adopting a new technology. Applying these tools alongside new relationships across and between segments of the film value chain has the potential to be a radical innovation. This may offer solutions to the economic downside of 'digital disruption', and challenge the concept of the film value chain as a stabilising mechanism to manage uncertainty in distribution.

Coming up in Week 4

Next week you'll start to look at how films get financed. This is often the most difficult part of the film-making process, and a stage that stops many films projects in their tracks. Go to Week 4.

Week 4: Where does the money come from?

Introduction

There are as many ways to finance a film as there are to make a film. But there are some typical patterns.

Week 2 covered the development process and Week 3 introduced distribution, so now you are ready to learn about how films get financed. As Bharat suggests, finance is often the most difficult part of the entire process. It's the stage that stops many film projects actually happening.

Video content is not available in this format.

[Video 1 Bharat talks about how to finance a film](#)



When people make a film early in their career, they often scrape together money from family and friends; in general, you can do that once or twice, but after that, especially if you're working with bigger budgets, film-makers tend to use more conventional industry-focused methods.

Outside the Hollywood studio system, this usually means putting together funding from a mix of different industry sources, including the distributors and sales agents you met in Week 3 – which is why you learned about distribution ahead of finance.

This week, you'll look at the key tool the producer will need to convince a financier to part with their money – the sales estimate. You will find out about various sources of film funding and hear from some of the key players on whom funding depends. These are important decision makers – people who can stop a film project in its tracks if they are not on board.

1 Sources of funding

The world of film finance is a complex one, and the financial solution differs from film to film. Perhaps it's best to let a lawyer explain.

Charles Moore is a film lawyer based in London. Here's his step by step guide to sources of film funding.

Video content is not available in this format.

[Video 2 Charles Moore talks about sources of film funding](#)



1.1 Three principal sources

There are three principal sources of film finance: licensing of rights, 'soft money' and equity investment.



Figure 1 Funding

1. Licensing of rights

Sales agents and distributors are essential in arranging for distribution around the world. They can pay money for the rights to a finished film. They can also 'pre-buy' rights to a project before it is made, in which case their money is used as finance to make the film. From the producer's perspective, these transactions are often referred to as 'pre-sales'. Often the distributor will not actually put up money until the film is delivered to them, but rather enter into a contract to pay a certain amount when the film is made as per the script, with the actors as specified, and delivered to them. It is this contract that the bank lends against.

2. Soft money

Many governments around the world are keen to support film-makers and to help ensure that films reflecting national culture are available for their citizens. They also realise that film production involves spending a lot of money in the local economy – so there are positive economic impacts to attracting production spend. They therefore offer support to ensure that national films are made. This is often known as 'soft money' because the terms under which it needs to be paid back are less strict than for commercial investors and, indeed, it may not need to be paid back at all.

There are two different kinds of soft money:

- **automatic support** – many governments offer so-called 'tax incentives' (or 'tax credits') to film productions, which may or may not involve the tax system. These are payments made to a production based on the amount of money that production spends in the country. The arrangements can be complex, but simply, the UK offers

an effective rebate of 25% of what a production spends in the UK as long as that production passes a UK cultural test (this was mentioned earlier in Week 1). This support is 'automatic' because the film-maker can be sure that if the film qualifies, the money will be forthcoming. This kind of support is offered by the UK, Germany, France, Czech Republic, Hungary, Canada, Australia. Note that these incentives have been extended to many other creative industries in the UK.

- **discretionary support** – many countries (but not the US or India) have government bodies with funds available to support the development and production of films. These bodies will look at film projects and decide whether or not they are sufficiently interesting and culturally significant that they should be supported. These are referred to as discretionary because the film body makes a decision and the film-maker cannot count on this support. In the UK, the BFI has a film fund for this purpose, and funding is also provided by bodies such as Creative England.

3. Equity investment

Commercial funds, individual investors and industry players may make an equity investment in a film. This means that they do not pre-buy rights to individual territories, but they buy an overall interest in the profits of the film. This can be a risky investment because many films do not earn a profit. However, it is a fairly common element in a film financing package. Some examples are:

- There are commercial funds that are often 'tax advantaged' – the investor gets a write-off if making the investment. This encourages investment. One such scheme in the UK is Enterprise Investment Schemes (EIS).
- A broadcaster like Film4 or BBC films will usually invest in the film in terms of a pre-buy of the license to show the film on TV alongside an equity investment component.
- When friends and family invest in a film, they usually make an investment in the form of equity. Often the motive here is more to support the film-maker than to generate an economic return.

In addition to these three sources, banks can play an important role in the financing process by lending money to the production, though banks don't invest in the sense of earning a share of profits. You'll learn more about this as the week progresses.

1.2 How does distribution finance work?

As a producer, a pre-sale to a distributor is one of the most important potential sources of film finance. It brings money into the production pot and it ensures that the film will be presented to audiences.

But of course, distributors look at it somewhat differently. They are interested in securing a great product for their distribution system at the lowest cost and the lowest risk. Here's how Alex at eOne approaches film finance.

Video content is not available in this format.

[Video 3 Alex talks about film finance](#)



What do you think about the way a distributor thinks about investment in film? From his point of view it's an odds game. But from the point of view of the producer, it's more like life or death. Either the film gets financed or it doesn't. And this is a good example of the creativity vs. commerce conundrum with film. For some players, it's an 'act of love', for others it's a commercial enterprise.

1.3 Why there is public funding for film: culture

As you have learned, governments all over the world fund films on a discretionary basis. Now Ben Roberts of the BFI will explain why some films get funded and others don't.

Again, note the difference between the way a public funder approaches these decisions and the way a producer or distributor thinks of them.

Ben is being very frank here, and that's to his credit, but imagine what you would think as a producer if you came to understand that your film was 'in the wrong year'.

Video content is not available in this format.

[Video 4 Ben talks about why public funding for film is important](#)



1.4 Why there is public funding: the economy

Tax incentives are very important elements in the financing of independent film. In the first week of this course, Ben Roberts described some of the direct benefits to the film industry of the inward investment that such incentives help foster. It's time to consider this in some more depth.

The creative economy is big business. Within its role in the entertainment media industries, film is particularly attractive to economic development targets because it is perceived as creating knowledge-intensive jobs and bringing additional benefits to the economy, in the form of tourism and image. A film may help market the region or town where scenes were shot.

Because film activity is highly visible to the public, it appeals to policy makers who want to be seen as taking action to improve their local economy. Economic development initiatives aimed at attracting entertainment media are very different from those whose intention is to foster a 'creative class' or improve the local quality of life through cultural initiatives.

The global market for media entertainment products in general has continued to expand. Furthermore, there have been major changes in how media products are financed and produced. Producers can find locations globally which have excellent studio facilities and skilled production crews and where they may benefit from low-cost labour. Policy measures in European countries have transformed a film industry once based on protecting the expression of cultural distinctiveness, into one also oriented toward attracting global productions. National or regional subsidies, once reserved for culturally distinct productions for national or international niche markets, now finance films aimed at a broader audience.

2 The bank loan

Banks do not invest in films. They lend money to film projects which enables the producer to cash flow their production.

Banks loans are backed up by collateral or security in the form of film assets, which are in the main pre-sales distribution contracts and in some jurisdictions tax incentives. But lending money to a film production is still a relatively risky activity.

Judith Chann, head of the media department at the UK private bank Coutts, outlines three important considerations when she is evaluating whether or not to lend money.

Video content is not available in this format.

[Video 5 Judith Chann outlines considerations when lending money.](#)



Before agreeing to provide a loan to a film project, Judith assesses the project on three levels.

Firstly, the reputation of the producer or their colleagues is extremely important. A producer with a 'good track record' gives the banker a certain amount of comfort or confidence in the project.

Secondly, the completion guarantee provides expert, third party reassurance that the production team is likely to deliver the project on time and to budget, and that if it all goes wrong, the guarantor will step in and complete the project. (In Week 6 you will meet the completion guarantor, James Shirras, Managing Director of Film Finances, and learn more about his role, and in particular the role his company has played in the history of the business of film in the UK.)

Finally, in the pre-sales contract, the distributor undertakes to repay the bank on delivery of the film. Much depends on whether the bank is persuaded that the distributor can and will pay back the money.

2.1 The complexities

There are a number of subtleties in what's been covered so far. Review these points to make sure they're clear.

- When distributors finance a film, they often provide a contract committing them to buy the completed film. A bank then lends against that contract. Sometimes this is referred to as the bank 'discounting' the contract. The bank assesses the reliability and creditworthiness of the distributor and, on the basis of its risk assessment, lends an amount that it is comfortable can be repaid.
- A financier that agrees to actually provide cash during production is said to supply 'cash flow'. One of the jobs of the producer is to estimate the timing of cash requirements during production and match the expected outgoings with expected incoming amounts from the bank and the financiers.
- When a bank lends against a distribution contract, it faces two risks. There is the risk that the distributor does not do what it says it is going to do (which will likely trigger a lawsuit) or becomes financially insolvent. The bank makes an assessment of this **credit risk** on the basis of the reputation and financial statements of the distributor. Second is the risk that the film is not completed as expected and is not delivered to the distributor, so that the distributor's obligation to pay is not triggered. To remove this risk, many independent films use a **completion guarantee**. You will be hearing from a **completion guarantor** in Week 6. (Sometimes a completion guarantee is referred to as a 'completion bond'.)
- Sometimes a film will be made as a treaty co-production. This means that it is being made under the terms of a co-production treaty between two or more countries. For example, a UK–German co-production will obtain the preferred terms of being both a UK film and a German film in terms of soft money and other national support. For this to happen, the film will have both UK and German creative elements and will also need to have both a UK co-producer and a German co-producer. It will also have production (or post-production) spend in both countries. Many countries have bilateral co-production treaties (you can read about the [UK–China treaty](#) signed in 2014). There is also a general co-production agreement for European countries, called the [European Convention](#).

2.2 Fragmentation of the value chain

There are many cooperating players required to produce a film. This inherently fragmented value chain is particularly apparent at the financing stage.

To counter this problem, some producers try to establish long-term relationships with other finance companies, sales agents, and distributors in the value chain, in order to simplify the financing and production process, either informally (ongoing relationships) or formally (joint ventures, purchases, mergers, output deals).

This ultimately leads to the strategic possibility of vertical or horizontal integration: which is when a company (or consortium) owns players at different points in the value chain. It is therefore able to also earn money at different points – rather than just one point. An example of this was when Hollywood studios in the 1920s and 1930s used vertical integration and owned the actors, the directors, the production studios, the distribution network and the cinema chains. This meant they controlled the upstream suppliers and

the downstream distributors – ensuring massive profits, consistency of product, huge control over how the films were marketed and high entry barriers for potential competitors.



Figure 2 Pieces of the puzzle

The value chain is useful for demonstrating the advantages of integration. It also enables distinguishing between vertical integration (operating in different segments along the value chain, such as owning a production company and a sales agent) and horizontal integration, where a company owns several players in the same segment of the value chain. This is often at the exploitation end of the chain, where one company can own many media outlets showing the same content; for example a DVD label, a TV channel, and a website where films can be downloaded.

However, the principle of the two types of integration is the same: the company can earn income at more than one place in the chain. This is particularly relevant in the film industry, where there are different commissions and profit shares in revenue taken by different players in the chain (more on this in a moment). The more you can access these different revenue streams, the sooner you can earn money to offset against the expense of production, and the longer you can continue to profit.

3 What factors shape the finances?

Each film is a distinct proposition, and the particular characteristics of each film will dictate the kind of finance arrangements it enters into. The producer is at the centre of this process and is one of the key influencers, and right by his side, helping with all the negotiation, is his or her lawyer.

Here's film lawyer Charles Moore with a step-by-step guide to shaping the financial package.

Video content is not available in this format.

[Video 6 Charles Moore talks about shaping the financial package](#)



3.1 Market value

The first stage in putting together finance for a film is to understand the value the market puts on it. The producer can then see how this matches their budget for the film.

If the valuation from the market is lower than the cost of the film, then the producer has to make up the difference. That's when they'll turn to other sources of funding.

Let's understand how to go about assessing the value of a 'product' such as a film. First, the producer of the film project will hire a sales agent to produce something called the sales estimate.

As well as being a distributor, Alex Hamilton's company is also a sales agent. He explains the process.

Video content is not available in this format.

[Video 7 Alex Hamilton talks about how a sales agent operates](#)



The sales estimate is put together by the sales agent, who takes a look at the script, the director, the actors that are attached to the project and the other key elements, and literally estimates how much the film can be sold for in the different territories.

Activity 1 Reading a sales estimate

Allow about 10 minutes

Take a look at the [sets of estimates for a hypothetical British film](#). Note that the numbers are in US dollars, which is generally the currency of the international film business. Take a moment to think about the answers to the following questions and note any thoughts you have in the boxes provided:

1. What are the three most valuable territories listed?

Provide your answer...

Answer

Italy, France and Germany

2. Why might these be the three most valuable territories?

Provide your answer...

Answer

These are big territories in terms of cinema-going audiences. To explain the relative difference in numbers, it may be that the film includes an actor or story element that is particularly popular in France and Italy and slightly less popular in Germany.

3. Why might there be no number indicated for the UK?

Provide your answer...

Answer

It is probably because territory sales in the UK are being used to finance the film.

4. Why might there be no number indicated for the US?

Provide your answer...

Answer

It might be that the US is also being used as a source of finance. But the US is very difficult to sell for an independent British film. It is more likely that the sale agent is unwilling to put a value on the US which can often be worth nothing if the film is not bought and released there.

5. Why is there no entry for Austria?

Provide your answer...

Answer

Often rights are sold on a language basis. So the German rights might actually be for German language audiences, therefore including the German-speaking parts of Austria, Switzerland, Italy, etc.

There are a couple of additional points to make about the sales estimates:

- Sales estimates are often put together with a number of columns. There might be a column of best-case sales values, expected sales values, and minimum sales values. Generally, a sales agent agrees with the producer a set of minimum sales values, which means that the sales agent can sell for any price above this minimum. However, if the film only receives an offer below the minimum, the agent must seek the approval of the producer before making the sale.
- The word 'sale' is being used here, as is common in the industry. However, usually the rights to a territory are not sold outright. They are licensed to a distributor for a certain period of time, called the 'term' – maybe 7–15 years – in exchange for an initial license payment plus a share of 'overages' if the film does well in that territory. After the term of the license agreement, the rights to the film in that territory will revert to the sale agent or producer who is free to re-license.

3.2 Case study: Spooks – the financial package



Figure 3 from *Spooks: The Greater Good*, courtesy Shine Pictures

As you have seen, putting together the financial package for a film is a complex exercise involving multiple players. Now let's take a look at the financial package for our case study, *Spooks: The Greater Good*.

Activity 2 Sources of finance

Allow about 5 minutes

Before hearing again from the film's producer, Ollie Madden, take a few moments to think about the likely sources of finance for a film such as *Spooks*. (Consider how their situation may have been advantageous – if you remember, the film is based on a long running British TV show.)

Note your thoughts in the box below.

Provide your answer...

Discussion

Ollie Madden describes the financial package that was put together for *Spooks: The Greater Good*. Watch the video and consider how the reality compares to your thoughts around the likely financial package, and any particular advantages this film project had.

Video content is not available in this format.

[Video 8 Ollie talks about raising finance for Spooks](#)



As Ollie mentions, the completion guarantor, Film Finances, was concerned by the ambitious production schedule that Ollie and his team provided.

Spooks: The Greater Good had three clear advantages when it came to raising finance for the film:

1. The TV show was already popular in certain countries, which made it easy to pre-sell the rights to the film in those territories.
2. As a British film, it automatically qualified for UK tax credit.
3. Pinewood Pictures was able to fund the finance gap, and as distributor in the UK was able to pay a minimum guarantee against the UK distribution rights.

4 Week 4 quiz

If you'd like to test and apply your knowledge of the material in Week 4 with a few questions, click the link below. Note: this is not a requirement in order to continue studying, or to complete the course.

Complete the [Week 4 quiz](#) here.

Open the quiz in a new window or tab then come back here when you're done.

5 Film value chain and innovation

Financing a film is in many ways the most difficult part of the process, and is certainly very complex. You've learned about some of the sources of finance, including private and public, and how this affects film's cultural elements.

Maximising returns from adoption of digital models involves a number of new activities within the film value chain. These include early stage investment in audience engagement activities, such as building a buzz on social media (built into production budgets) and handover of some marketing control and data by the distributor to the producer.

Policy initiatives in the UK have explored the structural financial complexities of setting up similar, permanent joint ventures between producers and distributors. See the further reading section for information on the BFI joint venture scheme.

The value chain when viewed from an innovation perspective presents a sequential, three-phase process: idea generation, idea development, and the diffusion of developed concepts. Across all the phases, the creative film team must perform six critical tasks: internal sourcing, cross-unit sourcing, external sourcing, selection, development, and company-wide spread of the idea (Hansen and Birkinshaw, 2007). Each is a link in the chain.

To ensure the best value in a project, you need to take an end-to-end view of innovation efforts. To improve innovation and creativity, decision makers need to view the process of transforming ideas into commercial outputs as an integrated flow – rather like Michael Porter's value chain for transforming raw materials into finished goods.

Coming up in Week 5

Next week you'll see how all of this comes together, and how the film eventually gets produced. Go to Week 5.

Week 5: Making the film

Production: the cost and complexity of films

So far the course has focused a lot on the theoretical process of film production. This week will look more closely at a real example, to bring this learning to life. Here's Bharat to introduce the week.

Video content is not available in this format.

[Video 1 Bharat talks about the cost and complexity of film production](#)



This week will provide more information about jobs within numerous production departments. Making a film takes a lot of work, and there are a lot of moving parts. It can only be completed through the collaboration of a lot of people, and because the process can be so complex, thorough planning is essential. To demonstrate these points, a few of the course contributors will explain their role in the making of *Spooks: The Greater Good*, and how a production schedule is established.

Before filming a scene, it needs to be broken down to its component parts. This is how the specific shooting requirements are determined, and it's planned accordingly involving the necessary departments. You'll practice this by breaking down the requirements for shooting a specific scene from *Spooks* based on the script contents.

1 The producer's role: 'make our days'

In the first part of this week, you're going to take a look at who does what on a film production. To get started, let's meet some of the most influential people involved in the making of a film.

Ollie Madden has appeared a few times now – he is the producer of *Spooks: The Greater Good*. He describes his role in the production process from scheduling through to the production itself. You will also hear from Simon Bowles, the production designer, and finally, Clare MacClean, the post-production supervisor. They will describe their roles in the making of the film.

Video content is not available in this format.

Video 2 Ollie Madden, Simon Bowles and Clare MacClean describe their roles in the production process



Next, you'll take a brief look at how people get paid in the film business, before moving on to other roles involved in the production process.

1.1 Job roles and how they are paid

Not everyone in the production process or in the value chain receives income in the same way, or even always in one single way.

For example, some, like production crew, are paid fees over the course of the production, from production budgets, before the product is completed. These fees are mostly fixed. Others, like equity financiers, earn income from revenue streams coming from actual sales of the finished product (but only after exhibitors, distributors, and sales agents have taken their commissions and expenses from that revenue). The timing and levels of these deals vary from film to film.

Other players (like key acting talent, writers and directors) are entitled to receive both: they are paid fees during production, but then also share in revenue when certain levels of income are reached and equity investors in primary positions are paid off (they may also receive separate fee deferral payments at some stage during the recoupment schedule). These kinds of 'profit participations' are a standard part of industry compensation structures.

This is a departure from 'conventional' industry value systems, where a supplier company would only be paid a flat fee for providing goods or services, and would not also expect a share of the manufacturing company's profits. This staged introduction of profit shares, sometimes at different moments during the recoupment process, might interfere with the clarity of the accounting process and even the long-term profitability of the production company or film financier; as well as making the profitability and return on investment (ROI) of an individual film much harder to quantify.

What do they do?

Beyond the director, producer, camera operator and so on there's an army of people working on the project. What do they do?



Figure 1 Film-making in action

Activity 1 Work duties in film

Allow about 10 minutes

Look at the list of jobs below. Make some notes in the boxes provided about what you think their key duties and responsibilities might be.

Job title	Responsibilities
Production accountant	<i>Provide your answer...</i>
Locations manager	<i>Provide your answer...</i>
Prop master	<i>Provide your answer...</i>
Production designer	<i>Provide your answer...</i>
Director of photography (DoP)	<i>Provide your answer...</i>
Gaffer	<i>Provide your answer...</i>
Assistant director	<i>Provide your answer...</i>
Camera operator	<i>Provide your answer...</i>
Key grip	<i>Provide your answer...</i>
Script supervisor	<i>Provide your answer...</i>

Discussion

The main job roles are summarised below.

Job title	Responsibilities
Production accountant	Responsible for keeping track of all costs incurred on the production; reports to Line Producer regularly on costs incurred so far and how those costs compare to what should have been incurred according to the budget
Locations manager	Responsible for finding all locations, getting approval of the Director and other key creatives, and contracting for the rights to use the location in line with the locations budget
Prop master	Responsible for making sure all the props are secured in line with the budget and are available on set when needed
Production designer	Responsible for overall look of the film in terms of objects that are shown on screen and sets and locations
Director of photography (DoP)	Responsible for the overall look of the film in terms of lighting and camera movement
Gaffer	Overall responsibility for the lights – their availability, maintenance and placement on set

Assistant director	Responsibility for the schedule and for putting out a daily 'call sheet' that indicates what scenes will be shot on that day and what cast are required
Camera operator	Responsible for the camera and its movement on set when shooting
Key grip	Overall responsibility for light stands, camera stands and rails on which the camera moves
Script supervisor	Responsible for keeping track of what parts of the scenes have been shot and which parts are still to shoot, and also for 'continuity'

1.2 Retaining people

A key part of competitive business strategy involves aligning an organisation with its strategic environment. It is therefore vital for those running businesses in the film industry to fully understand the value chain they are working in.

A vital aspect of this is retaining people, and with people comes talent.



Figure 2 Another film crew in action

There has recently been a rise in interest in the analytical concepts of the film value chain and value system. This is a result of changes in the economics of film financing and distribution, which threaten the existing business models (these are already made less secure, for example, by technological convergence, the decline of DVD sales and the continued growth of digital downloads and streaming).

Film is a freelance business and producers often find it very difficult to retain key creative talent across many films. Sometimes this is made worse by the financial power of the studios to lure key talent away to other film projects. This may increase fragmentation because teams have to be reformed anew for each new film, leading to difficulties around

organisational learning and knowledge management, as the teams have less of an opportunity to learn across many projects. It may also lead to a more open creative environment with creative ideas and processes more easily spreading between teams.

It could be said that securing an ongoing and close relationship with key creative talent (especially writers and directors) should be the key strategic aim of most independent film producers; many producers have formal and informal ties with writing or directing talent that last over several films. However, other producers work with different 'creatives' from film to film and only occasionally work with the same people. In both cases, producers are acting to broaden and secure their access to talent.

2 The schedule

Nicky Earnshaw is Head of Production for Pinewood Pictures, who were involved in the production of *Spooks: The Greater Good*.

Nicky is going to be talking about the importance of the schedule to the production. She talks about the people who are responsible for its creation and the kind of information it provides in the production process.

Video content is not available in this format.

[Video 3 Nicky Earnshaw talks about the importance of the schedule to the production](#)



As Nicky explained, it is often the line producer who takes a script in the first instance to begin the scheduling process. It is at this stage that you begin factoring in all the actors, extras (called 'background'), props and other items required in each scene.

The script breakdown

To identify your costs, you have to examine the script closely and analyse each scene very carefully. This is called the script breakdown. The schedule (and therefore the budget) is built up scene by scene. Here Nicky talks about the kind of things you have to take into account when breaking down a scene.

Video content is not available in this format.

[Video 4 Nicky talks about breaking down a scene](#)



2.1 Breaking down a scene

The following activity will allow you to break down a scene for yourself.



Figure 3 A still from *Spooks: The Greater Good*

Activity 2 Breaking down a scene

Allow about 10 minutes

Now, imagine you are the line producer. It is your job to take this scene from the movie, *Spooks: The Greater Good*, and think about it in terms of the various elements it contains.

[Download the script here](#) and have a read. For some context, the scene takes place in Moscow. It's night. Our hero is being chased down by Russian mobsters.

When you've read the script, think about everything that you'd need in order to film the scene. Each element needs to be provided by the corresponding department, for example the props by the props department. Various departments are listed below – use the provided boxes to note which scene elements you'd need their help with.

Department	Element
Stunt department	<input type="text" value="Provide your answer..."/>
Art department	<input type="text" value="Provide your answer..."/>
Extras agency	<input type="text" value="Provide your answer..."/>
Locations department	<input type="text" value="Provide your answer..."/>
Props department	<input type="text" value="Provide your answer..."/>
Wardrobe department	<input type="text" value="Provide your answer..."/>
Special effects	<input type="text" value="Provide your answer..."/>
Grip department	<input type="text" value="Provide your answer..."/>

Discussion

Discover how the scene turned out in the video below.

Video content is not available in this format.

[Video 5 Scene from *Spooks: the Greater Good*](#)



Here are some suggested elements from the script. This is not an exhaustive list so don't be surprised if some of the elements you identified do not appear.

Department	Element
Stunt department	Will jumping through the window
Art department	Special breakaway glass
Extras agency	Diners in the restaurant
Locations department	Road closure for car screeching off
Props department	Drinks in the bar
Wardrobe department	Will's suit
Special effects	Wet down/rain effect on the pavement (or more likely it was just raining)
Grip department	Camera mounted on the bonnet of the car

2.2 Scheduling the film

There are a number of key steps in scheduling and budgeting the film:

1. The assistant director (AD) does a **breakdown** of the script, looking at each scene and analysing where and when it takes place, who is in it, and all the key logistical issues involved.
2. The AD takes these scene summaries and orders them in what makes the most sense logistically and/or financially. In the old days, an AD would have physical strips

of card for each scene which they would arrange and rearrange until the order made sense. Nowadays it is all done on-screen, of course.

3. In ordering the scenes, the AD will bear in mind a number of logistical and cost issues, for example:
 - Crew moves are expensive and difficult, so generally it's preferred to shoot all scenes at a given location together.
 - However, this needs to be balanced by the need to accommodate actors' schedules and costs, so it may be necessary to shoot all/most of a particular actor's scenes in the least time possible.
 - It may be that there is a particularly expensive piece of equipment – e.g. tank or aeroplane – that needs to be shot as quickly as possible.
 - Weather-dependent scenes (e.g. snow) obviously need to be shot at the right time of year.
 - The risk with any exterior scene is that it might rain (assuming the scene itself does not call for rain). So whenever an exterior scene is scheduled, the AD needs to have an alternative scene available, i.e. required locations, actors and props etc. all standing by. This scene is referred to as a **cover set** or sometimes **rain cover**.
 - Often scenes scheduled to be shot in a studio (sometimes referred to as a stage) are good as rain cover, if the studio is fairly close to the location. Sets on studio stages need time to be built and broken down, and that needs scheduling.
 - Night exteriors generally need to be shot at night. It is good to schedule night exteriors together, so the crew is not jumping between working during the day and the night.

When all these factors are taken on board, the AD is able to come up with an overall schedule for the shooting of the film which indicates what the production plans (and needs) to do on each day to 'make their days'.

2.3 Other costs and considerations

Up to now, the focus has been on the cost associated with what you see on screen, such as cast, stunts, wardrobe, vehicles and so forth, but there are other costs too.

In this video clip, Nicky talks about some of the other factors a line producer has to take into account when considering the budget. Make a mental note of the types of costs and considerations she mentions.

Video content is not available in this format.

[Video 6 Nicky talks about other factors a line producer must take into account](#)



2.4 The final budget

You've heard about how the final schedule for the film is determined. This has direct budget implications because it indicates for how long actors, crew, locations, special props, studio stages and all other people, places and items will be needed. Most of these will be charged to the production on a per week (or per day) basis.



Figure 4 Budgeting

The schedule enables the line producer to prepare a budget for the film based on the cost. Nicky was just talking about the costs that result from the schedule and the line producer's own understanding of cost items. Costs are often broken down into these two general terms:

- **above the line costs** – key actors, producers, director, writers, historic development costs, etc.
- **below the line costs** – all the remaining costs of the shoot and post-production.

A film production is organised in departments. There is the **camera department**, the **electric department** (for lights), the **grip department** (for stands and tracks), the **art department** (for overall production design), the **wardrobe department**, the **make-up department**, the **production department** (containing line producer, production accountant and other individuals helping organise the shoot).

Each of these departments (other than production) will negotiate with the line producer about the budget for their department, which covers the people they need to hire and the items they need to purchase or rent. This is a key process of refining the budget that needs to result in the same overall number that the financiers have agreed to.

The budget will also include a contingency (generally 10%) to cover unexpected items. Once the budget is locked, the **production accountant** is responsible for producing **cost reports** which indicate what items and departments are above or below budget and by how much. This indicates whether actual incurred costs are in line with expected costs and whether there is a cost problem. But the budget itself does not change.

3 Making your film bigger than it costs

You have heard in the interview clips about how tight the budget was for *Spooks: The Greater Good* and, as a consequence, how short and packed the schedule was.

Next, you're going to hear more from Ollie, Clare and Simon on how they made the most of their budget to create a film that, in their view, delivered a film of scale despite the relatively restrictive budget. In the activity below, you'll get a chance to record your own ideas about how to approach this challenge.



Figure 5 *Spooks: The Greater Good*

Activity 3 Making the most of a budget

Allow about 5 minutes

Take a few minutes to think about how you could make the most of a restrictive budget. What kind of solutions might give a film like *Spooks* the scale it needs to compare with other studio films in the genre, such as the Bond movies, that have much bigger budgets?

Make some notes in the box below, and then click 'Reveal discussion' to compare your ideas to the approach the team took during the production of *Spooks*.

Provide your answer...

Discussion

Producer, Ollie Madden, Post Production Supervisor, Clare MacClean, and Production Designer, Simon Bowles, tell us about various tricks of the trade that they used to lend scale to their movie.

Video content is not available in this format.

[Video 7 Ollie, Clare and Simon talk about the tricks of the trade](#)



In particular, in post-production the sound design is critical, as is the music score. Another effective way to create space and variety is in the grade or the look of the film. Clare explains that they were able to provide a different look by playing with colour for different parts of the film. So, for example, there was a different look for Russia and for flashbacks. Also, the film was fortunate in having London as its backdrop. Clare and Simon explain how they made the most of the city as the signature location.

4 Week 5 quiz

If you'd like to test and apply your knowledge of the material in Week 5 with a few questions, click the link below. Note: this is not a requirement in order to continue studying, or to complete the course.

Complete the [Week 5 quiz](#) here.

Open the quiz in a new window or tab then come back here when you're done.

5 Producer and project

You've heard from the production team about how a film is made, and you've brought together your learning from the past five weeks to think about how people, schedules and budgets relate to the final product.

Producers play an integral role in the television, film and video industries. In general, this role is both creative and organisational. However, there are many different kinds of producers. A 'creative producer' is more focused on the creative side. A 'line producer' is responsible for the organisation and financial control of a film. 'Producer' has been used in this course to indicate the individual with overall creative and organisational responsibility.

A producer will oversee each project from conception to completion and may also be involved in the marketing and distribution processes. Producers work closely with the directors and other production staff on a shoot. Producers arrange funding for each project and are responsible for keeping the production within the allocated budget.

Producers are responsible for facilitating a project and are involved in every stage of the film. The role of the line producer is comparable to the more generic role of the project manager – a person who has the overall responsibility for the successful initiation, planning, design, execution, monitoring, controlling and closure of a project. This job title is used in many different industries that produce products and services.

One of the key roles of a project manager and film producer is the recognition that risk directly impacts the likelihood of success, and that this risk must be monitored throughout the lifetime of the project. Most of the issues that impact a project arise from risk. A good project manager and a good film producer, with the help of the line producer, can lessen risk significantly.

In theory, the line producer deals with all the practical and political aspects of keeping a project running smoothly, so that the producer, director and the rest of the team can concentrate on the creative aspects. This works much in the same way that a project manager on a building construction project will keep the project running, so the architect and designers can concentrate on the creative aspects of the job.

Coming up in Week 6

Next week you're going to take a look back into the production archives of the very first Bond movie, Dr. No. Then you'll think about what the future holds for the independent feature film business. Go to Week 6.

Week 6: Film: past and future

Introduction

You have almost reached the end of this exploration of the film industry. Bharat now introduces the final week of material on this course, and begins to wrap up.

Video content is not available in this format.

[Video 1 Bharat sums up the course](#)



This course has examined how films are developed. You have considered where film ideas come from and how to secure the necessary rights to turn an idea – whatever the source – into a screenplay.

You've learned how the development process works as the financial package is put together, and how films are exploited in the market through the system of windows that still persists today. In Week 3 you looked at marketing strategies for film and the economics of the box office. You learned about the various sources of funding for film, from commercial industry and public sector sources. Finally, you examined the process of film production itself. You familiarised yourself with the roles and responsibilities of those involved, and the basic principles of scheduling and the production budget.

Throughout the course these learning points have been supported by explanations from the case study film, *Spooks: The Greater Good*. Each week, the team behind its making has shared their experience of the development, production and distribution of their film.

This week, it's time take a step back. At the end of the week, there is a chance for you to consolidate your knowledge by taking a test covering material from throughout the course. But first, you're going to examine the importance of the completion guarantee, and from there you'll take a look back into the production archives of the very first Bond movie, *Dr. No*. After that, with the help of the course contributors, you'll be asked to think about what the future holds for the independent feature film business.

1 Looking back

What is a completion guarantee? This has been mentioned already in this course – it's sometimes referred to as the completion bond. James Shirras, Managing Director of Film Finances, the first ever company specialising in completion guarantees, explains the origin of the concept.

Video content is not available in this format.

[Video 2 James Shirras explains the origin of the guarantee](#)



Founded in 1950 at a time when the banks had grown extremely nervous about lending to film producers, his company has been providing completion guarantee services to financiers ever since. In the process it has amassed an archive of documentary records for several thousand films. This extraordinary archive of production documents relates to some of the most famous British films, particularly from the 1950s and 1960s. There are documents to be found in the archive from films such as *The African Queen*, *Zulu*, *Cabaret* and *Dr. No*.

Before taking a much closer look at the *Dr. No* case study, let's find out why the completion guarantee is so important and what a completion guarantor does – especially when the film production gets out of hand. Here's James Shirras again.

Video content is not available in this format.

Video 3 James Shirras what a completion guarantor does



1.1 The first of the Bond movies

The image below is taken from the production documentation for the first James Bond movie, *Dr. No*, held in the archive of Film Finances. It is an extract from the beginning of a chain of communications involving the completion guarantor, Robert Garrett, and the producers of the film, Harry Saltzman and Albert 'Cubby' Broccoli. The report suggests that Film Finances should consider providing a guarantee but also carries a warning regarding the director of the film, Terence Young.

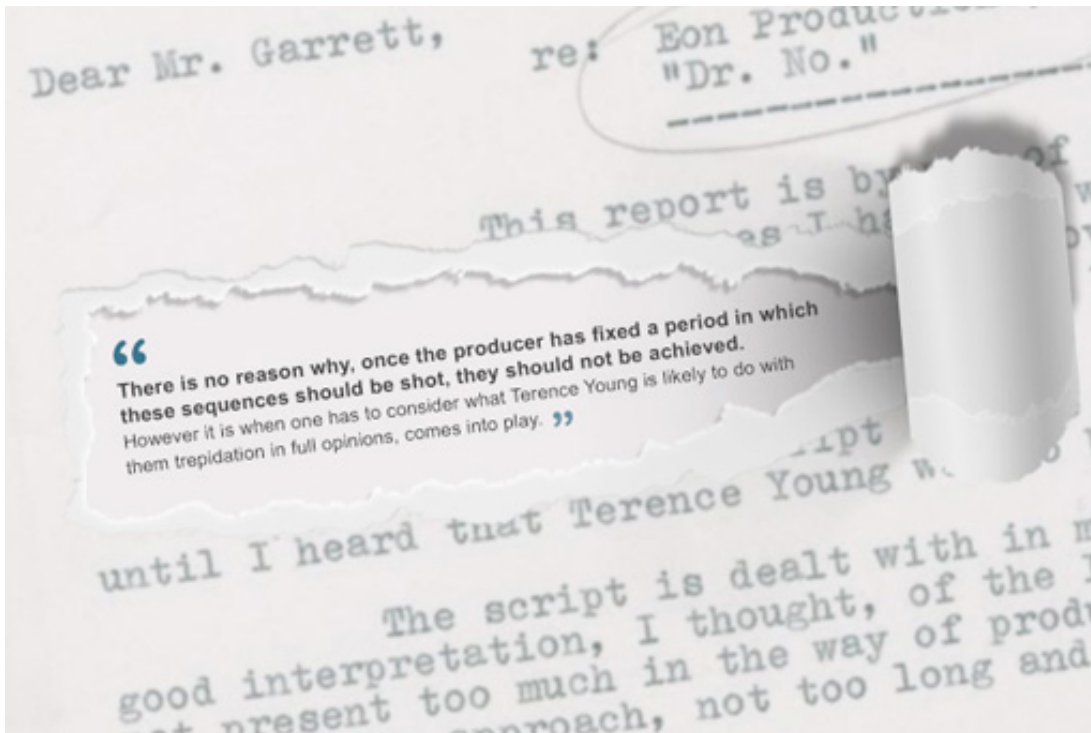


Figure 1 Production documentation from *Dr. No*

In return for a fee based on a percentage of a film's budget, completion guarantor Film Finances offers a guarantee to investors that a film will be completed for an agreed budget in accordance with a distributor's specified requirements, and undertakes to meet any unforeseen overcost. In the highly unpredictable business of film production, it is this essential undertaking that persuades banks to support independent production. At this stage it looks like Film Finances are willing to provide such a guarantee to the *Dr. No* production team.

Film Finances will only make such a serious commitment after its experts have conducted a thorough examination of script, budget and schedule, satisfying themselves that the producers have a viable plan to make the film for the agreed sum.

The nature of the company's role means that it has the right to monitor the production of *Dr. No* closely. It also has the right to take over a production when it believes that the film-makers risk exceeding the budget without good reason, and to recover any investment it had made from the box office takings.

1.2 When it all went wrong on *Dr. No*

Take a look through this video slideshow. It contains excerpts of documents from the *Dr. No* production.

You can access the video transcript below to read the full documents more easily than pausing or rewinding. (The main quotes from each excerpt are also provided as a separate downloadable file here: [Dr. No correspondence](#).) These documents relate to a sequence of events that took place while the film was in production.

Video content is not available in this format.

[Video 4 When things go wrong](#)

PROPS: As per script and breakdown to include 3 bamboo poles from canoe, hermit crabs and repeats, as arranged with Syd Cain, special pink shells, Honey's knife, face mask, snorkel, canvas sack, Bond's gun, Quarrel's guns, applejack jar, loud-hailer and all props for weather standby.

SPECIAL EFFECTS: Frank George to be on location with gas-operated machine gun and bullet effects.

ART DEPT: To supply on location set dressing of debris and drift-wood and six men for beach cleaning and sweeping.

VEHICLES: All vehicles to park outside Jamaica Power Service Plant. QUARREL'S CANOE - HONEY'S CANOE - GLASS-BOTTOMED BOAT - CATAMARAN - RUNABOUT BOAT. DR. NO'S LAUNCH (if available)

FIRST AID: Unit Nurse to report to Carib Hotel at 7.30.

CATERING: Lunch, morning and afternoon teas to be served on location, as arranged with Mr. Munn.

PRODUCTION: 2 Policemen to be at Carib Hotel at 7.30 a.m. please.

TRANSPORT: All transport to report to Car Park Carib Ocho Rios and heavy equipment and generator to leave at 7.15 a.m. The unit will travel in normal vehicles to locations.

In June 1961, Harry Saltzman and Cubby Broccoli formed a partnership to produce the James Bond films based on the Ian Fleming novels. *Dr. No* was the first of these. Later that year, Film Finances agreed to provide a completion guarantee. The first day of shooting was 16 January 1962.

r Sirs,

"DOCTOR NO"

We refer to the advances made by us towards the cost of production of this film which advances were secured by the charge created by you in our favour and dated 10th April 1962. We hereby certify and confirm that as at the 31st December 1963 the amount outstanding in respect of advances made by us towards the cost of production of this film was £59,890 and that at the 31st December 1963 all such sums together with interest payable in respect thereof had been duly repaid to us and the charge created by you in our favour was duly discharged.

Figure 2 Further correspondence from *Dr. No*

The first document is the call sheet for the famous scene where Ursula Andress, who plays Honey, makes her iconic entrance from the sea. By the end of March, the producer Saltzman admitted that production was going over budget, and within a week Robert Garrett of Film Finances informed Saltzman in a letter that they would be taking over the film. Shortly after that, Garrett wrote to Eon Productions complaining about the over-

expenditure on sets. He was clearly very unhappy with the situation. But by November 1962, Film Finances were in a much happier place with the production.

In a letter to the insurance broker they were upbeat about the prospects of the film. The story ends on 21 January 1964, when Film Finances received repayment in full for the money they had to advance to the production to cover the overcost.

And so the first Bond movie was made – and of course, the James Bond franchise has continued ever since.

2 The cost of independent production

After this journey back in time to the archives of the *Dr. No* production, now it's time to look to the future.

It is perhaps surprising how much remains the same in the industry, despite the growth of new distribution platforms and alternative entertainment. The mechanics of developing and releasing a film remain largely the same. The cinema release is still generally the all-important first window.

However, Charles Moore, who appeared earlier in the course, foresees fundamental change, as he explains in this video clip. As a film lawyer he works with many, many producers, helping them raise the funding for their films. Raising money for independent productions, according to Charles, is becoming more and more difficult.

Video content is not available in this format.

Video 5 Charles Moore explains that it is becoming more difficult to get funding for independent productions



2.1 Who holds the power?

Week 1 introduced the idea of a 'triangle of power' in the film industry existing between talent, money and distribution. Talent refers to 'stars' of the screen or at least well-known actors, artists and even celebrities. At that point in the course you considered this question: who among these three types of individuals or organisations is 'in charge'? Who has the ability to get things done? You may not have had any strong opinions before – but perhaps you have some ideas now.



Figure 3 Triangle of power

Activity 1 Revisiting the triangle of power

Allow about 5 minutes

Armed with the knowledge and insight of the past few weeks, return now to these questions. Decide who you think holds the power, so to speak, and whether you expect any fundamental changes to this dynamic in the future. Note down any thoughts in the box below.

Provide your answer...

2.2 The future

Charles Moore is adamant that the industry is about to experience real change. He foresees a very difficult future for the independent producer. In this activity, you'll hear his views and see whether you agree.

Activity 2 The future of independent film

Allow about 5 minutes

Watch this video clip. Do you agree with Charles' view about the future for independent features? And do you agree with his analysis of the power game in film today? Note down your thoughts in the box below.

Video content is not available in this format.

Video 6 Charles Moore talks about the future for independent production



Provide your answer...



Figure 4 Mobile devices have impacted film viewing and distribution

Now consider distribution. As you have learned, the windows system shifts a little in timing as technology changes but remains essentially intact.

The cinema is still seen as the first release window and can make or break a film financially. The success of film in subsequent windows for most major independent releases is dependent on success at the box office, even if the box office itself is not profitable.

But is the film industry you have learned about on this course changing?

Activity 3 The future of distribution

Allow about 5 minutes

What do you think will happen to distribution in the future? How could the market for independent film change? Note down your thoughts in the box below. The discussion will then present some thoughts from a few of the course contributors.

Provide your answer...

Discussion

Ben Roberts from the British Film Institute and Ollie Madden join Charles in considering what the future holds for film distribution and what the appetite is for feature films among audiences bombarded by so much choice.

Video content is not available in this format.

[Video 7 Ben Roberts, Ollie Madden and Charles Moore consider what the future holds for film distribution](#)



There are a lot of potential future changes to the market for feature films and the value chain, resulting from digital technology innovations and convergence:

- the continued growth of internet downloads and video-on-demand
- the digitisation of the whole film-making process making possible ultra low budget film-making as well as extraordinary visual effects
- the digitisation of cinema screens, which reduces physical distribution costs and makes possible the cinema release of niche films and back catalogue as well as alternative content such as live opera and TV premieres
- the short-circuiting of the value chain, by producers' theoretical ability to market and distribute their films directly to the consumer – though attracting audiences is still an issue
- the increasing role in distribution and production of internet-based retail players like Netflix, Amazon and Apple/iTunes.

The harder question is how all this change will impact on the value chain. While people may pay to view their films in different ways, it has been suggested by some that the basic economics of the film industry may not be substantially altered by these changes.

3 End of course quiz

If you'd like to test and apply your knowledge of the material throughout this course, click the link below. This has more questions than the previous weeks' quizzes. Note: this is not a requirement in order to complete the course.

Complete the [end of course quiz](#) here.

Open the quiz in a new window or tab then come back here when you're done.

4 Better business, better films

Throughout this course you have started to develop your understanding of the film business and gained tools to enable you to plan and manage your own production and project. The value chain has been a central theme throughout.

Every organisation, or project, needs to deliver value to their customers in order to achieve competitive advantage. When you are managing your organisation or project you need to understand which activities you undertake are especially important in creating that value and which are not.

The value chain can help you analyse the strategic position of your project or organisation both as a generic description of activities and to analyse the cost and value of activities. Getting the distribution model and intellectual property right at the start will lead to making the best decisions along the way. It will enable you to have a clearer pitch to present to financiers and distributors and to secure key talent.

The film business model is changing. The emergence of new technology is opening up different production and distribution models, generating more competition from emerging talent. Their work will appeal to a new generation of audiences. Distribution is no longer just about the cinema or DVD release and the traditional distributor. VoD and online distributors are a proven option and for some will be the distributor of choice.

That is the future, but even today the economic value of the film industry to the UK should not be underestimated. It is a multi-million pound industry and significant employer that operates on a worldwide scale, as shown in Figure 5.

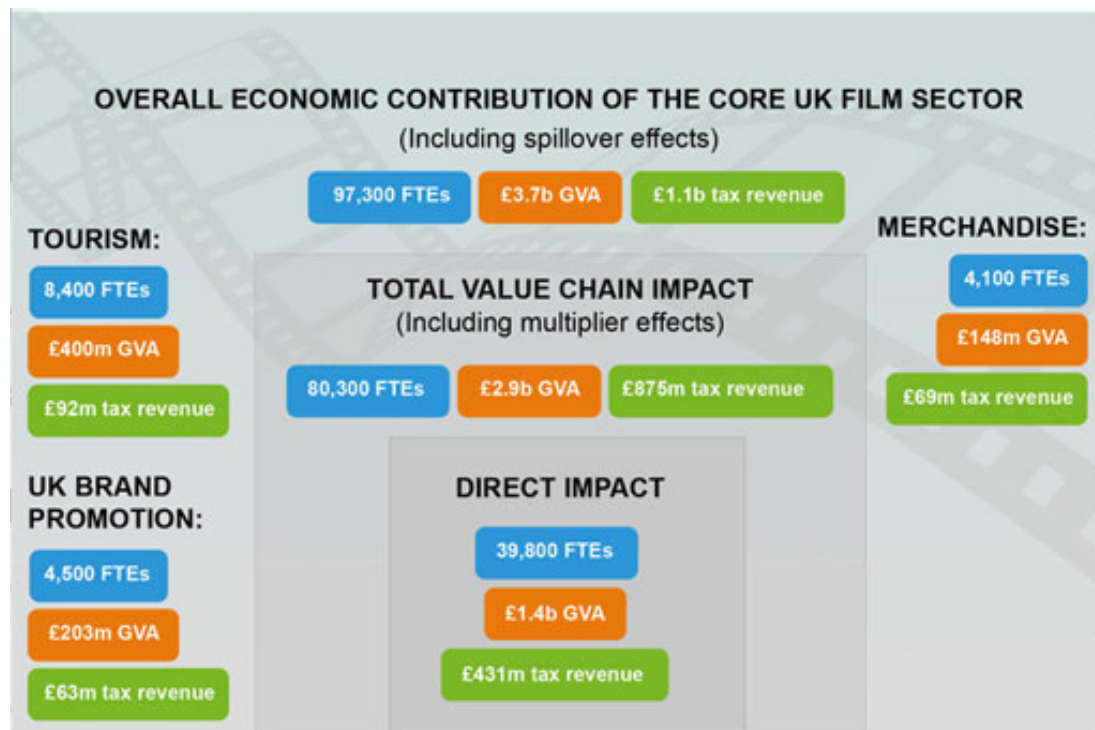


Figure 5 Overall economic contribution of the core UK film sector (Olsberg SPI and Nordicity, 2015). The BFI website also contains detailed annual industry reports, if you want to investigate further.

To put this into context:

- In 2013 the core UK film sector supported 39,800 full-time equivalents (FTEs) of direct employment and contributed £1.4 billion in direct gross value added (GVA).
- The UK film sector generated nearly £1.4 billion in exports in 2013, yielding a trade surplus of £916 million.
- The UK film sector displayed the highest export intensity of any UK service sector in 2013.
- The UK film sector has made private sector capital investments in the UK of more than £425 million since 2007.
- Of the £21 billion of tourism spend by overseas visitors to the UK in 2013, an estimated £840 million can be attributed to film-induced tourism.

A successful film is not just about the quality of the film on screen, but about managing the production, securing the right funding, IP, the distribution agreement, and attracting the right talent for each part of the value chain.

5 End of course round-up

You've now reached the end of The Business of Film. Hopefully you've enjoyed the course.

Just like in any other business, understanding the key business elements of film will enable you to become a better film-maker and operate with the confidence to ensure your contribution in the process leads to a successful film.



Figure 6 8mm film camera lens

Now that you've reached the end of this course, you should be able to:

- recognise the contribution of film to the economy and how this business model is changing in the digital era

- appreciate the impact of emerging platforms on the traditional distribution and marketing of film
- understand the processes involved in selecting and selling a film idea, given the changing concept of ownership in a digital world
- demonstrate an understanding of how films are financed and the opportunities emerging investment platforms have on film finance
- identify and understand the impact of future trends and changes on the film industry and its stakeholders.

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Further reading

You can read more from the BFI about the economic impact of film in the UK at [BFI UK Film Economic Contribution](#), and its cultural impact at [BFI Cultural Impact reports](#).

To find out more about UK qualifying inward investment, you can see [BFI: British certification and tax relief](#).

To find out more about the value chain, you can read this OpenLearn article by Hilary Collins, '[Porter's value chain and the business of film](#)'.

[GeekTyrant: The decline of original movies infographic](#)

[Short of the week: Has hollywood lost its way?](#)

[OpenLearn: Collective creativity](#)

[British certification and tax relief](#)

[BFI film fund](#)

[Creative England production funding](#)

[BFI: joint venture scheme](#)

Acknowledgements

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Video 1: The Open University. Still image visible in video from *Spooks: The Greater Good*, courtesy of Shine Pictures

Video 2: The Open University

Video 3: The Open University

Video 4: The Open University

Week 2

Figure 1: Posters courtesy of Ronald Grant Archive

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Video 5: The Open University

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Week 3

Figure 1: The Open University

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Week 4

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Week 5

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Week 6

Figure 1: courtesy of Film Finances archive

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Video 5: The Open University

Video 6: The Open University

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