TRAVEL REPORT

Australian Government | SCREEN AUSTRALIA

American Film Market (AFM)
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AFM 2009 was a crystallising point for the independent film industry. The paradigms for financing, production and distribution of independent film worldwide have shifted permanently. Not only is AFM a follow up to the Toronto International Film Festival but it's also the largest sales event on the North American film calendar. The tone of AFM indicates that film finance and distribution is at this moment "holding its breath." There were sales at the market, but on the whole, the industry is reeling from the lack of presales and the dearth of significant sales for independently produced pictures. No one seems brave enough to even hypothesise about what will happen next.

The first ructions began years ago with the advent of the global financial crisis, changing viewing habits, piracy and the collapse of television as a revenue source for the financing of independent films.

Then, at the Toronto Film Festival 2009, which used to be a premier event for the purchase of films by studios and independent distributors, there was only one sale announced during the festival: the acquisition of *A Single Man* by the Weinstein Co. The reported price paid for this Colin Firth starrer was $1 million USD at a festival in which multi-million dollar acquisitions used to be the norm.

Initially, producers and sellers simply believed that the days of film festival acquisition mania had just metamorphosed into a more deliberate approach by buyers. That is, the buyers were not going to make the mistake they made in earlier times by overpaying for the wrong films. They would thoughtfully take the picture back to the office, show it to the marketing experts and the sales staff and determine what the movie was worth and then make a corresponding offer. At this point, buyers still believed they would be able to recoup their production budgets from a robust American sale.

They were wrong. Offers did come later – but they were nothing like the heady days of the purchase of *Wolf Creek* or older titles like *Shine* and *Muriel's Wedding.* A "good" offer for North America for an independent film like most of the ones Screen Australia makes is now $300,000 USD.

What is of great importance to Screen Australia at this moment is that the brass ring that Australian films have shot for in the past has, at least temporarily, disappeared. Expectations need to shift accordingly.

And the advances for North America, while still substantial sums of money, are unlikely to allow SA to recoup on any title alone. What will become more important as time goes on is not how much distributors are going to pay for the film, but rather the *quality* of the distributor. That is, in the face of limited distribution advances, track record, marketing skills, P&A commitment etc will be the most important factors to consider when closing distribution deals for North America.

Toronto is the lead-in to AFM. It's mentioned here to set the tone for what was widely thought to be the quietest AFM in history. Sales and attendance were way down. There was an observable reduction in the number of attendees in the lobby and hallways of the Loews Hotel and while of course there were some exceptions, most Australian titles (and most titles in general it must be said) struggled to find distribution in most territories.

It is important to note however that the Independent Film & Television Alliance (IFTA) had the same number of registrations as years previous – the theory is that the buying companies sent significantly fewer reps to cover the market.

Why is independent film finance and distribution suffering?

There are several reasons:

Television is not buying movies like they used to. Not only has programming changed to exclude movies in favour of premiere entertainment (news, sports, scripted drama, reality – anything fresh to give urgency to the broadcast window), but also ad revenue has dried up as a result of the global financial crisis. Distributors in territories across the world can no longer count on a substantial TV sale to cover their downside risk when they acquire a title.

Also, this situation has made the likelihood of international presales extremely low. They were a cornerstone to feature film financing that now, in essence, exists only in special circumstances. In most cases, presales are only available if a producer has name actors, a name director and a strong marketable concept in a recognizable genre. (Are these elements – not available to most Oz producers – now a prerequisite to making a feature film with a chance in the marketplace?)

Conglomerates own cinema chains. These conglomerates rely on the high-value, steady stream of star-driven, spectacular studio product to thrive. That relationship takes precedence over any relationship with smaller distributors. Smaller movies put out by smaller distribs suffer from lack of exposure.

There is a movie glut that isn't supposed to diminish until at least 2011. This leaves good movies in the marketplace now with an uphill road toward acquisition for reasonable prices in major territories.

The global financial crisis itself has, of course, been a problem. There's less money around in general, but more specifically, there are fewer institutions lending money. Much of the independent film finance was debt-driven. With fewer lenders, fewer movies will be made. Before the crisis there were 45 banks willing to lend for the purposes of film production. At the time of AFM 2009 there were 12 banks left in that business.

Theatrical is expensive and unless a movie is enormously successful, theatrical most often serves as a loss-leading advertising campaign for ancillary exploitation of any title. Theatrical is under a huge amount of pressure at the moment. Not just for independents, but also for the studios. Movies need to be “events” in order to get people to make the investment of going to the cinema to see them. And the cost of P&A is astronomical – distributors are less and less likely to want to take the risk of a huge P&A commitment.

Piracy is eating away at all windows of exploitation of feature films. (*Poultrygeist – Night of the Chicken Dead* was already being distribbed in China on DVD with its own key art before the film was actually finished, according to the film’s director/ producer Lloyd Kaufman of Troma, Inc. and president of IFTA).

DVD as a revenue generator is a shadow of its former self. The sell-through market that popped up unexpectedly when DVD was launched a decade ago has diminished considerably. Another source of movie revenue has declined.

Under this kind of pressure, distributors have no choice but to pay less for the rights to exploit films in their territory.

2010 will be a watershed year in independent feature film investment and distribution. The paradigm producers used to make pictures is officially and irrevocably broken. The question now is: what does the future hold?

Nobody knows. Industry experts at AFM all said the same thing: the old paradigm is broken and it will be 12 to 24 months before a new one emerges. In the interim, it’s essential to remember that the results of the upheaval in independent film financing are not all bad.

According to speakers at the AFM financing seminar, this correction will get the “hot money” and the “dumb money” out of the film business. This money was private equity money desperately searching for love in all the wrong places – which it got. That money is now out of the sector. Along with the non-film people who had it and the overheated production budgets it generated.

Also, the current economic climate and distribution situation will lead to downward pressure on budgets – which many industry experts feel is overdue. Cast fees in particular skyrocketed while there was plenty of production and money around. The future will hopefully lead to “Pictures that should be made getting made – for the right amount,” according to AFM Finance Seminar panellist Ryan Kavanaugh from Relativity Media.

(Kavanaugh heads up a successful company and said he was selected for the panel because he is a “survivor.” He also mentioned later in the seminar that Relativity’s finance model was “not to predict hits – it’s to weed out things that are too risky.” In an industry as risky as ours, it may be useful to reflect on this strategy in the light of SA’s own slate. Already, our increased number of genre titles illustrates how we can hopefully grow our audience. It’s important to note that at AFM, SA title ROAD TRAIN did two solid European sales off a five-minute promo alone through Lightning Entertainment. Demand for movies is still there – and that includes bold, distinctive arthouse titles as well.)

Edward Borgerding, CEO of the Abu Dhabi Media Co. noted at the same seminar that “it’s a great time to be in the media business. We are going to define the future very soon here. We need leadership and courage.” Despite the banking crisis in Abu Dhabi just after AFM, he may well be right.

And the future Borgerding is talking about is likely to be a digital one.

VOD was the buzzword of the market. Companies like IFC and Magnolia are sanguine about the future because their models are working. They pay realistic advances, have low operating costs and have found a way to regularly generate seven figure returns out of small movies through video-on-demand. That’s all well and good for these companies themselves who take a commission and can make some reasonable returns – but the prices paid to producers and the monies returned to them after their movies have played are not enough to recoup even most low-budgeted feature films.

(It’s worth noting that three of the major talent agencies, UTA, WME and CAA, have all launched some form of digital distribution or content provision service. They are looking into the future and see that there is an opening for a potentially low-cost business that can exploit their clients’ work.)

The studios have their own VOD deals as well. While no one seems to know how to make enough money out of VOD on its own, the recent VOD premiere of *Gran Torino* in the USA generated approximately $30 million USD. Of course, it’s a well-regarded commercial picture, but this result far exceeded expectations – could this be a harbinger of a future where VOD is a viable first platform for a Screen Australia production?

Yes: it’s possible. Things are changing. While the situation today is daunting it also presents the industry with some exciting choices. It’s essential that Screen Australia listen and participate in the discussions that will shape the future of the film business.

One of the more intriguing ideas is that of a “premium digital window.” The challenge will be to preserve its integrity in each individual territory to really make it work. This is what many experts predict for the future in some form.

No one knows for certain what the future of independent film is – but AFM 2009 was the moment where the industry paused because no one could pretend things were the same anymore. Even Lloyd Kaufman, president of IFTA the organisation that runs the AFM couldn’t hide his shock. He’s been in the business for 35 years and he is author of the recent book *Produce Your Own Damn Movie.* On KCRW’s radio program *The Business*, he said “I’ve met with many of our members and for some of us who’ve been around a long time… this is certainly the most difficult period we’ve ever had and I think I’m not alone.” He went on to say, “This is the hardest, most discouraging business climate we’ve ever had.”

Kaufman went on to say, however, that the future is still exciting. New voices will emerge and the demand for entertainment, escapism and delight is as strong as it ever was.

The old windows: theatrical, pay, DVD, will not disappear. VOD will grow. There may be *more* ways to eke revenue out of independent production than ever before. Beyond that, it’s unclear what the future holds for independent film. However, every industry panellist and most sales agents and buyers agree: a good movie will find a home and make money. The world *needs* movies. We need to feed the beast.

Just before Sundance this year, Youtube announced a trial film distribution network playing movies for $3.99 a pop. At that price point, on a website that accessible, with such a huge presence in the public consciousness – many industry experts feel that Youtube distribution could be the way of the future. Founder of Parlay Media and former head of independent packaging at CAA Kevin Iwashina remarked at the opening of Sundance: “This potentially could be the beginning of the beginning — the renaissance we’ve all been hoping for.”

The industry is changing. While that change means destabilisation on a corporate level and a personal level for many people, it cannot be avoided. AFM 2009 illustrated how important it is to stay in touch with the industry at a time of daunting challenges and exciting opportunities.