

The decline of the British film Industry:  
an analysis of market structure, the firm and product  
competition.

A thesis submitted for the degree of Doctor of Philosophy

By

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## CHAPTER ONE

### INTRODUCTION TO THE THESIS

In considering 'The Decline of the British Film Industry,' it is useful to identify six basic issues:

1. the role of the British majors.
2. the presence of the Hollywood majors in Britain.
3. the film policy of British governments.
4. the availability of finance for independent production.
5. the nature of costs of production.
6. the characteristics of British films as products.

For the student of the industry, these are the perennial issues of concern.

The nature of these factors is established in Chapter Two which is an introductory 'Overview' of the British film industry taking the form of a historical narrative concentrating on the twenty five years following the war.

The essential decline of the industry can be observed within this period. In the 1940s, both the exhibition and the production of films in Britain were at their respective peaks.

These levels were rapidly eroded over the following two decades.

Section 2.1 of the Overview considers demand in the cinema exhibition sector and the other sections of the chapter look at the output of the industry, the emergence of the British major studios - vertically integrated across exhibition, distribution and production sectors - and their subsequent decline, and the nature of British government film industry policy.

Section 2.2 refers to the crucial role in the economics of the film industry in general of the distribution sector. Lack of access to distribution has been one of the 'Problems of the Industry,' which are the subject of Chapter Three. Section 3.1 includes a case study of Goldcrest which further emphasises the importance of distribution.

The case study approach is employed frequently in Chapter Three. Section 3.2, for example, consists of a case study of the 'New Wave' of British film making of the late 1950s, and in Section 3.4 'Contemporary Case Studies' are adduced.

Although the most basic observations about the industry are that it is permanently in a state of crisis and that each crisis is worse than the previous one, the case of the New Wave makes it clear that the concept 'British Film Industry' is not somehow a contradiction in terms.

The Contemporary Case Studies identify the characteristics of costs of production and of film finance. The problems imposed on British film makers by cost and finance constraints

are explored through the medium of four recent British film projects.

Information has been obtained through interviews with leading participants. And, more generally in the thesis, interviews have been a major part of the research method. A list of interviewees is on page 15.

It must be noted that the interview method in research is an imperfect one. This is particularly so for film industry research where the quality of response is inhibited in some cases by the tendency of some practitioners to circumspection.

Moreover, there are real limitations in terms of the availability of respondents for a historical area such as the rise and fall of the British majors.

The British film industry is an area which is well known for its lack of statistical information. Sometimes it has been possible in writing this thesis to use data by adapting various existing sources, particularly Gifford's invaluable 'British Film Catalogue, 1895 to 1985' (1986).

Moreover, numerous compendious 'Film Guides' have been published following the original model of Halliwell (1977). Much data has been shaped from these guides generally, but Halliwell in its 8th. Edition (1991) carries the fullest production information.

In some places, the data is entirely primary. For example, in section 3.1, which looks at the contemporary economic environment of the industry, table 2 examines the composition

of British output in 1987. This includes the costs of production of films.

Although it has never been customary to publish data on costs of production, there used, more generally, to be a certain amount of statistical information concerning the film business published by the Department of Trade and Industry.

Until February 1985, the DTI magazine 'British Business' ('Trade and Industry' until 1979) published weekly registrations of British, European Community and foreign films; British Film Fund (or 'Eady Levy') distributions; and annual enquiries concerning Overseas Transactions in Films, as well as cinema admission statistics. Much of this DTI information is referred to in section 2.1 which deals with the question of the decline of the exhibition sector.

In considering both section 2.3 - 'The Structure of the Industry' - in particular and, more generally, those issues noted above to be the subject matter of Chapters Two and Three, a picture of the market structure of the industry emerges.

This picture is enlarged in section 3.3 which analyses 'The Performance of the Duopolists' and the reasons why Rank (the key British major studio) changed its position as a facilitator of a critical mass of British production in the 1940s to one where it would subsequently only foster a few one-off production companies.

A wide range of other British studios is also considered and some interesting data concerning entry/exit and levels of activity have been evolved.

Section 3.5 uses the Structure-Conduct-Performance paradigm to draw conclusions in the area of the market structure of the industry and in terms of the first three of the six basic factors noted on page 6.

Chapters 3, 4 and 5 each relate to an aspect of micro economic theory - market structure, the firm and product competition respectively. In each of these chapters, there is a review of relevant economic literature. For Chapter 3, this is included in section 3.5 where recent issues in the area of Structure-Conduct-Performance are considered.

Literature concerning the firm and its growth is reviewed in section 4.5 of Chapter 4, while in section 5.5 there is a survey of the theory of product competition.

Chapter 4 concerns various models of the firm and their application to the range of productive units which have comprised the British film industry. Aspects of finance and costs of production, points 4 and 5 of the basic factors noted on page 6, are considered.

Section 4.1 deals with both corporate and project finance, and a number of interviews has been conducted with merchant bankers whose interests are in film finance, and with venture capitalists. The finance constraint is further revealed in section 4.2 dealing with finance and risk and showing the untenability of investment strategy in the absence of a British major studio.

Chapter 4 also deals with the production process and with

the behaviour of costs of production. In the light of the low budget environment of British activity, the extent to which cost constraints make an impact on British producers is a further factor of relevance in the seemingly inevitable cycles of boom and bust of the British film firm.

Sections 4.3 and 4.4 consider these matters by looking at cost control. Analysis is facilitated by reference to a variety of British films of the second half of the nineteen eighties for which final cost statements have been forthcoming. These are considered in the light of cost surveys of the earlier post-war period. 4.5 deals with the economic theory of the firm, its growth, and the nature of the British film firm.

The final point among the six key factors noted on page 6 is examined in Chapter 5 which deals with the economics of product competition. It is observed that films compete chiefly through characteristics rather than price. Among questions which arise is whether the British film industry has been unable to compete effectively because of an inability to specialise in a product with purely cinematic attributes.

5.1 looks at these issues, and in 5.2, 5.3 and 5.4 analysis is facilitated by the clustering model of characteristics applied to British and Hollywood product. Primary data has been evolved with respect to a wide range of attributes of film products and this has enabled a useful analysis of the location in characteristics space of the often commercially unsuccessful output of the British industry relative to those products,

frequently American, which have dominated the box office. Conclusions in 5.5 follow a review of the economic literature of product competition.

In the thesis generally, the well known lack of statistics on the industry has been further partially relieved by using and adaptating information carried in the following:

(a) 'Screen International.'

Weekly production unit lists of theatrical (and television) films are published in this London trade paper giving:

title, production company, senior personnel, crew, cast and dates, durations and places of studio and/or location shooting.

It also publishes at the start of the year, summary tables of production on a quarterly basis for the previous year. This covers numbers of films, and breakdown by studio and location. This summary offers some budget information but carries a firm health warning as to its accuracy.

(b) 'The Monthly Film Bulletin.'

The MFB of the British Film Institute has, for many years, given for every film at the time of its exhibition in the UK: nationality, censor certificate, production company, distributor, all personnel and original source of script. Moreover, a lengthy plot summary is a further valuable source of product characteristic information.

Unfortunately, the BFI decided to discontinue the MFB as a

separate publication, and that this major reference work would be consigned to the back pages of its 'house journal' 'Sight and Sound'. The April 1991 edition was the last MFB; from May 1991, 'Sight and Sound' has appeared monthly.

(c) 'The BFI Film and Television Yearbook.'

This first appeared in 1983. It has published some rather erratic lists of feature film 'starts' for the previous year, sometimes indicating which starts are British made and financed and which are American productions in Britain. Another useful but irregular tabulation in the Yearbook is 'Finance For British Features' made during the previous year. ('The Screen International Yearbook' carries information on production starts similar to that in the BFI publication).

(d) 'The Variety Annual.'

This is published in the weekly edition of 'Variety' in the first week of January and offers a 'Big Buck Scorecard,' giving the estimated cost of production of the master negative and the North American rentals to date of 'megabuck' pictures, ie. any film costing at least \$14m.

These somewhat approximate figures are useful given the absence of other sources of cost data and relevant, not merely for comparative purposes, but because numerous 'megabuck' pictures were made in British studios. Finler's book, 'The Hollywood Story' (1988) has also been a useful source of American data.



(e) Others.

In addition to the main sources, it has sometimes been profitable to consult among various other publications: 'Screen Digest' which has a 'Data Box' page offering a miscellany of statistics occasionally touching on British production, 'Screen Finance' and the 'Annual Report of the British Film and Television Producers' Association.

Chapter 2 follows giving an introductory overview of the British film industry.

Interviews were conducted with the following:

Steve Abbot of Prominent Studios. Executive Producer of 'A Fish Called Wanda.'

Tim Bevan and Graham Bradstreet of Working Title. Executive Producers of 'A World Apart.'

Andy Birchall of the late British Satellite Broadcasting.

Tina Boyden of Barclays Bank, Soho Square.

Richard Brook, Executive Producer, Screen One, BBC Television.

John Chambers of World Film Services.

Terence Davies, author of 'Distant Voices, Still Lives.'

Jake Eberts, founder of Goldcrest.

Eban Foggitt of Screen Two, BBC Television.

Jorges Gallegos of the British and Commonwealth Merchant Bank.

Victor Glynn of Portman Productions, producer of 'High Hopes.'

John Heyman of World Film Services.

Norma Heyman, Producer of 'Buster.'

Premilla Hoon of Guinness Mahon Merchant Bank.

Cyril Howard, Managing Director of Pinewood Studios.

Jennifer Howarth, Producer of 'Distant Voices, Still Lives.'

Caroline Jackson of the Film and Television Producers' Association.

William Jackson of County Natwest Ventures.

Maurice Landsberger, Secretary of the Guild of Film Production Accountants and Financial Administrators.

Rodney Payne of Hill Samuel Merchant Bank.

Nik Powell of Palace Pictures.

David Puttnam, formerly Head of Columbia Pictures

David Rose of Channel Four Television.

Mark Shivas, Head of Drama, BBC Television.

Faizal Syed, Associate of Merrill Lynch International, London.

Charles Target of Alan Patricoff Venture Capitalists.

Angela Topping, Deputy Head of Production, British Film Institute.

Jean Young of the late Parkfield Entertainment.

Colin Young, Director of the National Film and Television School, Beaconsfield.

Robert Watts, Producer of the 'Indiana Jones' and 'Star Wars' cycles, and of 'Who Framed Roger Rabbit?'

## CHAPTER TWO

### AN OVERVIEW OF THE BRITISH FILM INDUSTRY

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## 2.1 Demand Profile

The 1984 White Paper 'Film Policy' estimated that the size of the British Film Industry was indicated by an annual turnover of something between £300 million and £400 million, and by industry employment in the region of 35,000.

Of this total, employment in the production sector, including support facilities such as film processing, editing and dubbing, was about 25,000 in 1982. In exhibition, there were about 5,500 full-time jobs, plus a certain amount of part-time work.

The three sectors were of fairly equal sizes if measured by turnover: in 1983, the gross box office receipts in exhibition were £125 million, while film production turnover was £140 million, with distribution accounting for the remainder.

Production turnover partly consisted of feature films (£70 million), but it also included industrial and training films (£50 million) and advertising films (£20 million).

These figures are located at the bottom of steep long-term downward trends. The rapid decline is illustrated by the fall in the number of long films (ie. those of over seventy two minutes duration) registered for exhibition in Britain from 350 in 1955, of which about 80 were British productions, to 225 in 1981, of which 32 were British.

Within this declining total, British films fell by 60% in their absolute numbers in this period, but also lost relative share. However, as is shown by Table 7 on page 39, American

films in British exhibition fell by only about 32% in actual numbers and raised their relative share.

The British cinema box office in this period underwent a fall of about 80% in gross receipts in real terms. It is proposed to look in some detail at the exhibition end of the industry for it is this sector which throws light directly onto the basic question of the demand for the industry's output.

The White Paper mentioned above observed that 'Nowhere has the decline in cinema attendance been so steep and irreversible as in the UK'. As shown in Table 1 below, this decline was continuous over a forty year period from 1946 which was the overall peak year in British exhibition in terms of both the number of cinemas open (4,709) and the number of admissions (1,635 million). By 1987, the number of cinemas was down to 1,200 and admissions had fallen to around 50 million, 3% of their 1946 level.

Table 1.  
CINEMAS, CINEMA GOING, and BOX OFFICE TAKINGS, 1945 to 1984.

	CINEMAS OPEN AT YEAR END.	ADMISSIONS IN YEAR (millions).	GROSS BOX OFFICE (£ millions).
1945	4,703	1,585	114
1946	4,709	1,635	118
1947	4,709	1,462	105
1948	4,694	1,514	109
1949	4,671	1,430	103
1950	4,660	1,396	105
1951	4,624	1,365	108
1952	4,609	1,312	110
1953	4,542	1,285	109
1954	4,509	1,276	110
1955	4,483	1,182	106
1956	4,349	1,101	104
1957	4,102	915	93
1958	3,864	755	83
1959	3,414	581	67
1960	3,034	501	64
1961	2,711	449	60
1962	2,421	395	57
1963	2,181	357	55
1964	2,057	343	57
1965	1,971	328	62
1966	1,847	289	59
1967	1,736	265	58
1968	1,631	237	58
1969	1,581	215	58
1970	1,529	193	59
1971	1,482	176	60
1972	1,450	157	59
1973	1,530	134	58
1974	1,535	138	69
1975	1,576	124	76
1976	1,562	107	79
1977	1,547	108	90
1978	1,563	127	119
1979	1,582	112	127
1980	1,574	102	143
1981	1,528	88	142
1982	1,439	65	116
1983	1,303	64	122
1984	1,233	53	103

(Sources: 'Trade and Industry,'  
'British Business' and  
'Annual Abstract of  
Statistics'.)

The sharpness with which cinema admissions declined is a particularly British phenomenon. Table 2 shows that by 1981, the British exhibition sector had retained only about 7% of its 1955 audience, whereas Western Europe as a whole still had 27% and the US 39%.

Table 2.

CINEMA ADMISSIONS IN GREAT BRITAIN, USA and WESTERN EUROPE,  
1955 to 1981 (millions).

	Great Britain	USA	Western Europe
1955	1,182	2,663	2,224
1960	501	1,378	1,840
1965	327	918	1,297
1970	193	749	923
1975	116	1,033	877
1980	96	1,022	611
1981	84	1,027	591

(Source: MMC)



In Britain, real cinema admission prices have risen very substantially during the post war period. Table 3 shows average British admission prices rising to an index of 1,815 in 1981 (1955 = 100), where the RPI rises to only 684. Such a sharp rise in the relative price of cinema going is emphasised if one notes that the lower levels of cinema admissions decline in the USA and Western Europe have been accompanied by admission price rises on a far smaller scale. For example, the 1984 White Paper noted that in the ten preceeding years, British cinema admission prices had risen by 312%, while in the USA in the same period, prices rose by only 70%.

Table 3.  
INDEX NUMBERS - GROSS BOX OFFICE TAKINGS, & THE PRICE OF  
ADMISSIONS, 1955 to 1981. (\* 1955 = 100)

	INDEX OF GROSS BOX OFFICE *	AVERAGE AD- MISSION PRICE (pence)	INDEX OF AV. AD. PRICE *	RPI
1955	100	9.0	100	100
1960	60	12.7	142	114
1965	58	18.9	211	136
1970	56	30.6	342	169
1975	67	61.2	684	313
1980	128	141.2	1,578	611
1981	128	162.4	1,815	684

(Source: MMC)

Television had an important role in the decline of admissions. Over half the weekly average cinema attendance was lost between 1955 and 1960 as can be seen in Table 1. Spraos (1962) looked at this then recent period, comparing the fall in admissions during the 1950s with the growth of television - which was represented by sales of television licences.

Table 4 shows some of the findings: during the 1950s literally hundreds of thousands of households each year were becoming television households for the first time. For example, while only 382,300 television licences had been sold throughout Britain up to 1950, by 1952 the figure was already over 1½ million. It was more than 4½ million by 1955, and over 10½ million by the end of the decade.

Spraos found that it was in the second half of the decade in which the greatest damage was done to cinema admissions. As the last column of Table 4 shows, the estimated annual fall in admissions accounted for by each extra television licence sold was far higher in the second half of the decade, peaking at 124.6 admissions lost per new television household in 1958.

Cinema goers were most typically working class and relatively young and, while the early 1950s saw television acquisitions dominated by higher income groups, it was the latter part of the fifties which saw the typical working class family with children obtain its first television set.

Table 4.

## CINEMA ADMISSIONS &amp; TELEVISION LICENCES IN BRITAIN. 1950s.

	FALL OF AD- MISSIONS SINCE PREV. YEAR (millions).	TV LICENCES (thousands).	GROWTH OF TV LICENCES SINCE PREV. YEAR (thousands).	ANNUAL FALL OF ADMISSION PER TV LICENCE (number).
1950	-	382.3	-	-
1951	16.7	857.4	475.1	35.2
1952	43.3	1,517.5	660.1	65.6
1953	19.1	2,411.5	894.0	21.4
1954	19.0	3,398.4	986.9	19.3
1955	45.6	4,651.0	1,252.6	36.4
1956	84.8	5,876.5	1,225.5	69.2
1957	128.4	7,162.0	1,285.5	99.9
1958	124.9	8,164.6	1,002.6	124.6
1959	102.9	9,379.6	1,215.0	84.7
1960	77.2	10,554.2	1,174.5	65.7

(Source: Spraos, 1962)

Although the most obvious context for the rise of television is the loss of cinema admission, there is another - possibly compensating point - in the form of television as a source of demand for film industry product, ie. for films to be shown on television.

The trend towards the showing of feature films on television began in the early 1960s, and, by 1983, the showing of films on the four British television stations had grown to at least 1,492 films for the year. (The exact number depends on which ITV region is taken.)

That traditional broadcast television - as opposed to video - is important as a source of demand is illustrated by the estimate of the White Paper in 1984 that it then represented four billion individual film viewings per year, roughly 70 per person per annum. Of course, much of this is accounted for by old, recycled films which has no effect on current industry activity, apart from the strictly negative one of keeping people out of cinemas while they watch television.

In theory, there has been some measure of protection for the film industry in that a feature film could not be shown on television until five years had elapsed from the time of the film's initial cinema release. The trend for reduction in the time barrier began with Lew Grade in the late nineteen seventies. For some years at that time, Grade had a large scale programme for the making of films which would find their way onto television after three years. (Falk, 1987.)

Critics of television's role have argued that, until recently, television has had the best of this world, living off the film industry rather than contributing strongly to it. When television has bought films from the film industry, the latter has complained, over many years, of the low returns they have been forced to accept from television. This, it is argued, has been the result of a restrictive practice carried out by the television companies which have colluded on buying. Such collusion has had the effect of holding prices down and, arguably, of discouraging production sector activity.

The television buyers' rejoinder is that they HAVE paid fair prices because they have normally been forced to buy packages of film product which have invariably contained items which have been unpopular or generally unsuitable for broadcast - a form of a traditional restrictive practice in the film industry, block-booking.

Whatever the truth of the matter, it is unfortunate that the television and film sectors in the UK during the entire period up to the nineteen eighties lacked any real symbiosis. The American position was that the major studios, at an early stage, incorporated television programming output into their overall strategies. By 1972, Universal's television output, for example, represented about a quarter of all networked television in the USA.

In the UK, the BBC's position had been one of self-sufficiency, carrying an output of its own radio programmes so

that, when television took off, it was seen as little different from the wireless in the production context. And when British commercial television was born in the mid fifties, the various independent television stations needed to have good production facilities of their own in order to make plausible applications for franchises.

Given its acquisition of the ABC TV franchise in the mid fifties, ABPC, as is discussed in section 3.3, did emerge as a potential model of a fully integrated film company in the television era. However, any consolidation attained in this way was to lack the same stability after ABPC's absorption into EMI. In this era, ABPC went from vertical integration to virtual disintegration.

Returning to the decline in post-war cinema attendance, there was a shift in consumer taste away from an evening out at the cinema. A preference for home entertainment grew for some, while for other consumers other new forms of leisure activity took over. The decline phase of the life cycle of the product, ie. traditional exhibition, was probably hastened by the increase in the cost of the 'total package' of activities involved in a cinema visit: with shifts in patterns of dwelling from urban to suburban, a cinema visit can easily have come to mean a longish journey to a cinema, parking problems, the expense of a meal out and so on.

The acquisition of a television licence in the 1950s or 1960s may have squeezed household budgets. However, the period

in general was one of substantial economic growth. Table 5 shows, however, that cinema going became highly income inelastic. As a proportion of household expenditure in Great Britain, cinema going fell from about 1% to about one tenth of 1% between 1953-4 and 1980. Meanwhile, the equivalent figure for television rose for about twenty years, and the figure for alternatives comparable to the cinema - theatre and other entertainment - was little affected over the whole period.



Table 5.  
HOUSEHOLD EXPENDITURE ON ENTERTAINMENTS (%).

	1953-4	1965	1975	1980
CINEMA ADMISSIONS	0.99	0.32	0.13	0.11
TV LICENCES & RENTALS; RADIOS, TV SETS & MUSICAL INSTRUMENTS	1.13	1.9	2.77	2.4
THEATRES, SPORTING EVENTS & OTHER ENTERTAINMENTS	0.89	0.61	0.68	0.84

(Source: MMC)

As is discussed in section 2.3, the distribution sector's control over the exhibition sector has been an important factor. The exhibition circuits have been 'aligned' to the distribution sector: for many years, a distributor has been in the habit of offering its films exclusively to one or other major circuit.

In its 1966 Report, the Monopolies Commission found that the Rank circuit was aligned to Columbia, Disney, United Artists and Twentieth Century Fox, while ABPC's ties were with Warner, MGM and Paramount. And, by 1983, when the Monopolies and Mergers Commission carried out the second such inquiry, the essential situation was unchanged.

This regime of alignments and barring was observed by the Monopolies Commission in 1966 to be unique in Europe. It has exerted, as has been illustrated in the case of the New Wave in section 3.2 for example, a severe constraint on domestic production over many years: if you have not had production sponsored by Rank, ABPC or a Hollywood major, the prospect of your proposed film probably not being fed through the distribution-exhibition machinery will have made the raising of finance to make the film a very difficult assignment.

No British film maker has more experience than Sir Richard Attenborough. In answer to the question, 'How far do you identify the problems of the British film industry with exhibition duopoly?' Attenborough said :

'It is the greatest problem that the industry has had to face for as long as I can remember - for almost fifty years.... The problem was that two men, the chief film bookers for Thorn-EMI and Rank, had become almost the sole arbitrators of what was shown at the cinema; their tastes prevailed; they decided on the advertising that went with a film; on how long the film would run. Any movies outside the beaten track were often suffocated, and to a large measure, this still exists with Cannon and Rank....The government should have intervened. It is to the shame of both major parties that they did not. It's stultifying.'

(Hacker and Price, 1991. Page 89.)

Adverse effects of the structure of exhibition-distribution have also been felt in the independent exhibition sector. The purpose of the time and distance bars has been to eliminate local competition. Such has been the extent of the long-term trend of cinema closures, however, that the 1983 Report made the point that some 38% of cinemas were, by then, sufficiently isolated from local competition that barring had become irrelevant to these 'solo' cinemas.

The largest eight distributors had, at the time of the 1983

Report, a share of about 90% of all rentals. The barring practice that has been deployed by them and the two main exhibitors has also had the effect of eliminating potential competition on box office admission prices, and acted as a disincentive for investment in new cinemas.

The size of the independent exhibition sector is shown in Table 6. The squeezing of the independents has contributed to the UK being at the bottom of the screens-per-capita league table of Western Europe. And this in turn has contributed to declining cinema attendance totals: when any given cinema is closed, a large proportion of its 'congregation' is lost to cinema attendance in general for good.

Table 6.  
THE INDEPENDENT SECTOR OF BRITISH FILM EXHIBITION, 1983.

NUMBER OF SCREENS	NUMBER OF EXHIBITORS
1	296
2 to 4	67
5 to 49	29

(Source: MMC)

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## 2.2 The Industry's Output.

Turning to the question of the production of films to be exhibited in the duopolists' - and others' - cinemas in Britain, there has always been an important American influence.

The American film industry transferred its massive comparative advantage to Britain from a very early stage. Immediately before the 1927 Act, up to 90% of films being exhibited in Britain were American. By this time, the five American majors had developed vertically. This enabled them to add to other advantages of vertical integration the ability to attract large scale external finance. The integrated structure would suggest to the financier a reduced level of risk involved in investment in the direction of the film business.

The sheer size of the American industry at this stage conferred on it an overwhelming economic superiority. In 1926, investment in the US industry was ten times as large as that in its British counterpart. Moreover, the bias in British investment was heavily towards exhibition - only about 1½% of total British industry investment was in production. For the Americans, access to large scale finance facilitated the making of big budget films and thus the ability to increase further their competitive edge.

By this time - the nineteen twenties - US exports were already very important to the US industry. There was a particular US hold over British distribution: distribution facilities were set up in Britain by Vitagraph in 1912; Fox in

1916; and Famous-Lasky in 1919.

US renters in Britain were in the habit of distributing only American products. These renters would engage in blind, block and advance booking: blocks of films were made available, including the one popular film desired. Many of the films in the blocks were unseen by exhibitors, and deals were done in advance of production.

Another restrictive practice in this era was that of 'underselling' whereby American distribution would supply some films for exhibition at less than British films' cost prices. After the 1927 Act prohibited blind booking and limited advance booking, "gentlemen's agreements" were substituted as a means of evasion.

Naturally, activity of this kind had adverse consequences for British production: exhibitors had to accept the distribution terms as they were dependent on US products, but, in turn, British producers were forced to wait for exhibition opportunities, and therefore found it difficult to raise funds for other investment in production.

As Guback (1976) has pointed out, films are 'infinitely exportable'. The marginal costs of production in terms of prints for export markets are very low in comparison to the cost of producing the master negative. Prints exported do not deprive the home market of consumption, and do not reduce the domestic revenue of producers.

That exports were crucial to the American industry, and



that the Americans would strive to defend their dominant position was illustrated by a rule of thumb in Hollywood in the nineteen twenties which held that for each dollar of revenue, seventy five cents came from the American market and only twenty five cents from exports - but that the profits of the film lay in that last twenty five cents.

This has also meant that Hollywood has always been able, where necessary, to supply films in export markets very cheaply with the large domestic market serving to recover the production costs.

The nineteen forties is a most interesting period in which to review the situation. It is a period in which there were a series of crises relating to American dominance of exhibition and to British production, and in which a variety of emergency government measures was introduced. And by the end of this period, formerly high hopes of a major British production sector had been crushed and, by 1948, the industry had embarked on what was to be its rapid and unchecked post-war decline.

Table 7 below shows the continued long-term inability of the British industry to expand in its own market in the years following the advent of the industry structure and the circumstances outlined below and discussed more generally in this chapter.

Table 7.  
 LONG FILMS REGISTERED FOR CINEMA EXHIBITION IN GREAT BRITAIN,  
 1955 to 1981.

	TOTAL NUMBER OF FILMS	BRITISH FILMS %	AMERICAN FILMS %	OTHER FILMS %
1955	350	23	57	19
1960	333	24	43	34
1965	302	23	36	41
1970	360	24	34	42
1975	282	25	46	29
1980	219	19	56	26
1981	225	14	60	26

(Source: MMC.)

The table shows the number of long films, ie. those of over 72 minutes duration, registered for exhibition in Britain. This number fell from from 350 in 1955, of which about 80 were British productions, to 225 in 1981, of which 32 were British. There is a fall of 35% overall, with British films suffering a fall in their relative share, and undergoing a decline of 60% in the absolute numbers of films. The American share rose, with actual numbers falling by only about 32%.

So what was the scenario in the 1940s? By the middle of that decade, the situation was that the Combines - ABPC and Rank - had intensified their control. GBPC had passed into the hands of J. Arthur Rank in 1941. Rank, the co-founder in 1936 of the General Cinema Finance Corporation and of Pinewood Studios, rapidly consolidated his film empire to cover exhibition (Odeon, and Gaumont British - two of the three largest chains), distribution (General Film Distributors, United World Pictures and Eagle Lion), studios ('D and P' - or Denham and Pinewood, Islington, Highbury, and Shepherds Bush Studios), and production companies (Two Cities, Individual Pictures, Independent Producers, Gainsborough Pictures, and Cineguild). (Figure 2: 'The Rank Empire,' Page 128.)

Rank's two exhibition circuits had around 650 cinemas and more than 20% of all seats, while ABPC had another 450 cinemas. Together, the two Combines' three circuits controlled more than half of the first run cinemas in the country and two thirds of those in London.

As Rank alone controlled over 70% of all British studio capacity anyway, the power of the Combines over British production was very substantial indeed. But, bearing in mind the need for any film to be shown by one of the big circuits for it to be profitable, this control was almost complete.

The entire picture is finally drawn when one notes the 'affiliations' that had developed between the Combines and the US majors - Rank with Universal and Fox, and ABPC with Warners. After the first quota legislation, the threat of the Americans needing to penetrate exhibition on a large scale had become an important issue. In the event, however, affiliations did the job.

For the Americans, any revenue from the British market typically constituted profit because films had usually at least recouped their costs in the US itself. Underselling could take place, with American films supplied artificially cheaply. For Rank's cinema circuits the most profitable strategy meant the exclusion of much potential British production: an American film - a dumped, low budget and poor quality production though it may well have been (Hollywood 'B' features were particularly cheaply supplied) - would edge out domestic product.

Meanwhile, Rank's production strategy in the early and mid 1940s (discussed in section 3.3) was generous in the case of a favoured circle of film makers. To a considerable extent, it was geared to perhaps eight or ten big budget productions designed for the US market. This has been a

perennial, but rarely successful, strategy for British producers ever since the misleading international success of Alexander Korda's 'The Private Life of Henry VIII'. That film cost £93,710 in 1933 and made over £500,000 internationally. It would forever stand as the basic model encouraging British producers to shape elaborate projects for the American market.

Against the background of crisis in British production, Hugh Dalton, the Chancellor of the Exchequer, announced in August 1947 the levy of a 75% import tariff on foreign films. The main motive was to make savings in foreign exchange. The tariff was to be paid in advance and based on estimated earnings.

The American industry was furious - Britain was the vital export market: some 80% of all screen time in Britain was taken up by American films, and earnings from this constituted approximately 25% of Hollywood net profit. (Dickinson and Street, 1985.) In 1946 the US majors had set up the Motion Picture Export Association of America (or 'Little State Department' as it became known) to operate in their export markets. The MPEAA responded to the import levy with an immediate boycott of the British market announced the day after the imposition of the duty.

What is further of interest is that Rank also reacted with anger at the import levy. He was caught between two stools: his circuits, which were entirely segregated from the production business, made large profits based on the exhibition of

Hollywood films. With no British product to take the place of the missing new American films in his two circuits, Rank was forced to show the same existing material repeatedly, and to suffer a fall in revenue in the autumn of 1947.

On the other hand, as the producer of over half of all British films, including almost all of those of any significant scale, the exclusion of American films suggested that Rank might conquer the domestic exhibition sector with his own product.

The levy was also a setback to Rank in respect of his plans in the US. When it was introduced, Rank's hard fought for American distribution arrangements were cancelled by the majors for whom Rank, with his evident inability to prevail upon the British government to refrain from enacting the import control, had lost all credibility. After much prevarication, Rank, at the end of 1947, embarked on what would turn out to be a disastrous slate of new production with fundamental consequences for the future of the British production industry.

Rank himself had assumed that the tax would not be imposed and that the British government would accept a compromise that had been proposed by the MPEAA whereby they would not repatriate a proportion of their British earnings and would put them into British production instead. (Murphy, 1983.)

American films had been taking £70 million, and the Treasury had hoped to save £57 million of this. But the tariff had not succeeded in halting the outflow of Hollywood dollars

because it could not be applied to material already imported. There was a stockpile of American films yet to be shown in addition to numerous films which could be re-released. As Harold Wilson, who became President of the Board of Trade during this episode, said in 1948, 'We were actually paying ..... 50 million dollars for the privilege of seeing 'Hellzapoppin' for the third time and 'Ben Hur' for the twenty third'. (Foot, 1968. Page 74.)

The issue between the British government and the American film industry was resolved in 1948. But for Rank, the adverse effects of this crisis would lead to the end of major domestic production from the late 1940s, and to the eventual total withdrawal from production.

The resolution of the tariff question followed negotiation between the MPEAA and Wilson. It resulted in the repeal of the tariff in May 1948 and its substitution by a new scheme under which the Americans could repatriate \$17 million per annum. And this amount could be raised to the extent that British films made money in America.

There quickly followed another attempt by the British government to encourage domestic production - this time in the form of an increase in the Screen Quota (table 10, section 2.4). In 1948 it was raised from 30% to 45%, and announcement was made of planned further rises.

Again, there was opposition both from the Americans and from the British Combines. Rank was now reducing production.

The duopoly was not in favour of the policy, and the Board of Trade was rapidly forced to reduce the Quota to 40% in 1949, and to 30% - back to where it had started - in 1950.

By this stage, the need for an effective third force was widely perceived. There were strong arguments in favour of the nationalisation of one of the three circuits as a method of facilitating independent production as a counter to the Combines. This argument was made forcefully, but, in the event, the solution was the establishment of the NFFC as a public corporation which would provide the 30% 'end money' in production finance.

Also at this time, the Board of Trade told the circuits that they should show at least six films per annum from independent producers, and forbade the circuits the right to amalgamate. But in practice, the first of these directives was ignored, while, in 1958, following a change of government in 1951, the Gaumont circuit was dismantled by Rank. So the 30% quota of British films was needed only in two circuits, rather than in three.

In section 3.1, the question of American production in Britain is raised with respect to the nineteen eighties and to the 'Star Wars' and 'Indiana Jones' cycles of films produced at Elstree and followed by a seemingly inevitable American withdrawal from production in Britain.

An earlier model of the rise and fall of Hollywood participation concerns the establishment of MGM British at



Elstree. When Amalgamated Studios was built in 1937, it was technically very modern. Rank acquired this facility in 1939, not because he needed the capacity, but in order to protect his investment in Denham and Pinewood by preventing ABPC from purchasing them. This turned out to be a very successful competitive move because ABPC's studios were requisitioned in their entirety during the war while Denham remained open.

During the war, Amalgamated was sold to MGM which wanted to establish in Britain 'a miniature Culver City' (Warren, 1983). And over the next twenty years, the extravagant environment of MGM itself was indeed replicated in Hertfordshire. Major stars (Gable, Tracy, Mitchum) appeared in about fifty big productions, including, for example, 'Mogambo' (1954), 'The Yellow Rolls Royce' (1964) and '2001: A Space Odyssey' (1968).

However, this glamorous ambience of Hollywood major studio production in Britain was only as viable as its parent in California. By the late nineteen sixties, MGM in the US was not doing well. Although it had made profits of \$14 million in 1967, the downturn in 1969 and 1970 was severe and total losses came to \$40 million in that period (Finler, 1988). MGM was taken over in 1969 by Kirk Kerkorian who cut production, dramatically sold off the back lots, held an auction of costumes and props, and diversified into hotels.

Inevitably, this scenario meant the closure of MGM British. When this took place in 1970, it was part of a general withdrawal from British production by the Americans. In fact,

it was the nineteen sixties that had been a boom period generally for Hollywood investment in Britain. Table 8 below indicates that in the post war period, the Hollywood major studios had a continual presence. But where this accounted for about 4% of the total number of films between 1946 and 1959, it increased to about 11% in the nineteen sixties.

Table 8.

## US MAJORS: PRODUCTION OF FEATURE FILMS IN BRITAIN, 1946 to 1970

	#	% of Total Brit. Output	Colum- bia Brit- ish.	20th Century Fox Prodns.	Para- mount Brit- ish.	MGM Brit ish.	Warner Bros.	Walt Dis- ney.	Uni- ver- sal.
1946	2	5	2						
1947	0	0							
1948	3	4	1	1	1				
1949	3	4		1		2			
1950	6	9		3		1	1	1	
1951	4	6		2		1	1		
1952	5	6				2	2	1	
1953	7	8		1		2	1	2	
1954	5	6				4	1		
1955	0	0							
1956	3	4		1		2			
1957	3	3		2		1			
1958	3	3	1	1		1			
1959	2	3		1				1	
1960	6	7		3	1	1		1	
1961	9	12				5	1	3	
1962	10	11	1	2		5		2	
1963	8	9				6		2	
1964	7	11		1	1	3		2	
1965	9	13	1	2		4	1	1	
1966	8	12	1	1		2		1	3
1967	7	9		1	1				5
1968	9	12	2		2	2			3
1969	14	17	3	2	1	3		1	4
1970	8	8	4			2	1		1
Tot:	141		16	25	7	49	9	18	16

[Source: adapted from Gifford (1986)]

The extent of the American role in relation to production in the UK during the sixties was somewhat larger than is indicated by the above table because the American industry also financed a variety of independent British production companies. In 1965, US investment was extended to part- or whole-finance 64% of films made in Britain. By 1967 and 1968, 90% of the finance for all films made in Britain came from US sources.

In 1961, United Artists opened a production office in London with the idea of backing four or five British films annually. That there is no foresight in the film industry with respect to what projects might be successful at the box office is illustrated in the case of the James Bond films where it would appear that no one involved in setting up the first Bond production had the slightest idea that this and every subsequent Bond for more than twenty five years would make a fortune.

Having optioned Fleming's books in 1961, the producer Harry Saltzman could find no financial backing. Walker (1974) records that when United Artists eventually agreed to invest in 'Doctor No,' the first of the Bond films in 1962, they reduced the budget (from \$1 million to \$900,000) on the assumption that the finished film probably would not work at the US box office.

As a result, expenditure on set design was reduced to a mere £20,000, and Sean Connery, not then well known, was chosen because the reduced budget effectively ruled out the employment of a major star.

There was perhaps more judgement than luck associated with the signing by UA of the Beatles BEFORE the advent of 'Beatlemania' to make three films. The first of these was "A Hard Day's Night" which cost £200,000 to make and, by 1967, when UA sold the rights to NBC television for \$2 million, had taken \$11 million at the world box office. (Coleman, 1989.)

By the mid nineteen sixties, UA's profits from Bond, the Beatles and its other British hit, 'Tom Jones' (discussed in section 3.2), had become too large to be ignored any longer by the American industry in general. In 1965, Universal and Columbia set up British production offices, followed by American independents such as Embassy and Filmways.

Table 9 shows the ensuing rise in production capital into Britain from Hollywood.

Table 9.  
IMPORTED CAPITAL FOR FILM PRODUCTION by British Subsidiaries of  
the Major American Film Companies. (£ millions.)

1965	14.9	1970	12.8
1966	18.0	1971	18.6
1967	22.8	1972	14.0
1968	31.3	1973	4.8
1969	20.9	1974	2.9

(Source: Perilli, 1983.)

As one might expect, some of the films that were backed by these investment funds were in imitation of what had brought to UA record profits largely based on their British dimension. 'Modesty Blaise' (1966) is an example - an attempt at a female counterpart to James Bond. This film also illustrates the general point that, where a British budget might have been reduced a few years before (cf. 'Doctor No'), with a confidence in all things British running high, Hollywood - in the form of 20th. Century Fox - inflated the budget considerably. 'Modesty Blaise' had started life as a British Lion project budgeted at £600,000, but was eventually made for Fox for £1 million.

Perhaps the most important influence behind the Americans' production migration to the UK in the sixties was the 'Swinging London' factor. [Walker (1974) notes that this term was coined by the Americans - by 'Time' magazine, 15/4/66.] Inspired by the commercial success in America of a purely British film like 'Darling' (1965), Swinging London came, in the mid sixties, to be seen by the major studios as THE ingredient which would confer box office success within the US.

Indeed, there were hits on this basis. Outstanding examples were Paramount's 'Alfie' (1967) and Columbia's 'Georgy Girl' (1966). By 1969, the latter had achieved gross takings of \$13 million, \$7 million of which was in the US.

That costs of production were lower in the UK than in Hollywood was a further pull factor: for Universal, which financed sixteen films from its London production office

between 1966 and 1970, 'three films could be made at Pinewood, Shepperton or Elstree for every two at Universal City'.

(Walker, 1974.)

Moreover, costs were subsidised by the Eady Levy. For instance, UA had made the first Bond at Pinewood and on location in Jamaica, rather than in US studios and locations, because this qualified it for a distribution from the British Film Fund. Such grants were significant: over \$1 million by the time of the third Bond, 'Goldfinger'.

Low and subsidised costs were, however, not a sufficient factor to sustain American investment in British activity indefinitely. In 1970, when MGM British withdrew, production had been cut to three films in progress, and Columbia was the only US major in the UK not to be reducing production. It had six films being made, Paramount had two, UA two, Universal one, and Fox none. This picture is reinforced by Table 9 (page 51) which illustrates the dissipation of the imported production capital of the majors.

If the Swinging London factor had meant, in 1966, that almost any British film would, in principle, be a money spinner, then events would, sooner or later, inevitably be a source of disappointment.

Moreover, the late nineteen sixties and early nineteen seventies was a period when many of the American majors' big budget productions failed commercially (and a period when the US box office was close to reaching the bottom of a twenty five



year decline). For example, the 1970 films 'Hello, Dolly' and 'Tora! Tora! Tora!' each resulted in losses of about \$13 million for Fox.

Finler (1988) records that the major studios made combined losses which were the highest for forty years. Dickinson and Street (1985) argue that the main reason for American withdrawal from the UK was that the American industry in the late nineteen sixties had 'overspent and overstocked' with films: the world market could support \$500 million worth of product, but in the year 1968 alone, \$1.2 billion had been invested in films for release.

While such reversal of fortune in Hollywood meant a retrenchment and scaling down of operations, the British were also displaced by the so-called 'New American Cinema' of this period. The popularity of a new batch of films which dealt with American characters and American issues - 'Easy Rider' and 'Bob and Carol and Ted and Alice' being early examples in 1969 - was, in a sense, at the expense of the British.

That there is a cyclical element to US production in the UK is illustrated by the return of Hollywood in the later nineteen seventies. By 1978, Fox was spending £18 million in the UK on the second films in the 'Star Wars' and 'Omen' series, and on 'Julia'. The return of American expenditure in this way was the result of a number of factors. Hits in the middle seventies had restored studio fortunes and thus replenished funds for overseas investment; Sterling was attractive; the Eady Levy was

still available; there was rampant inflation in costs in Hollywood, making production in the UK a cheaper alternative; and the somewhat fortuitous location of a blockbuster in a British studio (ie. 'Star Wars' at Elstree) had reawakened interest in British production.

However, such an upturn was not of the same qualitative magnitude as that of the nineteen sixties. For the earlier period also involved a boom in the US financing of British films, and did not consist only of cheap offshore production.

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### 2.3 The Structure of the Industry.

In terms of the evolution of the structure of the British film industry (see Figure 1 on page 57), two central features have been noted: American dominance, and the British duopoly. While the implementation of the Screen Quota measures in 1927 (discussed in section 2.4) was in response to the former, the development of the latter was facilitated to a considerable extent by the Quota.

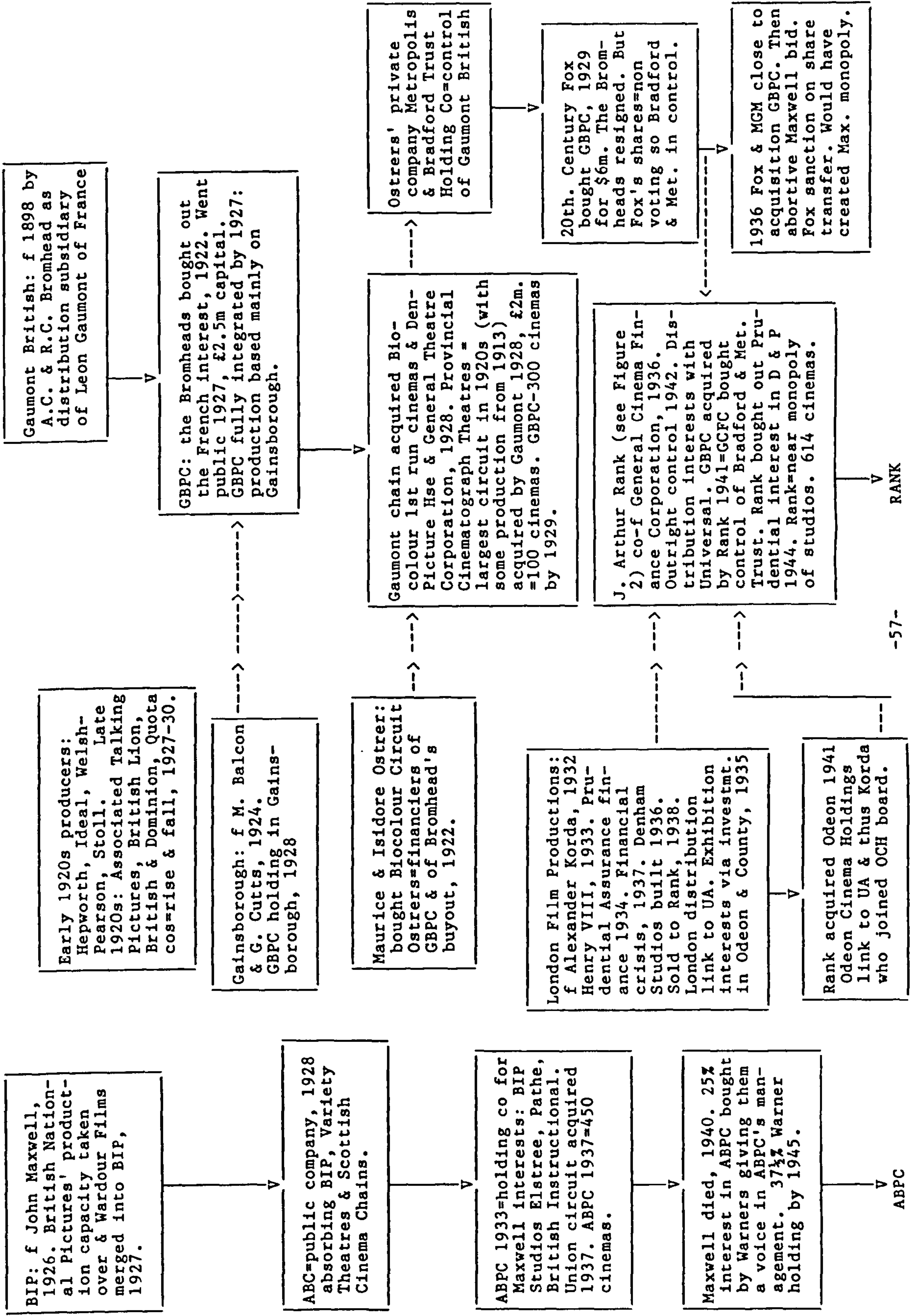
Given the tripartite nature of activity in the film industry - production, distribution, and exhibition - vertical integration has been the basic model of the firm from a very early stage. One makes films and distributes them into one's own cinema chain. This enables the maximisation of control over what would otherwise be an uncertain, market determined activity. Transaction costs are minimised.

In the US, Paramount, MGM, Warner Brothers, RKO and Fox were already established along these lines by the early nineteen twenties. At this time, British imitation of the Hollywood model would have been futile given the absence of a viable production end to any emerging British counterpart.

The advent of the quota changed this, and, from the late 1920s, there was the start of the development of the duopoly of the vertically integrated British 'majors' or 'combines': GBPC, later Rank; and ABPC, later EMI, and, later still, part of the Cannon group. Figure 1 illustrates, for the pre-war period, the details of the major acquisitions (continued on page 58)

Figure 1.

THE EMERGING INDUSTRY STRUCTURE: the COMBINES - MAXWELL'S ABPC, the OSTRERS' GBPC and RANK.



[Sources of Figure 1: adapted from Dickinson and Street (1985), Klingender and Legg (1937), Low (1985) and Perry (1974).]

(continued from page 56) and relationships under which the incipient market structure and the British duopoly emerged.

Thus not only did the Act protect British production from probable elimination, but it was also a major influence on structure. The Act promoted the British combines by encouraging City finance for a series of mergers which ensued, and by making plausible the notion of a British vertical integration which could encompass film production. Before the Act, British production could not have sustained the requirements of an exhibition and distribution machine. Thus the production side of a combine would have had to be American.

It is true, however, that, while the long term effect of the Act was concentration, there was a short term plurality with a brief epidemic of new production firms entering the industry and creating a bubble of new 'quota companies'. As Dickinson and Street (1985) have shown, the 1927 Act created a favourable climate for investment in British production, suggesting that, whatever the quality of the films produced, investment would automatically be profitable.

But a more competitive model was not sustained: quota companies quickly collapsed, with fifty such firms going out of business in 1930 alone. To some extent, the lack of suitable managerial resources, together with the power of the majors, was to blame.

In 1930, Alfred Hitchcock's film 'Blackmail' was the first British sound film, and it was the coming of sound in this period which presented a further difficulty for new entrants: it became very expensive to produce films.

Where the average cost of producing a silent film was between £5,000 and £12,000, that of a 'talkie' ranged from £12,000 to £20,000 (Dickinson and Street, 1985).

The quota measures succeeded in increasing the number of British films produced and in raising the British share of the British market. This rose from 4.4% in 1927 to 24% in 1932 and to 29% in 1936. These figures, however, include that most unfortunate by-product, the notorious 'Quota Quicky'.

Although it has been stressed that the 1927 Act established the basis for the British duopoly, and it is this which would in the longer term be an important constraint on the revival of the British industry, it must also be noted that the British would only play a role of continuous importance in the exhibition sector. The early dominance gained by Hollywood in production and distribution was not to be conceded.

So in due course, the British combines would exhibit films in Britain sometimes made by themselves, but more usually made, or picked up for distribution purposes, by American majors integrated, as far as the British market was concerned, across production and distribution.

Clearly, the 1927 Act also encouraged the exhibition ends of the combines in that they would be able to keep their

cinemas supplied with British films while some of the smaller exhibitors would be squeezed out due to lack of product. In turn, there was, in the post-quota period, a boom in cinema building with - by the end of the nineteen twenties - 'super' cinemas being built by the combines to accommodate up to 2,500 people.

By 1935, GBPC and ABPC owned 599 cinemas, which constituted about 13% of the total number of cinemas and 17% of the seats. The largest nine circuits owned a quarter of the auditoria, including half of the first-run cinemas, and a third of the seats. Moreover, a distribution-exhibition link in a combine enabled the circumvention of the outlawing of the practice of 'blind booking' which had been one of the measures of the 1927 Act.

Further aided by the alignments in the distribution ties with the exhibitor duopoly, an important long term structural trend in the exhibition sector has been the severe squeeze on the independent exhibitors. However, it is interesting to observe that at the relatively early stage of the 1930s, a great many small exhibitors survived, but in a somewhat precarious way - barring, for example, was already a factor. Nevertheless, over half of the 4,448 cinemas in the country by 1935 were independents.

For the major studio, however, the crucial point is the control of distribution:

'The economics have hardly changed during the

century, though the numbers are now larger and what the (US) government will allow has radically modified actual operations. A distributor charges a fee, normally around 30% of the box office gross, for the services he renders in getting the film from theater to theater, providing advertising campaigns and promotion, and so on. The 30% is before profits (if any) in which the distribution company's production or financing arm may share typically another 50% or more. The great majority of films today never achieve profit - that is, a level of financial return at which the film maker will share in revenues. But the distributor's 30% is inviolate and in what is called first position. The distributor is simply closer to the well, and once the machinery for film distribution was in place, the great controlling fact of the movie business as business became and remains: the machine must be fed.'

(Bach, 1985. Page 32.)

Bach is one of the many observers of the film industry to stress that control of the distribution sector is the key to profitability. The 1988 film 'Batman' is untypical of the film industry in almost every way. But it does stand as an extreme



example of the profitability of distribution. 'Batman' became the fifth biggest film of all time at the North American box office. Although it was one of the most expensive films ever made - its cost was more than \$50 million - it had taken, by March 1991, over \$250 million from cinema and video. However, it was still \$150 million short of returning a profit in the production sector! Both the film's star (Jack Nicholson) and the exhibition sector each accounted for at least 20% of the gross, and distributors' marketing expenses formed a further \$60 million, leaving more than \$80 million as fees to Warners as distributors.

The cost profile in the industry is one in which the high fixed cost of producing the master negative, ie. of making the film itself, can be contrasted with the relatively very low subsequent variable costs of manufacturing a print and conducting the necessary advertising to show the film to audiences. ('Batman' was untypical in this latter area as in many others.)

It follows that the ability to secure widespread distribution in as many territories as possible is vital. An early observer, Strauss (1930) noted that if one doubled the number of cinemas in which a film was shown, one might increase one's net revenues by perhaps a dozen times. There would be a reduction of fifty per cent in the production cost that had to be charged against the revenue from each cinema.

In this way, the widest possible distribution of films is

of the essence.

In practice, in both the UK and the US, production-distribution, on the one hand, and exhibition, on the other, have not always been under one corporate roof. In the UK, the American majors have dominated the production and distribution sectors, but have not been an important presence in exhibition: British cinema circuits have, throughout most of the history of the industry, been monopolised by British firms, principally ABPC (subsequently EMI and then Cannon) and Rank.

Joint profit maximisation has taken place across the distribution-exhibition border under bilateral monopoly. As is generally the case in economic theory, this has required collusion and price discrimination. And the alignments and barring restrictive practices have facilitated this.

The British distribution sector has been characterised by groupings of firms dominated by American majors. In 1983, at the time of the second report of the Monopolies Commission on the exhibition sector [MMC (1983)], the two largest distributors, Columbia-EMI-Warner (CEW) and United International Pictures (UIP) were noted to control fifty per cent of the market.

Alignments have meant that, by long standing agreement, the product of the Hollywood major studios is routed into one or other of the two British circuits.

While CEW had the role of routing Warner output into EMI cinemas and Columbia films into Rank, UIP was aligned with EMI

for Paramount, Universal and MGM productions, and with Rank for those of United Artists.

Turning to barring, the MMC Report defined this as follows:

'once the type of release for a film has been decided, and which cinemas will be involved, a long-standing system of bars negotiated and agreed between exhibitors, and then with the distributors, is applied to determine the rights to exclusive exhibition which many cinemas will have and, in effect, the order in which those cinemas will show the film.....barring determines which of two or more cinemas sufficiently close to each other exhibits the film first.....EMI and Rank obtain first run of virtually all films and their cinemas are in most cases first run cinemas in their own localities. The order in which the other cinemas in the locality, including sometimes other EMI and Rank circuit cinemas, will show the film, ie. as second, third or still later run cinemas, relates to the first run positions of EMI's and Rank's main cinemas.'

(MMC, 1983. Page 75.)

The elimination of an independent film distribution sector

removes a potential category of arbitragers. Arbitrage is impossible when the film is distributed, under barring, into the designated first run cinema. The distributor rations rentals to one print per exhibitor. (Although the practice of 'bicycling' has been known to occur: rushing the single print backwards and forwards, one reel at a time, from the designated cinema to another auditorium for an unlicensed showing!)

Various patterns of release are deployed to facilitate a market segmentation strategy. Third degree price discrimination is used to maximise profits by extracting something approaching the full area of revenue under the total market demand curve.

In general, tie-in sales can be regarded as a form of hidden price discrimination, ensuring monopoly profits on the tied-in commodity. Here, 'block booking' is the relevant film distribution practice. That is, in order to obtain a particular, popular film, an exhibitor must agree to take on packages which include both the desired film and other material which alone would be of little or no value. This practice enables revenue to be raised above that which would accrue were the films in the block to be priced separately.

Within the US itself, the Hollywood majors in the late 1940s and early 1950s agreed to refrain from block booking, among other restrictive distribution practices (including those corresponding to the British barring and alignments). This was a part of a wider episode which constituted the culmination of a lengthy series of anti-trust actions prosecuted by the US

Justice Department and which resulted in the majors divesting themselves of their participation in cinema exhibition.

Before this divorcement, the vertically integrated Hollywood combines had structured transfer pricing so as to show the bulk of profits in the exhibition sector. Garnham (1980) illustrates that the method of raising capital for investment in production was through the exhibition divisions. A combination of profitability and valuable real estate in the exhibition sector was the most efficient vehicle for attracting funds.

Before divorcement, more than 90% of investment in the US film industry was raised through the majors' exhibition chains. [In the long term, the resolution of the problem created in this respect by divorcement was the pattern of incorporation of the majors into diversified conglomerates such as, for example, Gulf and Western (in the case of Paramount) or Transamerica Corporation (United Artists).]

In this model of internal pricing, as in much else, the British combines mirrored the US majors. After divorcement in the US, the strength of the majors' production-distribution oligopoly was sufficient, against a fragmented independent exhibition sector, to redress the balance of profitability back towards the distribution sector.

But in the UK, it was production, rather than exhibition, from which the British majors withdrew. From the late 1940s to the late 1960s, their combined share of British production fell

from more than 40% to less than 10%, and was soon to wither away altogether.

With a continued presence in exhibition, there was no impetus to change the deal structures inherited from the days of full integration. The effect of this has been, and continues to be, the delaying of producers' participation in revenues and, in effect, the imposition of a disproportionate share of the risk onto the production financiers.

Exhibitors and distributors may be enjoying substantial profits, while financiers still await the recoupment of their outlay.

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## 2.4 Government Policy.

In the words of the 1984 White Paper, 'Film Policy,' 'The British commercial film industry is small in terms of the normal measures of economic significance, such as employment and turnover. But it has an importance and influence out of all proportion to its size'.

Despite what might appear to be an acknowledgement of important externalities and the consequent implication, within the neo-classical tradition, for an interventionist government policy, the White Paper went on to justify the removal of government support measures. However, the need for government intervention in support of its indigenous film industry in principle has been perceived as arising from the existence of a wide variety of possible external benefits.

Not only does a film industry give a national population an opportunity for creative development, but the industry also supplements the cultural side of national life. A weak domestic film industry would lead to foreign, probably American, dominance of an important aspect of national culture, and to a kind of cultural impoverishment.

Such cultural benefit is sometimes seen as being more plausibly achieved through subsidy of films rather than subsidy of, say, opera, ballet or classical music, if it is assumed that the cinema is the least elitist medium.

Furthermore, the export of films made in a particular country often gives rise to publicity about that country and

about its way of life. In turn, this can lead to a demand for further exports of that country, particularly in the form of tourism.

For example, in the American case in the nineteen twenties, while defending the level of American exports, the Motion Picture Division of the Bureau of Foreign and Domestic Commerce expressed the view that every foot of film exported and shown abroad yielded approximately one dollar in foreign purchases of US goods.

A less tangible export is international prestige. And if this is felt to be an important commodity, then the film industry has a role to play as can be seen in the British case, for example, on the occasion of any success at the Oscar ceremonies.

While one can clearly observe that the film medium often has a useful function in education, it has also been used as a major vehicle for the dissemination of propaganda. For example, the important war time role to be played by national film industries. This is said to have been inaugurated at a very early stage in Hollywood by de Mille's First World War production 'Joan the Woman'.

In the British case, the role of the cinema had become well established in war by the time of, say, Noel Coward's 'In Which We Serve' in 1942: 'Dated but splendid flagwaver; an archetypal British war film of almost limitless propaganda value'. (Halliwell, 1977. Page 445.) While for Churchill, Wyler's 'Mrs.



Miniver' (1942) was 'worth many battleships'.

And with reference to the British Empire, there was a perception in some quarters of a Colonial policy based, at least in part, of showing to the natives the kind of films which would introduce them to civilised - ie. British - standards of behaviour. Moreover, the cinema has sometimes been regarded as a crucial medium for the spreading of a particular ideology. This is illustrated by, for example, the House of Representatives Committee on Un-American Activities hearings in 1947 and 1951 on the alleged Communist infiltration of the film industry, and the subsequent blacklisting.

A rather different example concerns the very entry into the British film business of J. Arthur Rank. He was a wealthy flour miller in the early nineteen thirties, and he taught at a Sunday School in the Methodist church. It is said that he decided to show, and subsequently to make, religious films because he was dissatisfied with traditional methods of teaching.

Rank's first film (a twenty minute short called 'Mastership,' which cost him £2,700, and concerned the need to conquer one's vices and to give one's life to Christ) was taken around the country to show to religious meetings. The failure of this and other of Rank's early religious films to gain entry to the cinema exhibition circuits was the factor which inspired Rank's entry into the industry - he wanted to get his religious message over through the cinema medium. (Limbacher, 1972.)

The areas of possible external benefit of domestic film production (creativity, culture, prestige, trade, education, propaganda) are somewhat problematic in that, while they can be hard to justify, they are certainly difficult to quantify.

Furthermore, it cannot easily be said whether the film industry is the most efficient way of achieving the benefits in question. A value judgement is made politically with regard to the extent and nature of government support - if any - to be given to national film production. And, when support is given, the question arises as to whether it is to be in the form of a market improving policy, or whether the government itself should enter production and displace the capitalist model.

As far as the British film industry is concerned, a government policy of market improvement was introduced in the form of Screen Quotas as early as 1927. This measure was designed to rescue the production sector of the national industry which, in the face of American dominance, was all but extinct. Indeed, 1927 is an important year in the history of the film industry for the introduction in Britain of this policy of production support coincided with the advent in the US of the 'talkie'.

The background against which the Cinematograph Films Act of 1927 was passed was - taking 1926 as an example - one in which an annual total of 625 features were released in Britain. But of these, 577 were American, 25 were continental European, while only 23 (under 4%) were British.

A minimum requirement was placed on exhibitors for the showing of British films. Under the Act, renters had to acquire and distribute a minimum British content of 7.5% of all footage rented, while exhibitors had to devote at least 5% of screen time to British films. Both quotas were raised to 20% in 1935, and the quota was to remain an instrument of policy for over fifty years.

Table 10.  
The British Screen Quota.

Minimum British Screen Time Set At:	
1928	7½% for renters 5% for exhibitors, rising steadily to
1935	20% for renters and exhibitors; unchanged until
1938	15% (long films) for renters 12½% (long films) for exhibitors
1942	planned rising quota levels abandoned because of war until
1947	30% (long films) for renters 25% (long and short films) for exhibitors
1948	45% (long films) and 25% (supporting programme) for exhibitors; renters' quota abolished
1949	40% (long films)
1950	30% (long films)
1982	15% (long films and supporting programme)
1983	exhibitors' quota suspended

(Source: 'Screen Digest.')

The Screen Quota was to become one of three central instruments of government policy in support of British production. The National Film Finance Corporation and the British Film Fund Agency (or Eady Levy) were the supplementary measures which followed after the war. This support mechanism survived until the nineteen eighties and its dismantlement following the aforementioned White Paper.

Table 10 above shows how the level of quota imposed varied over the period. The rise and fall of the quota level is interesting to note: a system of high post-war quotas proved to be untenable given the inability of British producers to meet its requirements with adequate output. And the successive lowering of quota levels thus followed.

In 1948, the announcement was made of the establishment of the NFFC as a public corporation. It would provide a source of finance for film production and attempt to assist British production in meeting the quota requirements. Table 11 below gives an indication of the scope of the NFFC contribution. This was at its greatest during the nineteen fifties with investment in around half the British films of that decade.

(Further discussion of the role and limitations of the NFFC is in Chapter 3.)

Table 11(a).  
The NFFC and British Long Film Production.

	Films in Receipt of NFFC Loans	As a % of all films		Films in Receipt of NFFC Loans	As a % all
1950	62	84	1967	12	17
1951	35	52	1968	6	8
1952	63	80	1969	5	7
1953	51	59	1970	8	9
1954	46	50	1971	11	12
1955	41	50	1972	2	2
1956	33	41	1973	3	4
1957	47	49	1974	1	1
1958	60	67	1975	8	11
1959	45	56	1976	1	2
1960	46	58	1977	5	12
1961	27	35	1978	5	10
1962	48	67	1979	4	10
1963	36	50	1980	2	5
1964	18	26	1981	2	6
1965	12	18			
1966	17	24	TOTAL	762	33.02

(Source: 'Screen Digest'.)

Table 11(b).  
 The NFFC and British Long Film Production:  
 Quinquennial Analysis and Standard Deviations.

	No. of Films in Receipt of NFFC Loans		As a Percentage of All Films	
	mean	standard deviation	mean	standard deviation
1950-54	51.4	10.4	65.0	14.3
1955-59	45.2	8.8	52.6	8.6
1960-64	35.0	11.4	47.2	14.9
1965-69	10.4	4.4	14.8	6.4
1970-74	5.0	14.8	5.6	4.2
1975-79	4.6	2.2	9.0	3.6

The Eady Levy, the operation of which is shown in Tables 12 (a) and (b) below was established on a voluntary basis in 1950, and became compulsory in 1957. It was a means of channelling box office receipts into British production. A levy was placed on the price of cinema admissions, and its proceeds went into the British Film Fund Agency which, until 1981, distributed the Fund to producers of British films on the basis of their box office success. Grants from the Fund were also made to the Film Fund Agency's client bodies: the NFFC, the Children's Film Foundation, the National Film School, and the British Film Institute.



Table 12(a).  
The Eady Levy Rate Per Cinema Seat.

1950	all seats:	$\frac{1}{4}$ d	
1951	3d - 1s:	$\frac{1}{4}$ d	
	over 1s:	$\frac{3}{4}$ d	
1957	under 10d:	exempt	
	10d - 1s 1d:	$\frac{1}{4}$ d	
	1s $1\frac{1}{2}$ d - 1s $2\frac{1}{2}$ d:	$\frac{1}{2}$ d	
	1s 3d - 1s 4d:	$\frac{3}{4}$ d	
	1s $4\frac{1}{2}$ d - 1s $5\frac{1}{2}$ d:	1d	
	1s 6d - 1s $7\frac{1}{2}$ d:	$1\frac{1}{4}$ d	
	1s 8d - 1s $9\frac{1}{2}$ d:	$1\frac{1}{2}$ d	
	over 1s $9\frac{1}{2}$ d:	$1\frac{3}{4}$ d	
1960	one ninth of amount exceeding	11d	
1968	one ninth of amount exceeding	1s 6d ( $7\frac{1}{2}$ p)	
1977	one ninth of amount exceeding	$12\frac{1}{2}$ p	
1978	one ninth of amount exceeding	$17\frac{1}{2}$ p	
1979	one twelfth of ticket price		

The Levy was set in order to raise a total Fund which would fall within rather remarkably wide limits. For example, the target minimum per annum was always £2 million after 1957, with a target maximum of £5 million from 1957 until 1975. The latter was raised to £7 million in 1975, and to £12 million in 1979.

Although the Levy was a measure introduced by the government to divert a proportion of the exhibition receipts to production, there was, however, a further measure of government fiscal policy which had the simultaneous effect of taking away from the grosses some of what would otherwise have found its way back to producers.

The Entertainments Tax had been introduced as a temporary measure during the First World War. The cinema was the last sector of the entertainments industry to remain subject to this tax, and it was not to be abolished until the Cinematograph Films Act of 1957 created the circumstances for its reduction and eventual abolition in 1960. In 1957, the Entertainments Tax accounted for 25% of box office receipts.

The Eady Levy itself was heavily criticised. Exhibitors expressed the view that, while the purpose of the Levy was to sustain the industry through the subsidy of British producers' costs, it had, as a kind of Poll Tax on cinema attendance, a dampening effect on admissions.

Cinemas with low levels of box office takings were in fact exempted from the Levy. The exemption was granted from 1952, for example, if the weekly gross fell below £150. This minimum

was raised to £250 in 1960, and successively to £1,400 by 1979. Relief was also given where takings only just exceeded the minimum, or where cinemas had an erratic level of weekly receipts.

Table 12(b).

The Distribution of the Eady Levy. (£ millions.)

Period	Total Levy Collected	Grants Awarded	Payments To Film Makers
1950/51	1.198	0.060	1.123
1951/52	2.972	0.1	2.854
1952/53	2.733	0.12	2.589
1953/54	2.752	0.125	2.614
1954/55	2.573	0.125	2.441
1955/56	2.568	0.125	2.431
1956/57	3.096	0.13	2.937
1957/58	3.667	0.125	2.507
1958/59	3.849	0.125	2.695
1959/60	3.901	0.125	3.743
1960/61	4.027	0.125	3.865
1961/62	3.91	0.138	3.748
1962/63	3.771	0.138	3.594
1963/64	4.169	0.138	4
1964/65	4.677	0.138	4.514
1965/66	4.623	0.193	4.413
1966/67	4.507	0.193	4.309
1967/68	4.359	0.24	4.131
1968/69	4.037	0.205	3.849
1969/70	4.223	0.211	4.028
1970/71	4.588	0.345	4.238
1971/72	4.344	0.34	3.984
1972/73	3.975	0.43	3.567
1973/74	4.304	0.477	3.91
1974/75	4.977	0.477	4.581
1975/76	4.721	0.604	3.978
1976/77	5.51	0.865	4.695
1977/78	6.617	0.883	5.768
1978/79	7.454	0.991	6.599
1979/80	6.038	0.905	5.334
1980/81	6.584	2.18	4.565

(Source: 'Screen Digest'.)

The Levy, between 1950 and 1980, diverted a total of £130 million from box office takings. About £120 million of this (£4 million per year) was paid to producers of British films. Payments in respect of a particular film were in direct proportion to that film's success at the box office.

This gives rise to the two central flaws in the Eady Levy as a mechanism designed to support British production. Firstly, the Levy rewarded those who were already successfully engaged in production, rather than facilitating producers who were unable to get projects off the ground. And secondly, much of the subsidy went to American, rather than British, producers.

For example, the subsidiaries in the UK of the Hollywood major studios were incorporated under British law and fully entitled to participation in the Fund. In this way, in the nineteen sixties, when American participation in British production was at its height (see section 2.2), the majority of the Fund was rewarding American, rather than British, production companies.

The James Bond films provide an example of the apparent misdirection of the subsidy. Bond would seem to be the last conceivable case of need, and yet its Eady money was always abundant. In the instance of 'Thunderball' (1965), for example, the reward was about \$2 million or 15% of the entire Fund (Dickinson and Street, 1985). The Bond production company, Eon, belonged to the American producers, Harry Saltzman and Albert Broccoli, and its financial backers were United Artists.

However, such an objection might mean little to that sector of British production capacity - the film studios - where activity depends to a considerable extent upon playing host to American production. The last Bond film to be produced at Pinewood ('The Living Daylights,' 1986) was the first without Eady money.

The Managing Director of Pinewood Studios (interview, 1990) said that for the Bond producer, the missing subsidy (at least £1 million) was an important factor. That major film investment is 'footloose' is illustrated by the unprecedented decision in 1990 to produce a Bond film, the eighteenth, entirely overseas.

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## CHAPTER THREE

### THE PROBLEMS OF THE INDUSTRY

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### 3.1 An Environment of Decline.

In recent years, the British production sector has faced enormous obstacles in the raising of production finance. For many years, there has been no British major involved in production, while only a few British producers have had access to Hollywood money.

As is illustrated in section 3.4, a film's makers normally have to attempt to compile finance in relatively small amounts from a disparate range of sources - television, British Screen Finance (essentially a privatised NFFC), independent US distributors, individual territorial pre-sales, private investors, and guarantees from sales agents against overseas revenues.

If they succeed, it is probable that the budget will have been pared down to well below £3 million. Consigned to small budgets (if they can be raised), the film maker faces a quotidian struggle for cost control; a tyranny of set-ups-per-day productivity. It is observed in section 3.2 how such constraints limit the scope of what can be put on the screen and place the film at a competitive disadvantage in markets.

There is an almost total absence of government support for production. The view of the 1979 Conservative government was embodied in the 1984 White Paper, 'Film Policy': 'We believe Britain already has a film industry of which it can be justly proud, and that there is potential for more growth, and for yet greater achievements. But these achievements cannot be attained



with all the paraphernalia of government intervention'.

Accordingly, the subsequent Act removed the Screen Quota, Eady Levy and NFFC. Moreover, the Budget of 1982 ended a further mechanism of support: for a short period from 1979, there had been a fiscal incentive in the form of 100% first year capital allowances in respect of the master film negative which could be treated as plant rather than as a revenue expense.

By the time that the case study films were made, the national support system for production consisted of an annual grant of £1.5 million to British Screen; £350,000 to the National Film Development Fund; £150,000 for short films (administered through British Screen); and the £½ million of the BFI's grant which was allocated to its Production Board.

In the 1991 Budget speech, the Chancellor of the Exchequer, Mr. Norman Lamont rejected proposals for a revival of government support for the finance of British production put forward by leading members of the British film industry. His words were a source of bitter disappointment for the industry's campaigners:

'I remain sympathetic, and if they have any alternative proposals they wish to put to me over the coming year, I will happily consider them.'

This rejection seemed to constitute a still-birth, as it were, of the offspring of Mrs. Margaret Thatcher and Sir Richard Attenborough conceived exactly nine months before, on

June 15th. 1990, at an industry 'seminar' at 10 Downing Street.

Sir Richard, assisted in his endeavours by twenty senior figures from the British film production industry, had taken the crisis in production to the then Prime Minister. Although only very small support was initially forthcoming (a £5 million government grant over the next three years to assist British producers wishing to participate in European co-productions), the chief outcome of the meeting was the perception of a promise that tax breaks for production would be introduced.

These incentives would, in all probability, follow from recommendations to be made by two working parties established immediately after the Downing Street meeting: a Department of Trade and Industry investigation would look at how to attract private investment into production; while an industry committee, organised by the British Film Institute, would consider necessary changes to the taxation regime in the production sector and report its findings to the Treasury.

There was a general air of optimism after the Downing Street meeting. In the words of the press release circulated on behalf of the delegation by the British Screen Advisory Council, 'The delegates expressed pleasure at the positive tone of the discussions and the agreement that film production will in future occupy a higher place on the government's agenda'. And the Notice put out by the press office of Ten Downing Street was headed, 'Prime Minister Agrees Plans to Help British Film Industry'!

But it was the proposals of the Tax Incentives Working Party duly made to the Treasury to which the Chancellor referred in March 1991. (A year later, Mr. Lamont's Budget announced a small acceleration in the write-off timetable for production costs, but against the background of the almost complete collapse of production in Britain - only twelve films in 1991 - the measure was widely regarded in the industry as too little and too late.)

What is most remarkable, however, is the very occurrence of such a meeting as that at Downing Street in 1990 in the first place. In industrial policy in Britain in the nineteen eighties, the very idea of 'market failure' was something of a non-sequitur. But so grievous had the condition of British film production become during this period that what was on offer was that most unThatcheristic of commodities - government intervention.

This situation is already sufficiently stark if one only considers that a mere twenty seven feature films were made in the UK in 1990, the lowest total since 1981. As recently as 1984, twice as many were made, while the decade of the 1970s had an annual average well in excess of sixty British films.

But the factor which reinforces the severity of the environment of accelerated decline surrounding British output in the nineteen eighties is that it occurred in the face of booming demand. Theatrical exhibition in the UK (see Table 1 in section 2.1] declined continuously from its peak of 1.6

billion admissions in 1946 until 1984 when it had fallen to only 53 million. However, cinema going then strongly recovered so that by 1990 there were 98 million admissions.

These figures conceal a much larger further increase in demand when one observes the simultaneous growth of the home entertainment sector. Not only has the number of television channels multiplied in this period, but the video rental and video sell-through markets have shown exceptional growth. According to Headland (1991), the video sector by 1990 constituted demand (about £1 billion) worth at least two and a half times as much as cinema box office.

But the problem that culminated in the Downing Street summit was, of course, that the films that were sustaining this massive British consumption were, for the most part, not British. They were such American blockbusters as 'Ghost' (which had a 1990 cinema box office gross of £17.3 million), 'Pretty Woman' (£12 million), or 'Back to the Future Part 2' (£7.2 million in 1990) and 'Part 3' (£8 million). ('Screen International,' 1991.) Even the highest placed film in the 1990 British box office rankings with an apparently British content, 'Shirley Valentine,' turned out to be an American production.

As noted on page 6, one of the central problems for the British film maker has invariably been that of access to finance. For example, there was a severely constrained scope for British production activity in the late nineteen fifties/early nineteen sixties as is illustrated in the

discussion of the 'New Wave' in section 3.2

That there is nothing unique to the contemporary environment in the lack of finance is shown by the fact that Woodfall's cycle of New Wave films was only able to start because Warners happened to have Richard Burton on a play or pay contract at that moment. (Walker, 1974.)

But, viewed with the hindsight afforded by the early nineteen nineties, the environment of the late 1950s, in terms of the sheer amount of British production, looks as it were something of a golden age. For the period 1956 to 1965, there was an annual average output of eighty two feature films, while the corresponding figure for the decade of the nineteen eighties was forty five.

The difference is partly accounted for by the disappearance of the British 'majors,' in particular Rank, as facilitators of production. As can be seen from Table 15 on page 130, Rank averaged fifteen films in the earlier period, with a further one or two annually contributed by ABPC. Rank largely ceased its involvement in production in the nineteen seventies as the conclusion of a long term trend which began in 1948.

And Cannon's suggestion, on purchasing in 1986 the assets of Screen Entertainment, the descendant of ABPC, that it would contribute British production was to carry little real practical weight.

The other absentees, by and large, in the production of British films in the eighties were the Hollywood majors: their

British output was around six films a year in 1956-1965.

The remainder of the production demise can be attributed not only to the increasingly severe impact on the British independent production sector of the kind of financial constraints illustrated in section 3.4 and already in play in the earlier period examined in relation to the 'New Wave' in section 3.2, but also, so the production sector argued on its visit to Downing Street, to the removal of almost all measures of British government film support policy.

Table 13.  
Total Numbers of Feature Films for Theatrical Release  
Commencing Principal Photography in the UK in the Nineteen  
Eighties:

1980	38	1985	54
1981	24	1986	41
1982	51	1987	57
1983	42	1988	56
1984	53	1989	38

(Source: BFI.)

It is useful to examine the composition of this output. To this end, the following data - Table 14 - analyses production for 1987 which was the peak year for activity during the nineteen eighties:



Table 14.

The Composition of Output in 1987: Feature Films for Theatrical Release Commencing Principal Photography in the UK in 1987.

TITLE	TOTAL COST OF PRODUCTION (£m)	PRODUCTION COMPANY
The Adventures of Baron Munchausen	23.6	Prominent Features/Laura Films
American Roulette	1.174	Film Four International/ British Screen/Mandemar Group
Buster	3.3	Buster Films
Consuming Passions	2.2	Euston Films/Sam Goldwyn
The Courier	1.5	City Vision/Bord Eireann/ Euston Films/Palace
The Dawning	1.8	Lawson Productions
The Deceivers	2.0	Merchant Ivory/Michael White
The Dead	2.259	Liffey Films (Valencia) /Zenith Productions
The Dream Demon	1.94	Spectra Films
The Dressmaker	1.275	Film Four International/ British Screen
Drowning By Numbers	1.023	Allarts
Eat the Rich	0.75	Rio Films
Empire of the Sun	23.75	Amblin Entertainment/ Warner Brothers
Jane and the Lost City	1.0	Marcel Robertson Prodns. /Glen Film Prodns.
Just Ask For Diamond	1.4	Red Rooster Films
A Fish Called Wanda	4.5	Prominent Features
For Queen and Country	1.75	Zenith/Atlantic Entertainment (LA)
The Fruit Machine	1.65	Granada Film Finance Corp.
A Handful of Dust	2.43	Stage screen Productions
Hawks	2.62	Chufflink
High Spirits	6.91	Visions/Palace
The Last of England	0.5	Anglo International Films /British Screen/Channel Four/ZDF.
Leave To Remain	0.9	Spellbound Productions
The Little Sister	2.0	BBC/Nelson Entertainment/ West One Film Producers
The Lonely Passion of Judith Hearne	2.78	Handmade
Madame Sousatzka	3.49	Sousatzka Productions
Maurice	1.577	Maurice Productions
The Naked Cell	1.0	Cinema and Theatre Seating
Nature of the Beast	1.199	Rosso Productions
On the Black Hill	0.744	British Film Institute
Pack of Lies	1.5	Tangent/Robert Halmi/CBS- Hallmark Hall of Fame

Paperhouse	1.5	Vestron
Paris by Night	2.015	British Screen
Pascali's Island	2.261	Avenue Pictures
Poor Little Rich Girl	5.0	Lester Persky/ITC
The Raggedy Rawney	2.0	Handmade
Salome	0.65	Jolly Russell Co.
Sammy and Rosie		
Get Laid	1.389	Working Title
The Secret Policeman's		
Third Ball	0.4	Elephant House
Shag	2.5	Palace/Myrtle
		Beach/Hemdale
Sherlock and Me	3.76	ITC
Shostakovich	1.3	Isolde Films
Sour Sweet	1.9	First Film Co.
Souvenir	2.75	Fancy Free Productions
Stealing Heaven	3.0	Amy International/Jadran
Distant Voices,		
Still Lives	0.656	British Film Institute
Stormy Monday	1.65	Moving Picture Co.
A Summer Story	2.5	ITC
Taffin	0.85	UBA/Rafford
Testimony	1.1	Isolde/Mandimar/ORF/
		NDS/Channel Four
To Kill A Priest	6.0	Columbia/JP Productions
		(Paris)
Track 29	5.0	Handmade
Vroom	1.462	Motion Pictures/Film Four
		International/British
		Screen
White Mischief	3.95	Umbrella Films
Who Framed Roger		Touchstone/Amblin
Rabbit?	18.0	Entertainment
Willow	20.0	Lucas Film/Image
		Entertainment
A World Apart	2.715	Working Title

(Source: primary.)

The composition of output in 1987 apparently reveals a healthy production sector with a large and varied collection of films. But closer inspection enables one to recognise how impoverished and precarious activity had become by the late nineteen eighties. The majority of films were small: one third were low budget (costing less than £1½ million) and a further 44% were medium budget (£1½ to £3 million inclusive). And their finance sources were stretched to their maximum and in danger of collapse. Indeed by 1990 and 1991, only twenty seven and twelve films were made respectively.

Together, these cheap films (cf. the average cost of a Hollywood studio film of about \$15 million) constitute the essential British industry. Their production depends largely on television money (in particular, that of Channel Four), and on the participation of British Screen Finance Ltd..

Alongside the involvement of commercial television companies' offshoots like Euston Films (Thames Television), Zenith (Central Television) and Granada, Channel Four's role constituted a large brick in the financial foundations: nineteen of the forty four medium and low budget films had Channel Four finance. British Screen supplemented this, twenty one of the forty four having Channel Four and/or British Screen input.

For the period from 1981 (when Channel Four put in its first production finance) to 1989, an annual average of 55% of low budget output relied on these sources. And for the medium

budget sector, since 1983 (the first year of Channel Four's participation in the medium category), an average of 30%.

However, Channel Four/British Screen and other television sources are neither large enough bricks in the foundations to support fully this small production house, nor are they bricks which are firmly cemented into the foundations. All parties are financially constrained, the future of British Screen itself is uncertain, and the participation of commercial television companies waned at the end of the decade in the light of the imminent franchise auction.

Channel Four's funding allocation for feature film production between 1981 and 1990 grew from £6 million to £10 million per annum, but the average cost of the films in which Channel Four participated increased from £400,000 to about £1.3 million in this period. And while British Screen's grant from the Department of Trade and Industry is secured at £1½ million per annum to 1994, its future depends on its shareholders (Granada, Rank, Cannon and Channel Four itself) not exercising their periodic right to withdraw their funds.

Although these sources rarely provide 100% finance, it can be assumed that most of the films they were involved in in 1987 would not have been made in their absence. Their support tends to have the effect of getting a project off the ground and of enabling a more persuasive approach to be made to the remaining finance sources.

This is illustrated in the example of 'A World Apart' in

3.4, and, to take further examples from the 1987 films in Table 14, 'American Roulette' which raised 52% of its budget from Channel Four, 25% from British Screen, and then the rest from the US independent distributor. 'Stormy Monday' was a slightly larger scale British production with a budget large enough to accommodate two minor American stars (a strategy frequently employed in the hope of giving the film 'marquee' in the US). The finance came 24% from Channel Four, 33% from British Screen, 25% from the American distributor Atlantic Releasing, and the remainder from elsewhere in the UK..

Table 14 also shows that in 1987, there were only eight larger budget films, (ie. costing more than £3 million) which were British productions, rather than American projects being made in Britain. Excluding Prominent Features' 'The Adventures of Baron Munchausen,' which, almost uniquely in British production in the late nineteen eighties, was allowed to run enormously over budget, these films cost between £3 and £7 million.

This small sector was financed either, as the case study of Prominent's 'A Fish Called Wanda' illustrates in section 3.4, by Hollywood, or, more usually, by small British production companies, like Handmade or Umbrella, pre-selling to independent distributors.

'Buster,' which cost £3.3 million, was the most independent of independent British films, and its financing illustrates the difficulties facing producers. Norma Heyman, the producer of

'Buster,' explained (interview, 1990) that her idea was the setting up of the finance along the lines of that of an earlier film, 'The Honourary Consul' (1982). This model involved pre-selling the film not on a world rights basis but territorially. The aim was that if the film failed commercially in the US, it would still be possible to make money elsewhere.

Resultingly, of the target finance of \$5.6 million, \$3 million was sought from the US and the remainder from the rest of the world. But 'Buster' turned out to be a very difficult film to finance. It was turned down for financing in the UK at an early stage. Ms. Heyman tried to finance the film at Cannes. Many bankers and sales agents were approached - a party was thrown. But various deals, including one important video interest, fell through.

Eventually, the American film financiers, Hemdale, bought the US rights for \$3 million supplying a letter of credit to facilitate borrowing. This took place through Pierson Heldring and Pierson (cf. 'A World Apart' in section 3.4) who brought in the British merchant bank Guinness Mahon as a fifty:fifty partner to defray what they perceived as risk. On this project, about \$400,000 of additional finance was required to cover the various costs of bank financing and interest.

The rest of the world was pre-sold territorially through sales agents leading to guarantees from distributors in the UK, Australia, Germany, Italy, and so on. As opposed to the Hemdale letter of credit, the sales agents, on the basis of these

territorial guarantees, put cash in.

At a late stage, the budget still needed \$600,000 to achieve full financing. A search in the UK for both City equity investment and production company investment was without reward. A promised private investment from the US fell through at the last minute. There may have been concern about the popularity of the subject matter (the Great Train Robbery) with US audiences, and that pop fans - of the film's lead, Phil Collins, a star of the US music scene - are not cinema goers. After all, there is a rule in Hollywood that holds that jazz films never succeed at the box office - indeed the commercial failure of two recent films, 'Round Midnight' (1986) and 'Bird' (1988), would suggest that music fans are not cinema goers.

The financial crisis of 'Buster' meant that three weeks into the shooting, the terms arranged with the banks had to be renegotiated, and the fees of the producer and director deferred. Although the film turned out to be a success, Ms. Heyman, as such an independent producer, stressed that she expects to have to devote a day a week for the following seven years to matters associated with the 'Buster' project and related matters of distribution and collection.

It is notable that five of the thirteen larger budget films made in the UK in 1987 are American productions, and these include three with 'mega' budgets: 'Empire of the Sun' - costing £23.75 million; 'Who Framed Roger Rabbit' - £18 million; and 'Willow' - £20 million.

These films represented the very end of a fifteen year period of British studio activity for the ultimate of commercial Hollywood film makers, Stephen Spielberg, whose production company, Amblin Entertainment, made 'Empire of the Sun' and 'Who Framed Roger Rabbit,' and George Lucas, whose Lucasfilm made 'Willow' in 1987.

In 1975, motivated by Twentieth Century Fox's wish to have his proposed 'space opera' made as cheaply as possible, Lucas, with the assistance of the British producer Robert Watts (interview, 1990), hired the entire studio at Elstree on the then unprecedented 'four wall' basis, that is, he hired the studio itself but brought in his own crew.

The film that Lucas made at Elstree was 'Star Wars,' which, by the end of 1990, had become the second highest all-time box office hit in North America. Over the following twelve years at Elstree, Lucas and Watts made the other films of the 'Star Wars' trilogy, 'The Empire Strikes Back' (which was, by December 1990, the fifth most successful at the all-time North American box office) and 'Return of the Jedi' (third), and Spielberg and Watts made the 'Indiana Jones' cycle: 'Raiders of the Lost Ark' (eighth), 'Indiana Jones and the Temple of Doom' (tenth), and 'Indiana Jones and the Last Crusade' (ninth). (Robertson, 1991.)

The British film industry has always craved, above all, perhaps, success at the American box office. It is remarkable to note that, in this way, it has, in a sense, achieved it.



Adding 'Batman,' which is in fourth position and was made at Pinewood in 1988, five of the top ten all-time North American box office hits are 'British' films - American films made in British studios.

These films are important for the British industry because they keep the film studios viable - immediately after the Americans' departure, Cannon sold Elstree Studios and its very future was in doubt. Moreover, these films provide employment in the domestic sector, and contribute towards the crucial matter of keeping intact the industry's skills infrastructure.

However, British employment created is not to the extent implied by the films' total costs: above the line costs, are typically very large on such films; post-production of the six 'Star Wars' and 'Indiana Jones' films took place in Los Angeles; human action in 'Who Framed Roger Rabbit' was made in Hollywood; 'Empire of the Sun' was partly made on location in the Far East. Moreover, no matter how successful the films are, there is no spin off for British production generally. The 'Star Wars' cycle belongs to Fox, and eventual profits on 'Indiana Jones' and 'Batman' accrue to Paramount and Warners respectively. And when footloose American capital leaves, it is almost as if it has never been there. The British industry was left with the pathetic image of Pinewood not striking the 'Batman' set in case, by chance, 'Batman 2' came its way.

So the 'View From Downing Street,' as Headland and Relph (1991) called it, was, in June 1990, a view which required one

to crane one's neck and peer back up a long slope of decline. Alternatively, one could look from side to side where the view through the mist was of an industry, unsupported by government policy, Hollywood capital, or national major studios, somehow managing to bring together funds for a small number of mainly cheap films from diverse - often television - sources. One could discern a dim flame: an almost irreducible minimum of British production just about keeping it alight.

As few as thirty eight films were made in 1989. In the entire post-war period, there had only been fewer in 1981. But as if to gainsay those who argue that the British lack a truly cinematic imagination, these films covered a remarkably diverse range of subjects offering real cinematic characteristics.

The continuum ran from Jeremy Thomas's exotic melodrama, 'The Sheltering Sky,' through the BFI's political thriller, 'Fellow Traveller,' to Parkfield's gangster film, 'The Krays,' and Peter Greenaway's bizarre art house movie, 'The Cook, the Thief, His Wife and Her Lover'.

Discerning through the mist that the British industry has the kind of writers, directors, producers, technicians and actors required to make such a rich collection of cinematic wealth in such a dilapidated environment, one might observe that as long as this human infrastructure remains intact, the British Film Industry is a success story waiting to happen.

However, since the demise of Rank and ABPC as facilitators, there have only occasionally been British production companies

potentially of a sufficient size to support large numbers of British films. Can a large British film production company survive without being fully integrated into distribution?

That the answer to this question is a firm 'no' is confirmed by a case study facilitated by Goldcrest, whose 'Rise and Fall' (Eberts and Ilott, 1990) took place in a brief period during the first half of the nineteen eighties. It is a story which serves to re-emphasise the central importance in the film business of distribution.

In January 1977, the Canadian entrepreneur, Jake Eberts, entered the finance of film development, setting up two small firms, Goldcrest and Firecrest. Film development, as opposed to film production, is the phase in which scripts are worked on, budgets drawn up, and principal casting decisions made. Development finance can be very profitable: the early investment (of £17,700) in the 1980 film 'Chariots of Fire' gave Goldcrest profits of £864,000.

But activity did not remain confined to the development sector for long. Inspired by the success of 'Chariots of Fire,' Goldcrest promptly started putting significant sums into production. A succession of investments in Sir Richard Attenborough's 'Gandhi,' a somewhat precarious production given the propensity of others of its investors suddenly to withdraw, eventually came to about £5 million. And as Goldcrest rapidly completed its transition to fully fledged production company, the other major financing was of David Puttnam's films

'Local Hero' (made in 1982), and 'The Killing Fields' (1983), in which it invested £2.6 and £8.5 million respectively. Both films were to be profitable for Goldcrest.

But in 1983, at the very moment Goldcrest, with its profits and prestige (there were eight Oscars for 'Gandhi'), seemed to have 'arrived' as an important British production company, there were already signs warning that its mortality was to be brief.

The way in which Goldcrest was expanding was leading in management to a damaging upheaval and a destructive factionalism. This expansion was based on no business plan - 'things just happened'. Thirty two subsidiaries, with a proliferation of management, appeared in this period. Among the subsidiaries was Goldcrest Television, set up as a vehicle for Puttnam's 'First Love' series.

Goldcrest's entry into television production meant the creation of parallel lines of command and a resulting power vacuum. Moreover, for the remainder of Goldcrest's life, television was to be a constant drain on cash, turning out to be a larger aggregate source of loss than feature films.

In spring 1984, after Eberts had left Goldcrest - it had travelled miles from his ideal of a small development financier; he was also in dispute over salary - there was a share issue to raise production funds. At this time, if 'Gandhi' were removed from the calculation, Goldcrest's accumulated deficit was already £1.19 million. Its television

side was clearly never going to be profitable; its two most senior managers lacked credibility in the film business; and the members of its boards were polarised and in open revolt.

The share issue went ahead and raised £12 million. Bank credit of £10 million supplemented this new production fund. New films were needed quickly. During the preceeding year of managerial turmoil, the lack of production had led, by mid 1984, to a major cash flow crisis. Overheads had accelerated to £2.7 million per annum, while revenues from films going into exhibition had dried up.

While it might have been a useful strategy to buy time by making some negative pick-ups to ease the cash flow position, it was at this point that Eberts successor, Sandy Leiberson drew up his disastrous slate, which, by September 1987, when Goldcrest was sold, had resulted in an accumulated Goldcrest deficit of £16.808 million. Of the seven projects, three were Puttnam's low(ish) budget 'research and development' films (which would account for £1.49 million of the deficit), there was also 'The Mission' (deficit: £2.88 million), 'Horror Movie' (never to be made), 'Absolute Beginners' (deficit: £2.82 million), and finally 'Revolution' whose unsustainable contribution to the deficit would be £9.62 million.

There were, it must be said, constraints on Leiberson: Goldcrest was tied to specific people - hence the Puttnam commitment; the films had to be British; and, despite the relative abundance of production money after the share issue,

Goldcrest still required a partner. That partner was Warners which had had a successful relationship with Eberts' Goldcrest, but for which, following some rather fraught meetings, the new Goldcrest management had no credibility.

Warners turned down 'Horror Movie' and the risible 'Absolute Beginners,' and manoeuvred Goldcrest into a deal whereby any expenditure on 'Revolution' above the agreed budget would be Goldcrest's responsibility, not Warners'. It is extraordinary to note that Goldcrest itself acted as completion guarantor on 'Revolution,' the budget for which was eventually £16 million and the total final cost £19 million. For its investment of £15.6 million, Goldcrest's share of revenues would eventually turn out to be only £6 million.

Could Goldcrest have survived? Could a comparable British production company of the future survive?

Goldcrest was a medium sized independent production company but behaved in the manner of a Hollywood major. The majors would have survived the loss making films: as Eberts put it (interview, 1990), 'the majors have very deep pockets, twenty five films a year, and, above all, control of the distribution sector'.

To some considerable extent, it was the early profitability of 'Gandhi' which inspired subsequent attitudes. Indeed, throughout its production, 'Gandhi' had no distribution deal arranged whatsoever. Eberts position today is that this was

extremely unwise, that the risk was far too great.

In his present company, Allied Film Makers, Eberts has been involved in films with a total investment of over \$200 million - and he has pre-sold everything. For example, he raised the finance for the 1990 film 'Dances With Wolves' through the London sales agency Majestic Films. Although 'Dances With Wolves' could not be accommodated into the Hollywood mainstream for production finance purposes, it eventually won seven Oscars (including that for Best Film) in 1991 and had reached twenty fifth position in the all-time box office charts by the end of that year ('Variety,' 1992).

For Eberts, if one is in an equity position, 'it is impossible to cover the downside risk unless you are a major. Otherwise, it is like being in a casino and backing every bet that comes up - you will almost certainly run out of money sooner or later. The Majors could sustain a 'Revolution' because they are in the distribution business, so they take thirty per cent of the box office gross. They have twenty five films a year. And they have very deep pockets. These are the three points to stress.'

But, as it is clear that the key to prosperity for a production company with such an approach is direct participation in distribution, it is interesting to enquire whether a British producer could enter this sector. Cost barriers to entry are high: on several occasions Goldcrest considered expanding into distribution in the manner of the

majors. But to make sense of such an operation, it would have required an annual output of a rather larger number of films, at least \$300 million in capital, and a much larger organisation - one staffed by perhaps three to four hundred people.

British film makers, as is to be illustrated in the case studies in the following section, pre-sell where they can. The ideal for a British independent in this respect is to acquire a distribution deal with a Hollywood major. They control ninety per cent of the North American box office, and they are able to deliver very high quality distribution. Such an arrangement can be achieved through a negative pick-up (in which the studio agrees that it will buy the film for distribution on its completion) or (cf. 'A Fish Called Wanda,' section 3.4) through securing direct studio finance of the project in exchange for the distribution rights.

Such deals are difficult to obtain, and a model, which was not a feature of the New Wave era (discussed in 3.2 below), has emerged: the pre-selling of rights in the US in the independent distribution sector. In the period of the following case studies in the mid-nineteen eighties, there was a proliferation of such independents. Although some remain strong, (Miramax and New Line, for example), many of them (such as Atlantic Releasing and Vestron) subsequently collapsed, thus making the situation yet more difficult for the independent British producer.



The demise of Goldcrest has served as a reminder of what one might call the First Principle of the Film Business - that access to distribution is crucial.

The contemporary case studies in section 3.4 throw light on the methods by which, in recent years, in an environment without government support and lacking a Goldcrest, and in which, with the withdrawal of the British 'majors' from production - section 3.3, there is no production/distribution link, a relatively few British film makers have managed to raise finance for a varied selection of mainly low cost subjects.

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### 3.2 The Case of the 'New Wave'

It has often been argued that the decline of the British film industry has been the result of some combination of the factors noted on page 6: the role of the British 'majors' and, inter alia, their monopoly power in the exhibition circuits; the American dominance of the distribution sector; the shortcomings of government policy in support of indigenous activity; the lack of finance for domestic production and the corresponding cost constraints under which production in practice has taken place; and the weakness of the product itself, originating possibly from an alleged lack of a truly cinematic sensibility within the British creative imagination.

It is proposed to establish the nature of the above mentioned factors - possible contributors to decline - in the light of a brief episode in British film production: the achievement, and sudden demise, of the British 'New Wave' of 1958 to 1962.

In 1958, the film of John Braine's novel 'Room at the Top' represented the beginning of this new cinematic wave. It was the first of a succession of British feature films which were concerned largely with a realistic portrayal of working class life, usually in the north of England, by actors deploying authentic regional accents.

A raw melodrama would be played out against the urban grit and grime of a tough industrial landscape with a blunt anti-hero figure rebelling against the depressing traditional social

norms. In these films, the British preoccupations of sex and social class were central. They were discussed in a more thorough and frank manner than had ever been the case before in the British cinema.

The life of this 'social realism' cycle was short: by the time of Tony Richardson's 'Loneliness of the Long Distance Runner' in 1962, it was about to enter its decline phase - the New Wave had begun to run into the sand. But, however brief, this era of British film production was momentous for the films made in this short period in many ways succeeded in satisfying almost every possible expectation one might have of the performance of a national film industry:

(a) creativity: they brought to cinematic fruition latent talent in all branches of the productive process: directors (Clayton, Schlesinger, Richardson), producers (Saltzman, Janni), new independent production companies (Woodfall, Bryanston), cameramen (Lassally), and new actors (Finney, Courtenay, Bates).

(b) national archive: many of these films endow a permanent authentic record of large aspects of national social life at an important moment in time, the point when post-war austerity is about to give way to nineteen sixties liberalism.

(c) efficiency: most of these films were made under (enforced) conditions of extreme cost constraint: where the average cost of a first feature made in Britain in 1958 was about £180,000, 'Saturday Night and Sunday Morning' cost

£100,000 and 'A Taste of Honey' £120,000.

(d) profitability: 'Saturday Night and Sunday Morning' made profits of £½ million for its British production companies, Bryanston and Woodfall, and 'A Kind of Loving' enjoyed a British box office gross of £450,000 which was about four times the average for a domestic feature.

(e) success in America: 'Room at the Top,' which won two 'Oscars,' turned in a profit in the U.S.. And at one remove from the Social Realism cycle was the Woodfall-Richardson-Osborne-Lassally-Finney costume picture 'Tom Jones,' made in 1962. This was one of the largest ever British box office hits in America.

These successes demonstrate that the British film industry IS capable of thriving; that the very concept of a 'British film industry' need not somehow be a contradiction in terms.

And in attempting to understand the environment of decline that has so frequently surrounded the industry, it is most useful to investigate - within this episode - both the role of the usual barriers to the flourishing of British activity, and the reasons for the purely temporary nature of the boom.

On May 8th. 1956, The English Stage Company presented John Osborne's play 'Look Back in Anger' at the Royal Court Theatre in London. This production inaugurated the 'Angry Young Man' era in both the theatre and in literature. It would seem natural that there should have been an important cinematic counterpart to this upsurge in creative activity. However, the

birth of this New Wave of British films was long delayed and difficult.

Initially in 1956, there was the short lived 'Free Cinema' of Lindsay Anderson and others, itself a revival of the British Documentary Movement founded in the nineteen thirties by John Grierson. Free Cinema specialised in poetic, humanist documentaries - Anderson's 'O Dreamland' dealt with life at a fairground; Karel Reisz's 'We are the Lambeth Boys' with the situation of a group of working class teenagers.

For films to succeed commercially, it was indispensable that either Rank or The Associated British Picture Corporation (ABPC), which jointly monopolised the cinema exhibition sector, granted them a place on their exhibition circuits. This was not provided in the case of Free Cinema. And what might then have led to a sustained commercial and artistic revival of the British film was therefore stifled when no finance was forthcoming to extend it.

There was a delay of three years before 'Room at the Top,' the first of the New Wave films, was eventually made. The extreme conservatism of Rank and ABPC, whose agreement in principle to exhibit such films would have been sufficient to facilitate their making, can be partially explained by their dread of the then fairly new 'X' censorship certificate (which was introduced in 1951). Not only was such a rating thought likely for any 'angry' film, but was felt - wrongly - to be probable box office poison.

That the attachment of 'X' certificates could indeed be anticipated can be surmised from the single sentence film summaries of Gifford (1986). On 'Saturday Night and Sunday Morning,' for example: 'Nottingham factory hand impregnates workmate's wife, seduces girl and decides to marry her'. Or 'Room at the Top': 'Yorkshire - ambitious clerk weds pregnant heiress, causing death of his married mistress'.

Such conservatism as that of Rank and ABPC was tied in with an extreme general reluctance in the film establishment to recognise change. Moreover, there was a snobbishness which found the likely combination of sex and the lower social classes (despite the atonement of eventual marriage) to be offensive. The British exhibition sector was uneasy with any rejection of its own ideas of standards of social propriety.

The film of 'Room at the Top,' which received a stuffy reception from the British critics but an enthusiastic one from the audience, was eventually made in 1958 by Remus, an independent production company set up by John and James Woolf. Their existing company, Romulus, had the distinction (shared in the nineteen fifties only by Ealing) of making several internationally successful British films including, in 1951, 'The African Queen'.

It is Woodfall, however, which is the production company most associated with the New Wave. In an attempt to finance a film of 'Look Back in Anger,' Woodfall was set up by that film's creative personnel - Richardson, Osborne and Richard

Burton. In partnership with the American film entrepreneur Harry Saltzman (later, the co-producer of the James Bond films), Woodfall was able to get Warner Brothers to back the project. But this finance meant a lower budget than that of 'Room at the Top' (£250,000 rather than £280,000), and was only forthcoming on the basis that Warners were owed a film by Burton and would have to pay him whether or not he made one.

Neither 'Look Back in Anger' in 1958 nor Woodfall's next film, another Osborne adaptation, 'The Entertainer,' succeeded at the box office. The latter cost approximately £250,000. 75% of the finance was obtained from Bryanston Films. This was a consortium of film makers, led by Sir Michael Balcon, set up in 1959 in an attempt to circumvent the perennial shortage of production funds by raising finance on the joint reputations of participants (Michael Relph, Basil Dearden and Ronald Neame).

Most of the remainder of the finance for 'The Entertainer' was obtained from the NFFC which had been set up in 1949 to help alleviate the eternal shortage of British production funds. Its role was to lend the 'end money,' ie. the final twenty five or thirty per cent of the budget required after the main source had been secured.

At this point, the key film of the period was in prospect: 'Saturday Night and Sunday Morning'. The original owner of this property, Joseph Janni, the Anglo-Italian producer, had been turned down in his attempts to get the film made by both Rank and British Lion. He had then reluctantly sold the book to Woodfall.



But without a commercial success on either previous production, it was a very difficult film for Woodfall to finance - and subsequently to have exhibited. The budget was pared down to the extremely low figure of £100,000 with a short six week shooting schedule before Bryanston and NFFC money was secured.

On completion, 'Saturday Night and Sunday Morning' was disliked by the cinema establishment and was not shown. Its eventual exhibition in the West End was a decision made at the eleventh hour on the basis of Warners' need to meet their screen 'quota' obligations. The quota, the second of the three arms of government film policy noted in section 2.4, meant that thirty per cent of the 'long' films shown by an exhibitor had to be British.

The exhibitors allocated a very low advertising budget which was supplemented personally by Saltzman. But it is interesting to note that, on counting the large initial box office takings from what was to become a very profitable film, the establishment instantly performed a volte-face: Hollywood finance was offered to Woodfall for the next New Wave film, 'A Taste of Honey,' and Albert Finney, whose Arthur Seaton was the central character in 'Saturday Night and Sunday Morning,' was assigned, by Columbia for their forthcoming epic, the role of Lawrence of Arabia!

Belatedly, the constraints eased and Janni was able to obtain 100% financing - rare indeed - for his contribution, 'A

Kind of Loving.' Also in 1961, Woodfall was backed by Bryanston - whose finances had been unlocked by the profits they had made from 'Saturday Night and Sunday Morning' - to make 'A Taste of Honey'. (Hollywood money was turned down due to its condition that Audrey Hepburn replace the unknown Rita Tushingham.)

Both films were profitable. But Woodfall's next film (with Bryanston), 'The Loneliness of the Long Distance Runner,' in 1962, was essentially the last film in this cycle. Consumer taste had begun to move on: the central gloom of the British New Wave had become over-familiar, and a growing mood of confidence and affluence was exerting itself as a countervailing force to the grim milieu of the Arthur Seaton and Joe Lampton.

Remarkably, Woodfall instantly adjusted in the most phenomenally successful way. As always, there was no formula to show what kind of British film will succeed in America, but Woodfall produced a large (British) budget (£350,000) costume picture which won three Oscars and made \$40 million profits. The film was 'Tom Jones' (1963).

In the financing of this film, Bryanston initially agreed to put up 70% of the budget. But when costs escalated, they lost their nerve and dropped out (Walker, 1974). United Artists took over, backing Woodfall with 100% finance. Had Bryanston stayed in, they would, like Woodfall, have made several million pounds. In the event, their fortunes dwindled, and, in 1965, they were taken over by television - Rediffusion TV merely

wanted to acquire their library of thirty films for showing on television.

In the wake of the success of 'Tom Jones,' domestic suppliers of independent finance were further diminished as Hollywood entered a period of readily financing British film makers. During 1967 and 1968, ninety per cent of the finance of all films made in Britain was coming from the Americans. But the consequence of this, as Park (1990) has observed, was that when the Americans over-extended themselves and then withdrew from Britain at the end of the sixties, there was almost nothing left in the form of a mechanism to finance British films that British producers could fall back on.

The events outlined above stand as a useful microcosmic view of the British film industry at large. They give insight in relation to that combination of factors noted on page 6 as being the major characteristics of the industry and forces inimical to a consistently buoyant national film sector.

There are six central factors:

1. The British 'Majors':

Rank and ABPC - the British 'majors' - and their stranglehold on the circuits was an important negative factor in the above scenario. Table 1 on page 19 shows declining cinema admissions throughout the 1950s. But the figures show that the annual decline, which had averaged 7% in 1955 and 1956, rose to a crisis level of 20% in 1957, followed

by 17.5% and 23% in 1958 and 1959.

The response of Rank and ABPC was retrenchment, cutting back on production (there were hundreds of redundancies at Pinewood, for example, in 1958), shaping the smaller number of films for specified foreign markets, and placing a further squeeze on the independent sector.

But if ever there was a time when the solution was to be found in expanding domestic activity and facilitating the wealth of British material and talent that was being kept waiting in the wings, then this was it. The prejudice and lack of judgement which characterised the British majors' mismanagement of their monopoly was to be severely exposed by the profitability of some of the films which were eventually made.

## 2. The Hollywood Presence in Distribution and Production.

The American industry's presence was less than helpful in this situation. No interest was expressed in Britain at this time apart from that related to relatively cheap off-shore Hollywood production, and the ensuring, through their control of the distribution sector, of profitable British exhibition of the major studios' product. Local production aspirations were irrelevant - except in the case of 'Look Back in Anger' where it was hoped to cut an already contracted loss.

But with its customary cynicism, Hollywood suddenly made money available to British independent producers after 'Saturday Night and Sunday Morning' became a hit. That this

film was ever made was pure good fortune - Bryanston, after the failure of 'The Entertainer,' was only just able to finance it. American finance of British production, when it did arrive in an important way from the mid 1960s was extremely volatile and its sudden removal had serious consequences for British production.

### 3. British Government Film Policy.

In praise of British government policy for the assistance of production, David Puttnam has made the point (interview, 1990) that the triumph of 'Saturday Night and Sunday Morning' was entirely due to the combination of government support measures then in operation: the Eady Levy, which subsidised Bryanston's production money, the NFFC, which put up 30% of the production finance, and the quota, which was the incentive for Warners' to present the film for exhibition in London.

That without these instruments of support policy the situation would have been even worse is certainly the case. However, this market improving mechanism was not sufficient to promote the British New Wave at an early stage, and remained of little relevance so long as a producer was unable to find a source for the initial 70% financial input. And this was the central problem in the first place.

### 4. Finance for Independent Production:

The key to the unlocking of finance for production in the

New Wave scenario was the distribution sector. But this was monopolised by the restrictive practices of the British and American majors as the Monopolies Commission (1966) would shortly make clear following its investigation into the exhibition sector. Frustration with the lack of access to the circuits, among other problems, had led British Lion, the main distributor of independent British production at this time, to scale down activity.

When finance did eventually come, it was via two of the very few remaining possible sources (in the form of Romulus - Remus, and then Bryanston). That these independents were viable in this way in the environment outlined was pure chance. And it is indeed the case that, as an indirect consequence of the events discussed, this small sector would be further squeezed.

##### 5. Production Cost Constraints.

It is possible that there is some substance to the allegation that hopes of a successful British film industry are fundamentally flawed because the British creative personality lacks a specifically cinematic imagination. Whatever the truth of this, the fact that British producers are so often consigned to making films at extremely low cost can have the effect of making it LOOK as if flair for the medium is missing.

When average British budgets are forced as low as £180,000 (and down to £100,000 as was the case with 'Saturday Night and Sunday Morning' for example), the finished film will not be able to exhibit the kind of production values that will make it

look like 'cinema'. It will be difficult for the film to compete with more adequately funded products - as early as the nineteen thirties the one million dollar movie was commonplace in the major studios' output in the US. And failure of any one film to so compete invariably leads to even further budgetary constraint next time around, and thus a reinforcement of the producer's competitive disadvantage.

Moreover, the low budget means that only a short shoot will be afforded, such as the six weeks for 'Saturday Night and Sunday Morning'. This too will affect the look of the picture because such a schedule leads, for instance, to the minimisation of the time available for the experimentation with and preparation of the lighting of set-ups.

As luck would have it, these limitations to what a low budget film's maker is able to put on the screen were not as harmful in the specific case of the grimly realistic films of the British New Wave as with British output more generally. It is notable that when the New Wave cycle had run its course, there was not a renewal of success, except in the form of 'Tom Jones'. While a wide variety of factors brought about that film's immense success, it may not be without significance that it was indeed an expensive film.

## 6. The Nature of the Product.

There are some commentators, Walker (1974), for example, who have argued that, although the preceding observations might indeed hold much water, a further factor acting against

the establishment of a thriving British film industry has been a trait endemic to the British personality. That is, there is a lack of a specifically cinematic sensibility within the British creative imagination. And, in turn, this has meant that British activity in a market where product differentiation is central has carried a permanent competitive disadvantage.

The British New Wave as a case study is a useful vehicle for making this point. The Angry Young Man era in the theatre and the novel provided an ideal springboard for the creative renaissance of a purely British film.

But when British film makers eventually had their opportunity, they produced a cinema which was purely imitative of the dramatic/literary medium. Unlike either the exceptional and short lived Free Cinema, which preceeded them, or the 'auteurs' of the simultaneous French New Wave, they were unable, it is argued, to turn the stimulus into a purely cinematic phenomenon. They were incapable of producing the creative leap forward that would have sustained their work as cinema.

The New Wave in the British cinema did not extend the literary sources - it merely reproduced them on the screen. This left the cinematic revival entirely dependent on the supply of 'angry' literature, and, when this subsided, the films had no momentum of their own to keep them going.

Having begun to identify the nature of the basic factors



which have tended to dominate the British film business, it is proposed to progress in section 3.3, by following on from the specific case of the New Wave to a wider level of review of the problems of the industry in which the performance of the duopolists is examined.

Further insight is then afforded by a return to case study investigation in section 3.4 which examines how, against the background of constraint, contemporary output is fashioned - four recent projects are considered.

The concluding analysis of the chapter (3.5) is based on the Structure-Conduct-Performance paradigm.

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### 3.3 The Performance of the Duopolists.

During the New Wave, the British majors played only a very minor role. In this section, the role of the duopolists is analysed for the years 1946 to 1970.

This crucial period of a quarter of a century encompasses the essential decline of the industry, running from something of a false dawn immediately after the war through a succession of crises in the British, American and governmental sectors of the industry.

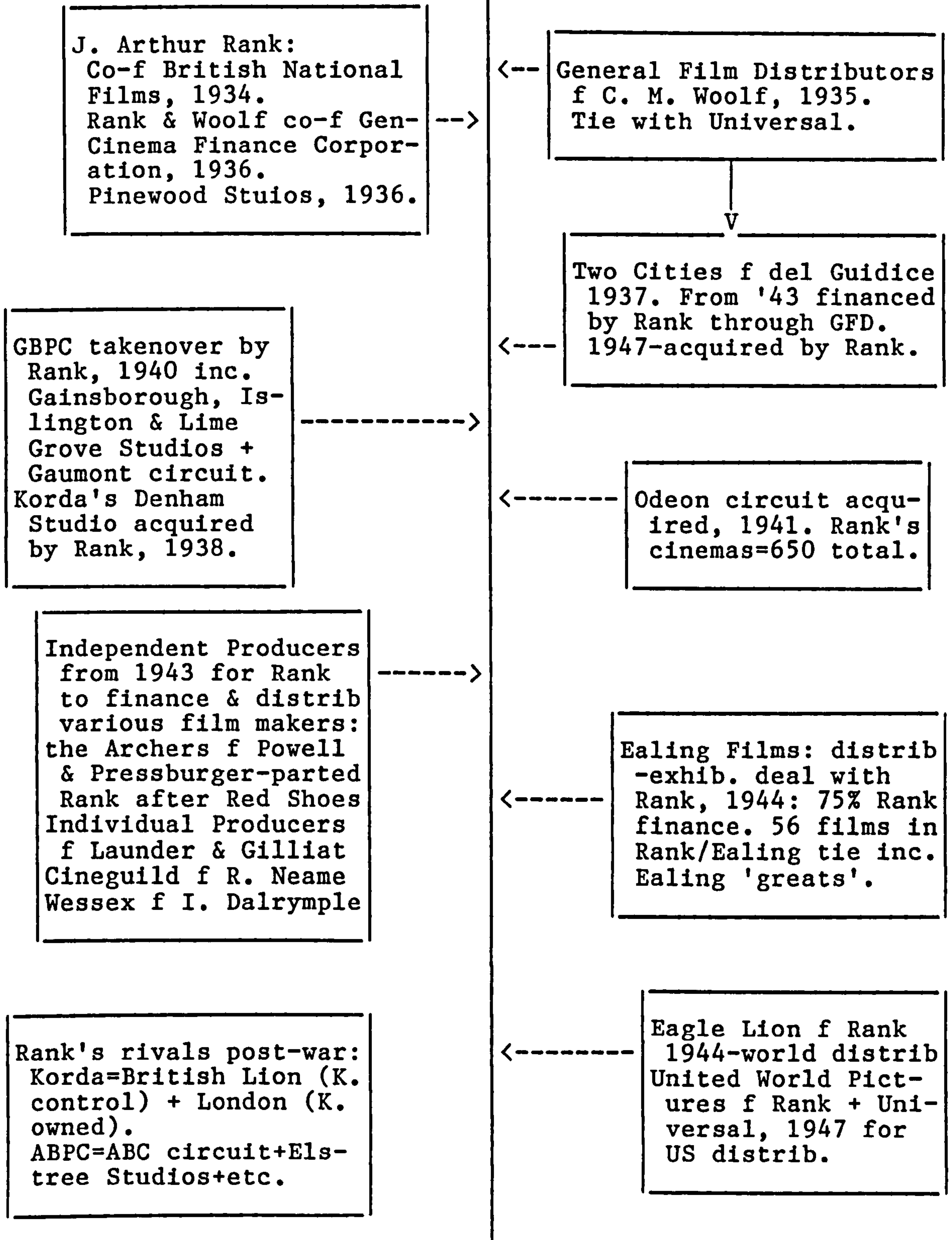
In 1946, there was a stark contrast between cinema attendance and the level of production of films in Britain. While admissions reached their all-time peak level in 1946, British output consisted of only thirty seven long films. This immediate post-war level was to be lower than any other year until 1981.

Although there was a dramatic imbalance between box office demand and the output of British films in 1946, confidence was high. There was a mood of optimism in the British production sector. This is revealed in the contemporary trade newspapers.

For example, in 'The Cinema' for 2nd. January 1946, where the atmosphere conveyed is confident and expansionary from a British point of view, British Lion boast that, for their studios in Isleworth, 'An ambitious programme is planned of large scale productions with top rank stars, and designed for the world market.' Butcher's Film Service (described as 'Britain's oldest established film [continued on page 129]

Figure 2.

THE RANK 'EMPIRE,' 1934 to 1948.



[continued from p 127]

company of producers and distributors') plan five films. And their producers - like British National Films - advertise firm, if somewhat more moderate, proposals.

Furthermore in this issue General Film Distributors, the distribution arm of Rank's interests, advertise 'twelve forthcoming British pictures' (something of an underestimate in fact) which have been made under the aegis of Rank finance: two from Gainsborough, three from Two Cities, two from the Archers, two from IP, two from Sydney Box and one from John Corfield.

However, the implication of GFD's announcements in this issue is that they are particularly proud of the programme of Hollywood films, including nineteen from Universal, which they have arranged to distribute in Britain during the year.

Similarly, British Lion, also producer-distributors, announced that they were to be the British distributors for the low budget Hollywood mini studio Republic Pictures, seeing themselves as good examples of the American-British harmony which they feel should reign.

Figure 2 illustrates the scale of Rank's 'Empire'. This dominated the production sector in the immediate post-war period, as is shown by Table 15 (on page 130), and facilitated a wide range of producers. It accounted for about half of British production. Table 15 also shows that in the longer term, Rank's role as the mainstay of a British production sector steadily receded.

Table 15.

NUMBERS OF FILMS PRODUCED AND MARKET SHARES of British Production, 1946 to 1970.

	RANK		ABPC		US MAJORS		INDEPENDENTS	
	%	#	%	#	%	#	%	#
1946	46	17	8	3	5	2	41	15
1947	54	26	6	3	0	0	40	19
1948	49	34	3	2	4	3	44	30
1949	49	41	6	5	4	3	41	35
1950	27	19	9	6	9	6	55	39
1951	21	14	5	3	6	4	68	45
1952	19	16	1	1	6	5	74	63
1953	20	17	5	4	8	7	67	57
1954	24	21	0	0	6	5	70	62
1955	26	18	1	1	0	0	73	52
1956	22	17	0	0	4	3	74	59
1957	20	18	2	2	3	3	69	63
1958	18	17	3	3	3	3	66	64
1959	22	17	1	1	3	2	74	58
1960	20	16	1	1	7	6	72	59
1961	12	9	4	3	12	9	72	56
1962	13	12	2	2	11	10	74	67
1963	15	14	3	3	9	8	73	66
1964	5	3	0	0	11	7	84	53
1965	11	8	0	0	13	9	76	55
1966	15	10	0	0	12	8	73	49
1967	10	8	1	1	9	7	80	64
1968	4	3	0	0	12	9	84	62
1969	8	7	0	0	17	14	75	64
1970	7	7	9	9	8	8	76	78

[Source: adapted from Gifford (1986), Warren (1983), and Falk (1987).]

The early and mid nineteen forties was a period in which J. Arthur Rank applied his dominance as a financier of production with some benevolence. Certain film makers were given a free hand in creative decision making with little account taken of the distributors' view.

Table 16 on pages 140 and 141 examines the composition of the Rank 'Production Empire' between 1946 and 1970 and it shows that one of the briefly prolific production companies under the aegis of Rank at the beginning of this period was Two Cities. It was founded in 1937 by Filippo del Giudice, a refugee from Mussolini's Italy. Financed by British Lion rather than Rank, it established itself by producing Noel Coward's 'In Which We Serve' in 1942 at a final cost of £240,000 which was some way over its budget of £180,000.

This was a remarkable film in a number of ways. It had a major propaganda role in the war; it was a critical success [to the extent that 'Newsweek,' quoted by Halliwell (1977, page 445), regarded it as "One of the screen's proudest achievements at any time and in any country"]; it took \$2 million at the American box office; and it enabled both David Lean and Richard Attenborough to make their debuts in directorial and acting roles respectively.

To later regret, C. M. Woolf of Rank's General Film Distributors had passed over the opportunity to finance 'In Which We Serve'. But with the profits from 'Pygmalion' (see below) to invest, Rank agreed to finance Two Cities' subsequent

films in exchange for a controlling interest in Two Cities. These productions included the Coward adaptations 'This Happy Breed' in 1944 and 'Blithe Spirit' in 1945, and Laurence Olivier's 'Henry V' in 1944.

As a producer, del Giudice's philosophy was to spend lavishly on production. And it can be noted that in this brief phase of Rank production, there were relatively few constraints on financially profligate creativity. 'Henry V,' for example, which would indeed turn out to be very profitable, required £475,000 of Rank's finance. And another very important Two Cities film produced under Rank, Carol Reed's 'Odd Man Out,' also incurred high costs, running one third over budget.

Although del Giudice paved the way for the freedom of the IP system of production at Rank (see below), that Rank's cash in this era was not a cornucopia is illustrated in the case of Gabriel Pascal, the maker of the notoriously expensive 'Caesar and Cleopatra'.

Before the war, Pascal, a Hungarian immigrant, had succeeded where others, including Alexander Korda, had failed in persuading George Bernard Shaw to renew permission for his plays to be filmed. Indeed, Pascal felt that it was his divine mission to make films of Shaw's plays.

Flattered by Pascal, Shaw consented to the filming of 'Pygmalion.' This was made in 1938 with Rank's financial backing given to Pascal, but, as he was then little known, only on condition of a completion guarantee being in place in case

the film went over budget.

On 'Pygmalion,' Pascal began to develop his reputation as the most financially irresponsible film maker in Britain. However, the film only went over budget to the extent covered by the guarantees and it turned out to be the most profitable film of 1939, the biggest box office success in the US since Korda's 'The Private Life of Henry VIII,' and the source of five Oscar nominations (including one for Shaw himself).

On this basis, Rank's finance was forthcoming for Pascal's next Shavian project, 'Major Barbara'. This production at Denham in 1940 - Pinewood was requisitioned in the war and Korda's studio had fallen into Rank's hands - was over budget with the shooting of the film taking more than twice the scheduled time. Moreover, it was not a box office success.

After abortive attempts at 'Arms and the Man' and 'Saint Joan,' Pascal's last film for Rank (his only other film would be 'Androcles and the Lion,' made for RKO in 1952) was the most expensive British film ever made (£1,278,000): 'Caesar and Cleopatra' was released in 1946 having taken over two years to complete. The cost escalated as a result of the lavishness of the sets of ancient Alexandria built at Denham, and the location work in Egypt to where, film folklore has it, sand was imported in order to obtain the 'correct' colour.

Pascal, who was both director and producer of 'Caesar and Cleopatra,' had insisted on the hiring of prominent actors at high fees even for minor roles. The ACT censured him and in



effect forbade him from working in British studios, while for Rank, the limits of expenditure had been breached and Pascal's next project, 'Saint Joan,' was cancelled.

There can be little doubt, however, that the vast majority of Rank's film makers felt no constraint whatsoever during the nineteen forties. David Lean, for example, is quoted in the mid forties by Perry (1976, page 60):

'I doubt if any other group of film makers anywhere in the world can claim as much freedom. We can make any subject we wish with as much money as we think that subject should have spent upon it. We can cast whatever actors we choose, and we have no interference at all in the way the film is made. No one sees the films until they are finished, and no cuts are made without the consent of the director or producer, and what's more, not one of us is bound by any form of contract. We are there because we want to be there. Such is the enviable position of British film makers today.'

The group of film makers to which Lean referred was Independent Producers Ltd.. IP was a collection of small production units including Cineguild which was that of Lean, Havelock-Allen and Neame; Dalrymple's Wessex Productions; Powell and Pressburger's Archers; and Launder and Gilliat's Individual Pictures. The idea of IP, as can be seen from Lean's

comment, was that these units would be consolidated within the Rank empire in such a way as to facilitate creativity by minimising extraneous business intrusions. IP, founded in 1942, would handle business and legal matters on their behalf.

This arrangement led to the production of some of the most memorable British films - Lean's 'Great Expectations' made in 1946 and 'Oliver Twist' in 1947, for example. The latter was banned in the US on the basis of the supposed anti-semitism in Alec Guinness's Fagin. But it is interesting that, while the danger of such a ban was anticipated, there was no interference to adjust the characterisation despite the potential reduction in profits.

Powell and Pressburger's contribution was also very worthy. It included 'Black Narcissus,' for example, which won two Oscars (art direction and photography) in 1948, and 'The Red Shoes' made in 1947. The latter eventually broke the North American box office record for a British film (and would become the only British film in later years to be included in the US all time top 100 box office hits). It would be held in high critical regard given its exquisite ballet and art direction.

But what is significant is that, although it was still possible under IP for the initial, inadequate budget of £300,000 to be raised to £560,000, Powell and Pressburger came to be criticised at Rank for their extravagance.

Indeed, this was an example of how the golden era of unconstrained artistic freedom under Rank was starting to end,

and to do so relatively rapidly. Writing many years later, Powell, in his autobiography, still seemed to be upset at the "chilling reception accorded to 'The Red Shoes' by Arthur and John," that is Arthur Rank and John Davis, the Rank executive who would shortly become the austere head of production.

For Powell, the explanation seemed to be a matter of Rank's failure to secure wide distribution in the US - a failure which would inevitably mean that most of these expensive films would be loss making. 'The Red Shoes' was the kind of high brow film that Rank and Davis could not understand, and, without the prospect of profit at that time, they greeted it with disdain:

'It seemed incredible to us now that they hated the film because they didn't understand it, and they tried to kill it because they hated it. There's no other way to explain it. They were afraid that their newly acquired shareholders would notice that the Archers' new production with a budget of half a million pounds or more, was a flop, so they rushed it out as soon as it was finished, and took it off the market as soon as they could.'

(Powell, 1986. Page 663.)

This is in extreme contrast to the idyllic environment of IP film making described four years earlier by Lean. But Powell and Pressburger's disillusion with the new circumstances at

Rank and the concomitant cost cutting and criticism for exceeding budgets was to become a commonly held feeling among Rank's film makers and one which contributed to the break up of IP before the end of the nineteen fifties.

According to Falk (1987, page 51), Davis who was 'arrogant, ruthless and often plain rude...created an atmosphere of fear and loathing as he revived the fortunes of the Organisation'.

Without a sustained position in US distribution and exhibition, the sheer scale of Rank's nineteen forties budgets was untenable. On film production in 1946, Rank made a loss of £1,667,000. When this loss was announced in the autumn of 1947, it coincided with the government's imposition of the 75% import duty on foreign films. This is discussed in sections 2.2 and 3.5 where the adverse impact of the crisis is noted.

Under the instant retaliatory MPEAA boycott, no American films would be allowed into Britain. The government asked Rank to make films to fill the gap, and, in November 1947, Rank announced an investment programme of £9.25 million for 47 films, later to become 36 and finally 32.

The full extent of the crisis for Rank can be observed when, in May 1948, the American boycott was ended. The films in Rank's investment programme started to come to fruition at exactly this time and were swept aside in the avalanche of the backlog of Hollywood product.

Rank's existing financial problems had been exacerbated by the task of raising funds for the 1947 investment programme

which required the formerly financially segregated, and constantly very profitable Odeons, to become involved in the highly volatile area of financing production. There was much resistance to this, and Rank was highly criticised in the City press.

By 1949, Rank was heavily in debt, owing £16 million to the National Provincial Bank. The crisis threatened to end film production altogether.

Michael Powell had observed (above) the rising influence of the Rank executive and City accountant John Davis, and it was at this stage that he took over as production head and introduced an austerity programme which to a considerable extent would account for Rank as a source of serious film production.

Against this background of debt and unprofitability, and the first perceptions of television as a further threat, Davis's measures included the sale of Lime Grove Studios to the BBC, the effective closure of Denham Studios (the largest in the country), and the closure of Gainsborough Studios at Islington.

Gainsborough Pictures, co-founded by Balcon in 1924, had been acquired by Rank in 1940 on taking over Gaumont British. Table 16 on page 140 indicates the considerable relative importance of Gainsborough in Rank production in the second half of the nineteen forties. Indeed, after 1946, when the running of Gainsborough was taken over by Sydney Box, following

his successful production under Rank's finances of 'The Seventh Veil,' it was intended that there should be a slate of twenty five films per annum.

Gainsborough had been a highly commercial producer of very British costume melodramas, and its leading players, Margaret Lockwood and James Mason (a scathing contemporary critic of Rank's monopoly), were among the top box office stars of the period. The apotheosis of Gainsborough, Lockwood and Mason was the costume drama, 'The Wicked Lady' in 1946.

Del Giudice had lost control of Two Cities to Rank in 1947. (He then went to Hollywood, before returning home to retire to a Roman monastery.) Rank's production was restricted to Pinewood, under the control, from 1951, of another important Rank executive of this period, the American Earl St. John. The idea was that, as a former cinema circuit manager, St. John would know what kind of productions might find popularity in exhibition.

Davis's plan was for cheap, popular films with little in the way of experimentation. Production funds were cut and £150,000 was set as the maximum budget per film. There were many managerial redundancies and a 10% pay cut for survivors.

In 1950, Rank's share of British production fell below that of the independents. Its output of films fell from 41 in 1949 to 19 in 1950 and 14 in 1951. It remained at an average of 17 during the 1950s, and resumed a downward trend in the 1960s pointing towards final withdrawal from production in the 1970s.

Table 16 follows:

Table 16.

THE RANK PRODUCTION 'EMPIRE': Numbers of Films Produced by Production Companies Associated With Rank, 1946 to 1970.

	Year:1946	7	8	950	1	2	3	4	5	6	7	8	960	1	2	3	4	5	6	7	8	970		
IP	5	5	5																					
Two Cities	4	5	9	8	4	1	0	3	2	1														
Ealing	2	5	4	6	5	4	5	4	6	5	3													
Gainsborough	2	5	10	11	3																			
Triton	1	2	1	3																				
John Corfield	1	1																						
Sydney Box	1																							
Wes. Ruggles	1																							
Ralph Smart		1																						
Holbein		1																						
Prodn Film Serv.	1																							
Pinewood		1	6	2																				
Burnham		2																						
Appollo		1																						
Merton Park		1																						
Aquila			4																					
Kenilworth		1						1																
Pinnacle		1	1		1					1														
Plantagenet		1																						
Javelin			1	1																				
Jay Lewis			1																					
Conqueror			1	1																				
Carillon			1																					
Indep. Artists					1							1	2	2	1	2	4							
HH Films					1																			
Mayflower					1																			
Tower					1																			
Vic					1					1														
BFM/Group					1	8	5	8	9															
Indep. Sovereign					1																			
Conquest						1																		
Constellation						1																		
Chiltern							1																	
Sirius							1																	
Clarion							1																	
ACT							1																	
London Indep.							1	2	2															
Verona								1																
Eagle-Schlesinger								1																
Rank*									1	1	1	1	1	1	0	5	4	6	5	2	3	1	2	1
Arcturus										1														
Vega											1													
Foxwell*											1										1			
IPF											1	1												
Dial											1													
Luckwin											1													
Keyboard													1											
Tempean														1										
Briar																						1		

Year:	1946	7	8	950	1	2	3	4	5	6	7	8	960	1	2	3	4	5	6	7	8	970			
Beaconsfield												1	1												
Artna													2												
Luckwell													1												
Everest													1												
Four Star													1												
Ethiro													3												
AFM.*													2	1	1		1								
Martin													1												
Alexandra													1												
Pennington-Eady													1												
Five Star														1											
Parkway														1											
United Coprodns.														1											
Argo															1										
Security *															1								1		
Trionyx																	1								
Eon																	1								
Three Kings*																	1		1						
Sevenay																	1								
Parroch-McCallum																	1								
Lowndes *																			1				1		
Benton																			1						
John Mills																			1						
Partisan																			1						
Titan *																					2				
Adder *																					1	2	1	2	3
Cyclone																					1				
Williamson-Powell																					1				
Parallel																					1				
Poetic																					1				
Santor																					1				
de Grunwald																						1			
Rialto-Preben																						1			
Francos-Quadrangle																						1			
Dominion																						1			
Intertel-VTR																							1		
Ashdown																								1	
Brightwater-Palomar																								1	
World Film Services																								1	
Incorporated TV																								1	
ITC																								1	
Hammer																								1	

[Source: adapted from Gifford (1986) and Falk (1987).]

\* Includes co-productions as follows. Rank: Selmur-Rank, 1968. Foxwell: Foxwell-Carthay, 1966. AFM (Allied Film Makers) - 4 co-productions: AFM-Excalibur, 1960; AFM-Beaver, 1961 & 1964; AFM-Anglo Allied, 1962. Security: Royal-Brenmar-Security, 1969. Three Kings: Three Kings-Harold Shapman Filmusic, 1965. Lowndes: Lowndes-Steven, 1965. Titan: Titan-Ivy, 1966. Adder - 3 co-productions: Adder-Ethiro, 1969 and 1970; Adder-GT, 1970.



Table 16 shows that, after the IP era, there were many producers backed for one or a few productions, but that the largest production companies were successively British Film Makers (BFM) and Group Film Producers which accounted for over one third of Rank output between 1951 and 1955, and Rank Organisation Film Productions - over half of output during the next ten years.

This evolved following the establishment of the NFFC. In 1949, Rank initially refused to participate in the system of financing production through lending to a distributor - debts were high enough already. Korda's British Lion became the vehicle for this finance.

But in 1951, there was briefly a U turn, and BFM was set up under Rank to make films based on borrowing from the NFFC. In 1953, BFM was taken over by Group which ended NFFC participation, and which, in 1955, changed its name to Rank.

Not only did the amount of production fall after the nineteen forties, but the type of films produced also changed. On the whole, material was more bland and parochial. A particular emphasis was placed on comedies such as the 'Doctor in the House' series and the Norman Wisdom films. [As production head, St. John is said to have regarded Wisdom as his 'proudest discovery'! (Perry, 1976). Page 110.]

From 1953, Wisdom's comedies, at the rate of one per year for the rest of the decade, were a goldmine for Rank. That they were made at an average cost of only £130,000 was partly due to

their being photographed in black and white - much to the distaste of Wisdom himself. So great was their commercial success that there was a brief but abortive plan by one of the majors to invest £500,000 in a film to launch Wisdom in the US.

Similarly, the 'Carry On' series became a mainstay of Rank output. This was only from 'Carry On' number twelve in 1958, for the earlier films had been backed, with NFFC assistance, by Anglo Amalgamated, the production company of the independent financier, Nat Cohen, later in charge of production for EMI. A 'Carry On' at Pinewood would be produced very cheaply on a five or six week shoot (with such low fees that the production would always be scheduled for spring or autumn in order to allow the main players to make their living in pantomime and summer seaside shows).

During the first half of the nineteen fifties, the Davis regime reduced Rank's debts from £16 million in 1950 to £4 million. By 1960, Rank was making a profit of £7 million. In addition to retrenchment in production, further scaling down in the film industry was accomplished by reduced activity in exhibition: the Odeon and Gaumont circuits were merged in 1958, and the policy on other cinemas was closure (as opposed to selling them on to other exhibitors).

In 1957, a further 300 Pinewood workers were made redundant (as a result of the cancellation of four films costing a total of £1 million), as the role of Pinewood - and other studios - gradually moved in the direction of rental to other, external,

producers. The Bond films assumed a particular importance in this respect.

Meanwhile, Rank diversified away from the film business and into such areas as photocopying (Rank Xerox), hotels, motorway service stations and bowling alleys. And on this basis, the profits of the Rank Organisation (the title assumed in 1953) attained a record level of £15 million in 1973.

By the first half of the nineteen seventies, Rank's investment in film production had fallen to an average of about £1½ million a year. This included the 'Carry Ons' and the financing of five of Hammer's films. Rank then withdrew from production but, to much surprise, re-entered the field in 1977, investing heavily in, among others, remakes of two of Hitchcock's films. In 1980, further plans were scrapped and Rank again withdrew from production. Occasionally, however, during the nineteen eighties, Rank Film Distributors would invest in production. For example, in 'Educating Rita' in 1983, or 'The Fourth Protocol' in 1987 into which it put the extraordinary sum of £3 million.

Submerged within this rise and fall is Sir Michael Balcon's Ealing Films whose idiosyncratic output conveys to this day a lingering sense of a national British cinematic product. It was probably in 1949 that Ealing attained its ideal image when, among the six films it released, were 'Whisky Galore,' 'Passport to Pimlico,' and 'Kind Hearts and Coronets,' classic

examples of a unique whimsicality.

In 1944, although Balcon had been a critic of Rank, Ealing came under the Rank umbrella and there were to be 56 films (of the grand total of 96 Ealing films) made under the Ealing:Rank tie up, including all the major Ealing comedies. Rank's relationship with Ealing, which was, overall, a loss making one, was based on what Balcon conceded was a generous arrangement.

It was a distribution/exhibition deal in which Rank financed 75% of production costs. Ealing had complete artistic control, good distribution and a seat on the Rank board in exchange for Rank having a 50% holding (later raised to 75%) in Ealing Films.

But Ealing was to become yet another important production sector casualty of Rank's rationalisation during the nineteen fifties. Ealing Studios is in a residential area, and Davis encouraged Balcon to sell out and to move production to Pinewood where, as Balcon understood it, Rank would build an 'Ealing' in the form of two stages for Ealing's exclusive use. (Perry, 1981.)

When the offer for the studios came (which Balcon was obliged to take), it was in fact from television. The BBC purchased Ealing Studios in 1955 for £300,000. The Pinewood 'Ealing' plan failed to materialise, and Balcon severed his connections with Rank. He subsequently did a deal with MGM British at Elstree and made a further six films in three years

there. (Kardish, 1984.)

In 1959, ABPC bought Ealing's assets from Balcon, and, apart from completing the film then being made, terminated Ealing production.

(Balcon then became Chairman of the new Bryanston Films, whose role in the New Wave era is discussed in section 3.2, and, in 1964, he purchased British Lion from the government, as discussed below.)

Considering that sector of independent production not under the Rank umbrella, the tables below of 'Major Minors' [see Tables 17 (a), (b) and (c) on pages 155, 159 and 160] indicate the limited extent of competition from other British studios able to make a significant and sustained contribution even in the period after Rank had begun its retreat from production.

But what of the other British major, ABPC?

In the 1930s, John Maxwell's BIP studios at Elstree, the production arm of the ABPC holding company, was backing independent producers to whom the studios were leased and contributing towards the task that never ends in an integrated film organisation: feeding the circuit - in 1937, ABPC had 450 cinemas. This was to remain the model after the war, but with an emphatic trend in the direction of participation in television.

The trailblazer in regard to television at Elstree was Douglas Fairbanks Junior who, in 1952, set up the first

production company in the British film industry to make product for television. In October of that year, Fairbanks took over the British National Studios, the use of which had not survived their owner, Lady Yule of British National Pictures.

Lady Yule, a jute heiress, had co-founded British National Films in 1934 with Rank, thereby facilitating Rank's initial entry into commercial film production. British National's output of 15 films between 1946 and 1948 is recorded in Table 17 (a) on page 155.

Fairbanks' acquisition was made in order to engage in the production for the US television network NBC of advertisements and numerous short, cheap and quickly produced films.

As if to say that when you cannot beat the opposition you must join them, ABPC responded to the launch of ITV in Britain in 1955 by setting up ABC TV which obtained the franchise for the Midland region. Although Teddington Studios was to be the headquarters of ABC, some television production would take place at ABPC at Elstree together with continued feature film making.

ABPC financed few such films itself (Table 15, page 130). However, in the late nineteen fifties and early sixties it achieved a high ratio of success in the projects it backed. Although there were a few memorable projects ('Yield to the Night' in 1956, and 'Ice Cold in Alex' in 1958, for example), the artistic and budgetary horizons were usually limited. But ABPC got results in the British market with many of

its staple films - such as those of Cliff Richard, which started with 'The Young Ones' in 1961, and those of the comedian Charlie Drake, which began in 1960 as a counterpart to Rank's Norman Wisdom.

With these directly financed films, with rented studio space to externally financed projects (such as Hammer and Anglo Amalgamated) and with its television activity, ABPC enjoyed something of a boom in production at the beginning of the nineteen sixties and a major programme of expenditure on investment in the ABPC studios at Elstree took place. (Warren, 1983.)

ABPC had record profits in 1964, and, by the time of the completion of the studio refurbishment in 1967 - new stages and cutting rooms, it appeared to be the model of an integrated film company in an age where television was booming and cinema admissions continuing to plunge.

Under the ABPC umbrella were the studios themselves, the film production company ABP, the television franchise ABC, the Pathe film processing laboratories, the AB Pathe film distribution company, and the ABC cinema circuit. Furthermore, there was a very valuable library which included its own films, those of Ealing and many of Warners, and the television contribution of ABC TV including 71 episodes of 'The Saint' plus 'The Avengers' series.

The problem for ABPC, however, was that in 1946, Warners had consolidated its shareholding in the organisation and

indeed at that time Warners London head had become Managing Director of ABPC. In 1968, EMI purchased Warners' shares, and secured the acquisition in early 1969. At this point, the existing board was ousted and ABPC became EMI Film and Theatre under Bernard Delfont, Nat Cohen and Leslie Grade.

In 1969, they appointed the actor-director-producer Bryan Forbes as Head of Production and Managing Director of Elstree at a salary of £40,000. His assignment was to rationalise the production on the basis of a slate of new films without reliance on American finance, ie. to evolve a studio operation of real financial independence.

Forbes embarked on large scale production plans, but his reign would last only eighteen months until his resignation in March 1971. Commentators on the British production industry usually regard this as a major lost opportunity and a further, perhaps final, nail in the coffin of the sector.

Although morale was high at the start, Forbes' programme began badly with three flops. Subsequently, fortunes did improve, and the legacy of the Forbes period is identified by two films, 'The Railway Children' and 'The Tales of Beatrix Potter,' both in 1971.

Forbes was somewhat embittered on leaving. He had produced eleven films based on 'a revolving fund of £4 million which did not revolve' (Walker, 1985.) He hinted that his judgement had not been fully backed by Delfont, and that EMI's own distribution arm did not distribute the films that were made



with as much enthusiasm as they might have shown.

Shortly after Forbes' appointment, there was a dramatic psychological reversal in April 1970 when MGM British, which had been based for twenty years on the other side of Elstree Way and had made there a succession of glamorous Hollywood films, closed down. Only the previous year, MGM had announced plans for the production of between ten and twelve films annually at MGM British Studios.

The withdrawal meant that the agglomeration of six studios at Elstree had dissipated. The one remaining studio was EMI's former BIP facility which had nine sound stages. When closure of MGM British came, the announcement was for EMI's studio to be renamed EMI-MGM Elstree Studios Ltd.. MGM would pay £175,000 for this arrangement. And in early 1971, MGM announced that it would spend \$13 million per annum on the film production partnership with EMI.

There was much production backed directly by EMI and sometimes by MGM in the brief period which followed. The films included 'The Go Between' in 1970, 'Get Carter' in 1971, and 'Henry VIII and His Six Wives' in 1972. In the very early seventies, the studio was at full capacity with 350 skilled and unskilled labourers employed full-time on building sets.

After Forbes' departure, Nat Cohen himself took over as head of EMI production, and a particular emphasis was placed on film versions of low brow television comedies - 'On the Buses' and 'Steptoe and Son' in 1972. Like Rank's 'Carry On' and

Norman Wisdom features, these were both cheap (at £100,000 each) and profitable.

But box office takings continued to fall and the studio was making a loss by 1973. At this stage, MGM in the US announced that it was withdrawing from distribution, cutting back on production and terminating the deal in the UK with Elstree.

These factors constituted a major threat to production. The EMI parent decided that there had to be more outsiders' films made at Elstree to restore profitability. In 1973, full-time studio employment of almost 500 was halved and there was a real danger of closure. By 1975, the situation had worsened and EMI closed six of the nine stages, made most of the remaining labour force redundant, and went four-walled.

The strategy succeeded when, as discussed in section 3.1, Fox and Paramount embarked on their respective 'Star Wars' and 'Indiana Jones' cycles at Elstree. In fact, this led to increased investment in the studios by EMI: at the time of the second 'Star Wars' film, a stage was built on the back lot at a cost of £600,000.

From time to time, EMI did put big money into production: for example, in 1974, it invested in 'The Orient Express,' an expensive vehicle for a collection of fading stars. But EMI did not play the role of the diversified conglomerate parent of a studio on the Hollywood model (eg. Transamerica and UA, Gulf and Western and Paramount) as fully as would be hoped.

By the end of 1977, it was becoming clear that EMI had made

major losses in the US with its body scanning machine. The profits of EMI were more than halved in 1978, and this was due to losses of £13.2 million in the scanner episode (Johnson and Scholes, 1984) and further losses in the record division, rather than to film activities. There was a cash flow crisis and in November 1979, EMI was taken over, becoming Thorn-EMI. The new organisation put further investment into refurbishment of the studios, paving the way for their sale to Cannon together with the cinemas and film library.

From the end of the nineteen forties, it briefly appeared that there would be a kind of replacement in British production for Rank, namely Alexander Korda. In fact, Korda's London Films, having spent heavily on production in the later nineteen thirties, had accumulated such debts that Korda had lost control of the studios he had built at Denham to Rank via the Prudential Assurance. (Kulik, 1990.)

However, shortly after the war, Korda re-established his presence in both production and distribution. British Lion was the third largest distributor and was acquired by Korda in 1946. In turn, British Lion purchased control of Shepperton Studios, which were the second largest after (Denham), and, with a half share in Worton Hall Studios at Isleworth, Korda's London Films not only had an important distribution arm, but also controlled more studio space than anyone other than Rank.

The early post-war period for London Films was characterised by such lavishly staged, expensive flops as 'An

'Ideal Husband' in 1947 and 'Anna Karenina' in 1948.

Subsequently, however, Independent Producers at Rank began to break up under the effects of the incipient trend to cost control and distrust of the artist.

As a result, by the end of the nineteen forties, most of Rank's important creators had moved to London Films. There, an output of good British films continued for another brief period. It is not surprising, given Rank's hostility to 'The Red Shoes,' that Powell, for example, left Rank at this time. He and Pressburger made four films for Korda between 1949 and 1951.

Lauder and Gilliat had also been criticised for overspending at Rank and they too defected to London Films. Among their projects was 'The Happiest Days of Your Life' in 1950. If that film was at least memorable, London Films, in this period, did produce one British film of real greatness: 'The Third Man,' Carol Reed's second film for Korda was made after he had left the Rank empire at an early stage after making, in 1946, 'Odd Man Out' (said to be J. Arthur Rank's favourite film).

Korda's reputation of being able to obtain production finance from otherwise unpromising sources was enhanced when he received a £3 million loan from the government on the occasion of the establishment of the NFFC. When Harold Wilson set up this body in 1948, he did not implement fully the recommendations of the Palache Committee of 1944 which had

suggested the inauguration of a government controlled distributor in addition to a financial source. Instead, the plan envisaged a link to an existing distributor.

£3 million of the £5 million involved in the launch of the NFFC was channelled through the distribution side of the industry, rather than lent directly to producers. Rank declined to participate and, in November 1948, the loan was made to British Lion.

Table 17(a).

Major Minors: Numbers of Films Made By Production Companies Not Associated With Rank and Making at Least Three Films in Any One Year, 1946 - 1970. (Long films only.)

	Brit. Nat- ional	But- cher	BLPA - Lon- don	All- ian- ce	Film Stu- dios Manch- ester	Adv- ance	Indep- endent Sover- eign	Temp- ean. Byron	Hammer	
1946	7	2								
1947	4	2	1	3						
1948	4	2	5	4	2					
1949		1	4		3	3	3			
1950		2	9		2	1		2	1*	
1951		3	5			1*		1	3	4
1952		4	7		1	1		3	1	7
1953		4	5		2	3		3		6
1954			3			4		1		7
1955			6			1		5		5
1956		1	1							2
1957								2	1*	4
1958		2						2*	1*	6
1959										7
1960										6
1961		1								6
1962									1	6
1963			1							4
1964										6
1965										8
1966										3
1967										6
1968										4
1969										3
1970										3

[Source: adapted from Gifford (1986)]

\* includes at least one co-production.

For Butcher, read 'Nettlefold,' 1948 - 1953.

Hammer and Tempean produced an additional 2 and 1 films respectively under Rank finance - see Table 16, pages 140 to 141.

However, in the period of the launch of the NFFC, British Lion (BL) had major financial problems. As Walker (1974) records, by 1949, BL was owed £1.3 million by London Films and was making a loss of £700,000. And when it looked as if BL would be unable to repay the NFFC in 1952, the government wrote off £1 million of this debt followed by an announcement in 1953 that the NFFC's total loss on the BL loan would be £2.2 million. The following June, the government put a receiver into BL, ousting Korda and declaring BL bankrupt.

In January 1955, BL was re-established with a share issue to the NFFC which was taken in part settlement of the debt. The NFFC then advanced a £½ million loan to BL to get production going again. The government now owned BL. In the words of the Captain of the 'Titanic' in Rank's lugubrious 1958 film 'A Night to Remember,' 'When the Board of Trade drew up the regulations, they did not envisage this situation!'

However, after 1958, a five year period ensued during which the NFFC brought in the Boulting Brothers and Launder and Gilliat as current film makers to help run BL's operations. This was a very successful era during which, on the basis of such films as the Baultings' "I'm All Right, Jack" and Romulus's "The L Shaped Room," debts were repaid to the government and four successive years of profit were recorded.

The film makers exercised their option of selling their holdings in BL back to the NFFC at the end of the five years. While the term 'privatisation' would not be coined until 1969

(by the American organisational theorist Peter Drucker), and its role as an economic panacea not pursued until 1979, an early example of its practice was the subsequent sale of BL in 1963.

With its enlarged library of films - Korda's, plus the more recent output - BL was, like many a future privatisation, somewhat underpriced at £1.6 million. BL also owned Shepperton Studios, although the government introduced a constraint on the buyer concerning any further sale of the rich acres there. Nevertheless, Shepperton Studios' sixty acres would shrink to twenty over the following twenty years.

Harold Wilson had made his first contribution to the British film industry as President of the Board of Trade in the nineteen forties. The Trade minister now addressing the issue, and stewarding the privatisation, was Edward Heath. In the event, Heath's buyer turned out to be Sir Michael Balcon who introduced into BL's management a variety of film makers: Launder and Gilliat and the Boultings returned, together with various groups drawn from the New Wave.

Among the relatively few films the new BL now made were the Boultings' 'The Family Way' in 1965 and Karel Reisz's 'Morgan - A Suitable Case For Treatment' in 1966. It is interesting that, although these were profitable projects and each incumbent group had the right, but not the obligation, to invest in any film of any other group, there was, according to Reisz (1991), no cross investment of this kind by the various film makers.



Unfortunately, the level of investment generally was rather low. Early in 1965, a plan for investment of £2 million in twelve films was announced for the following two years, but four were never made. This meant that life continued to be difficult for independents unless they were able to obtain finance from the Americans - who were about to become an important presence in London.

The central problem for BL had always been that it was a distributor without an exhibition circuit and that its relations with the major circuits were poor. The announcement of a Monopolies Commission investigation into the exhibition sector seemed to offer some hope, and the rather thin output supported by the new BL is explained by its waiting for the Commission to report.

Although the Report, when it came in October 1966 (HMSO, 1966) criticised Rank's and ABPC's monopoly of the circuits as having the effect of stifling domestic production, it was disappointed in that it envisaged that any overhaul would present insurmountable practical problems.

Reference to Tables 17 (a) (above) and (b) and (c) (below) reveals that the most prolific studio (and indeed the most successful) in the British production sector was Hammer which developed, from 1955, a highly differentiated product: the Hammer horror movie. It was as distinct a brand image as that of the Ealing Studios comedy.

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Table 17(b).

Major Minors (continued from page ???):

	Romulus -Remus	Group Three	War- wick	Insig- nia	Film Lcns.	Merton Park	Anglo Guild	Bea- cfld.	Dan- zig.	Prod Asoc
1951	3									
1952	3	6								
1953	4	2	1	2						
1954	2	6	2	1	1					
1955	1	3		1	3	3	2			
1956	4		4		2		3			
1957	1		5	2		3		4		
1958	2		2	3				1*	5	5
1959	1		3			1		4	3	1
1960			3*		1	1				
1961						1			2	
1962	3*								2	
1963										
1964	1		1*							
1965	1					1				
1966										
1967										
1968	1*		1*							
1969										
1970										

Table 17(c).

Major Minors (continued):

	Emmett Dalton	GW Films	Wood- fall	Parr- och	GHW	Caralan & Dador	Amicus	Seven Arts	Tekli
1958	1	3							
1959	3		1	1					
1960			2*		3				
1961		1*	1		2	3			
1962	2	1	1		3		1	3*	
1963			1				1	2*	2
1964			2	3*			1	2*	2*
1965			1				1	2*	3*
1966			1*				1	3*	1*
1967			1				5*	1*	
1968			2			2*			
1969			3*				3*	1*	
1970			1				1		

	Towers of London	Mirisch	Winkast	Tigon British	Josef Shaftel
1964	3	2*			
1965					
1966	2*		1		
1967				2*	
1968		2	1	3*	
1969	1*	3*	1*	4*	
1970	1*		3*	3*	3*

(\* includes at least 1 co-production.)

Hammer was founded in 1947 by Sir James Carreras and evolved from Exclusive Films, the distribution/production company of his father Enrique Carreras. From 1952, Hammer owned Bray Studios where it made as many as six or seven films a year during the nineteen fifties and early sixties.

Hammer's strategy was always entirelyly commercial. It would obtain finance, which it often succeeded in finding in the US, and make whatever subject the finance source wanted. If a distributor was particularly keen on a specific project, it was Carreras's ingenious tactic to block sell, as it were, extracting finance for, say, three films where only one particular title had been desired - and thereby putting the distributor himself on the receiving end of the standard anti-competitive distribution practice of block booking.

Hammer's association with the horror film followed a brief hiatus in activity in 1955. The only success among its 1954 output was 'The Quatermass Experiment,' a mixture of science fiction and horror. Porter (1983) records that Carreras's enquiries with cinemas revealed that it was the horror element, rather than science fiction, that had made the film popular.

On this basis, Hammer started production of what would turn out to be the first of five Hammer 'Frankenstein' films ('The Curse of Frankenstein' in 1956). A distribution deal with Warners was obtained for the US where the film was a hit. This facilitated Universal finance for the first of Hammer's nine 'Dracula' projects between 1957 and 1973, and a deal for three

films per annum with Columbia.

Hammer's product strategy in large part was that more commonly associated with Roger Corman's New World Pictures: take a successful film and remake it cheaply. In Hammer's case, there were Mummy, Werewolf, Vampire, and Jekyll and Hyde cycles; Hitchcock rip-offs ['Maniac' (1961) inspired by 'Psycho' (1960), and 'The Reptile' (1965) out of 'The Birds' (1963)]; and 'Prehistorics' in the mid sixties like 'She' and 'One Million Years BC,' both remakes of nineteen thirties Hollywood films.

By the time of the Prehistoric era, production had begun to move from Bray to ABPC Elstree Studios. Where ABPC/EMI finance was involved, Hammer production would take place at Elstree, as in the case of four of the six films of 1964 and two of the eight made in 1965.

And when Hammer suffered a slump as a result of the reduction in American finance at the end of the nineteen sixties, it sold Bray Studios (in 1970) and moved to Elstree under a deal whereby EMI would finance nine films over the following three years.

It is interesting that this move may have contributed to the downturn in Hammer's fortunes which was to come. As Porter (1983) sees it, the move to Elstree involved 'a marked effect on the quality of the Hammer films which now seemed to lack that sense of style and unifying cohesion which had marked their earlier products'.

Although the output of Hammer at Bray had been high, it was what Carreras called 'a single picture studio' in which at any one time there was a feeling that everyone working in the studio in any capacity was somehow involved with that one film that was in production. And for Carreras, the move to a multi-picture studio like Elstree meant that an important intangible factor of production was lost.

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### 3.4 Contemporary British Production - Four Case Studies.

Given the demise of the British studio system which is observed in section 3.3 above, it is interesting to examine the conditions under which British films are made in the present period. This is done by means of the four contemporary case studies which are the subject of this section:

1. The British Film Institute's production of 'Distant Voices, Still Lives' made in 1986 and 1987.

2. Victor Glynn's and Simon Channing Williams' 'High Hopes' (1988).

3. Working Title's 'A World Apart' (1987).

4. Prominent Features' 'A Fish Called Wanda' (1987).

The projects are considered first on the basis of their financing, and then in terms of costs of production.

#### A. THE FINANCING OF PRODUCTION.

##### 1. 'Distant Voices, Still Lives.'

The two parts were made separately. The total budget for the first film, 'Distant Voices,' was £285,000 and this sum was voted to the film's maker, Terence Davies, by the Production Board of the British Film Institute. The subsequent finance required for 'Still Lives' was about £350,000 and this came



only in part from the BFI; the bulk was raised from ZDF, the German television station.

So this British public sector film had to be supported, as is frequently the case, by supplementary co-production finance. In 1990, for example, the BFI Production Board had only about £1 million to put into production. It received just under £½ million from the BFI itself, £450,000 from Channel Four, and £60,000 from other commercial television sources. Co-finance is raised as with 'Still Lives,' or, to take a further example, from the BBC and the American HBO for the 1989 production 'Fellow Traveller'.

The BFI is constrained in practice to participation in the finance of a maximum of about four features per annum. It does, however, have a small advantage in terms of access to a specific sector of the film distribution market as its Distribution Division runs a regional network of cinemas throughout the UK.

The BFI also manages to finance a number of shorts from its own funds, and to commission new directorial and writing talent. It is through this door that 'Distant Voices' entered the Production Board. Terence Davies (interview, 1990) said that his 'Trilogy,' an earlier project, had been ten years in the making, and yet had carried a cost of only £45,000! Following his success with 'Trilogy' at the New Directors' Festival in New York, the BFI had commissioned him to develop a script.

This script turned out to be 'Distant Voices' and the finance was then released to make the film. On completion, the BFI wanted it to be distributed, but Davies refused. He felt that 'Still Lives' should be added.

In this sector of film making, financial constraints are at their most real. However, a showing of 'Distant Voices' to influential parties was arranged and the upshot was that Davies was voted development money by the Board for 'Still Lives.' This, in turn, led to the ZDF co-finance.

## 2. 'High Hopes.'

Costing £1.3 million, and thus a rather larger project than 'Distant Voices, Still Lives,' Mike Leigh's film 'High Hopes' is, as a financial proposition, typical of many small British films since the mid-nineteen eighties: it is an example of the Channel Four/British Screen model of finance. To start with, 'High Hopes' looked as if it would be easy to finance. The co-producer, Victor Glynn of Portman Productions (interview, 1990) said that when the project came his way, he found that Channel Four were, despite the absence of a story or script, willing to put up finance of £¾ million. This comprised £300,000 'licence' (to show the film on television) and £450,000 equity investment.

At this time, in 1985, British Screen was about to commence operations, taking over, approximately, the role of the late NFFC. Despite a degree of initial reluctance concerning this

project, British Screen agreed, following some lobbying from the producers, to put up £350,000. Portman Productions would supply the remaining £200,000.

Rehearsals then began - in Blackburn - with a cast of well known actors, and the project started to get off the ground. Unfortunately, at this point Mike Leigh was taken seriously ill. When he recovered, the producers tried to put the financial package back together. But this was rather difficult as all parties were somewhat nervous about any investment they might make. Moreover, Leigh's bad fortune had led to an insurance settlement whereby the project recovered, in full, the £250,000 that had been spent in Blackburn. The insurers were reluctant to participate in a revived project.

The story has a happy ending. As a kind of try-out on his comeback, Leigh made a television short which was promptly nominated for a BAFTA award. It was at this stage that Channel Four and British Screen agreed to return to the fold once the insurance situation was cleared up. And so, some five years after it had begun, 'High Hopes' found its way onto the screen.

### 3. 'A World Apart.'

Where the two films considered above, costing less than £1.5 million, can be regarded as belonging to the 'low budget' category, the planned cost of 'A World Apart,' £2.6 million, puts it into the 'medium budget' bracket, ie. between £1.5 and £3 million. This meant that, in addition to relying on the

Channel Four/British Screen sources of 'High Hopes,' it required supplementary sources of finance.

Initial development money was raised in Zimbabwe by the London production company, Working Title, for the carrying out of pre-production research. Once a budget was drawn up, the first stage in raising its £2.6 million was to send the script to British Screen and to various television companies. This was successful to the extent that British Screen agreed to subscribe £½ million. Moreover, Channel Four offered £300,000 in exchange for a licence (five transmissions over 3 years).

In the US, there were no takers among the major studios approached. The subject matter of 'A World Apart' was apartheid in South Africa, and it was felt that existing projects like 'Cry Freedom' and 'A Dry White Season' had used up whatever interest was going for this general subject.

However, the mid nineteen eighties was a period when the American independent distribution sector was buoyant. Working Title's distributor for an earlier film, 'Wish You Were Here' (1986), was Atlantic Releasing of the Atlantic Entertainment Group. This American independent distributor expressed an interest in 'A World Apart,' agreeing to buy all North American rights for £1,320,000. This was just over half the budget. Half of Atlantic's finance was to be forthcoming at the completion of principal photography, and the remainder in instalments until delivery. In the meantime, Atlantic's practice was, in all probability, to cover their outlay by laying off some of

the rights to video distributors.

Working Title raised the actual cash against Atlantic's obligations from the Dutch merchant bank Pierson Heldring and Pierson. This cash, plus that of British Screen and Channel Four, left about £½ million to be found from a private investor in Zimbabwe.

#### 4. 'A Fish Called Wanda.'

With 'A Fish Called Wanda,' which was budgeted at about £4.5 million, the discussion moves into the sphere of the 'larger budget' film, ie. those with costs in excess of £3 million. This film's finance was raised entirely in Hollywood: it was a major studio - MGM - financed British film.

The project originated from John Cleese who wrote the script, acted the leading role, informally co-directed with Charles Crichton, and became co-executive producer with Steve Abbot. Cleese's objective was to obtain complete overall control of the project. To this end, in the period before the film's London production company - Prominent Features - was formed, Cleese himself financed the development phase. Although the opportunity cost of his input may have been high during this two year period, the monetary outgoings (covering the drawing up of the budget, flying in the principals for script meetings, etc.) were no more than about £20,000.

Abbot (interview, 1990) said that the strategy was to have all key aspects of the project in place before approaching the

Hollywood majors for finance. By that time, the leading players were secured, the script had been polished for two years and production schedules had been thoroughly planned.

In the event, when the producers did go to Hollywood, submitting the project to both MGM and Universal, Alan Ladd Jnr. offered the \$7.3 million without even seeing the script! The only conditions imposed by MGM were the right to approve the film's designer, editor and production manager.

The deal involved MGM having world rights including all television. And rather than a pure gross percentage, which requires abnormal bargaining power, Prominent would obtain a percentage of gross revenues at certain trigger points based on multiples of the negative cost. The negotiation on profit participation was conducted in such a way as to attempt a balance whereby MGM would be encouraged to invest in distribution.

This case raises the issue of obtaining production finance from the Hollywood majors. Clearly a track record - such as that of Cleese himself, and the association with the 'Monty Python' films - will facilitate an interview in the studios with important decision makers in the production sector. There is, however, a production/marketing interface and it turns out to be important that the marketing managers, who will not have seen the producers' presentation, have some key names to react to (in this case, the American actors, Jamie Lee Curtis and Kevin Kline).

As is well known, the rate of turnover of studio executives is rapid, and a consequent danger of this form of finance is that the gestation of a studio film may be rather longer than the average tenure of a studio executive! Furthermore, the ownership of studios can change hands as MGM's almost did during this period - a change which might have jeopardised the film's release.

## B. THE COSTS OF PRODUCTION.

### 1. 'Distant Voices, Still Lives.'

Even by British standards, 'Distant Voices, Still Lives' was a very low budget film. The production costs of its two parts were £279,600 for 'Distant Voices,' and £376,150 for 'Still Lives.' Remarkably, it was not only planned to be made on such a shoestring but actually came in slightly under budget, 'Distant Voices' having been budgeted at £285,000.

What were the factors in this cost control?

With the exception of a single brief sequence, the entire film was made on location rather than in the more expensive environment of a film studio. Although the film was set in Liverpool, the locations were found mostly in London, thereby avoiding the out of town hotel and other costs of a production unit on a remote location.

This film was, above all, a personal project of the

writer/director Terence Davies - the film concerns his family in Liverpool in the war and post-war periods. Davies found, after a lengthy search, a house in London which would satisfy him as a replica of the family house in Liverpool.

The producer of 'Distant Voices, Still Lives,' Jennifer Howarth (interview, 1990) stressed the necessity of understanding the role of effort on the part of the production management if one was to comprehend the achievement of making such a film at so low a cost. The production team was prepared to undertake a variety of duties in addition to their normal ones - for example, accountancy and chauffeuring are not normally part of the job of the producer. Moreover, there was no production manager until fairly late in the project. During the making of the film, Ms. Howarth was 'constantly worried about every pound'.

British Film Institute facilities: the fact that this was a BFI production meant that there were certain facilities available to the production which were not formally costed in the budget. This included stationery, photocopying of scripts, office space, storage space, telephones and editing equipment. And when a production manager did eventually join the project, it was a member of the full-time BFI staff.

In addition to providing a kind of subsidy to budgeted costs, the BFI's presence behind a low budget film has a further relevant effect: film industry personnel are sometimes attracted to a BFI project, knowing that it will be rewarding



to be involved in what will almost certainly be an artistically worthwhile film. (At the very least, they may simply be encouraged by the idea that they will, in fact, be paid in full and on time!)

'Distant Voices, Still Lives' was a film in which music was central - there is a great deal of singing of music hall songs. When it came to obtaining the numerous music clearances, Howarth's strategy in this potentially expensive area was to adopt a person-to-person approach and to stress the limited budget and scale of the project. Indeed, at the time of the first negotiations, it was but the fifty minutes of 'Distant Voices'. Moreover, successful negotiation with EMI enabled Howarth to approach other copy wright owners and ask for similarly low rates - the so-called 'favoured nation status'.

In discussing cost control on 'Distant Voices, Still Lives,' Davies's role must also be stressed. As the writer and director, he fine tuned his script in the pre-production stage. As with cost conscious film making anywhere, it is vital to ensure that the script will work before shooting starts.

There was a relatively long period of fourteen weeks of pre-production, a period which included the search for the acceptable London locations. The subsequent shooting times were down to five weeks for 'Distant Voices,' and a mere four weeks for 'Still Lives.'

Davies's careful planning and clarity of conception also meant that he was able to say with certainty exactly when and

for how long expensive facilities like, say, crane hire would be required. And finally, it was generally thought that his sheer enthusiasm generated a widely shared feeling of commitment to the project among all concerned in its realisation.

## 2. 'High Hopes.'

The total budgeted cost for 'High Hopes' was £1,300,000. And the film came in at £1,288,695, very slightly under.

'High Hopes' was a film of Mike Leigh whose approach to the making of television drama is famously unconventional. A project starts with a group of actors who have no script, no storyline and possibly even no title to work on. The actors then develop and research the piece in an intensive period of rehearsals. And as such, it has been unfortunately rare for Mr. Leigh to have the opportunity of making a theatrical film for his modus operandi runs contrary to received industry practice and the expectations of financiers who will usually only invest in the commercial potential of a completed script.

However, Victor Glynn, the co-producer of 'High Hopes,' was an exception. He was delighted to have the opportunity of producing a film which would mark Leigh's return to the cinema after many years. (His only previous cinema film was 'Bleak Moments,' made in 1971.)

How did the producers deal with the budgetary side of the situation in such a way as to accommodate Leigh's idiosyncratic

approach to the creative process?

The answer was to take away all known costs from the total budget of £1.3 million. Thus they subtracted the fees of the major personnel, the cost of the completion guarantee (ie. production insurance) and the cost of the customary contingency reserve. They further identified the costs that would be required actually to make the film: the cost of a crew on the basis of a six day week for seven weeks was a known quantity, as was, approximately, the cost of twelve weeks for editing.

These subtractions left the producers with £300,000 to award to Leigh to finance the actors in rehearsal. All actors were to be paid the same rate, and the £300,000 meant that there were 650 'actor weeks' at Leigh's disposal. He was free to allocate these resources as he saw fit - he could, if he wished, rehearse one actor for 650 weeks, or 650 actors for one week, or any combination between these extremes.

In the event, the rehearsals took fifteen weeks. Many actors came and took on the stimulating, if somewhat exacting assignment of auditioning while not knowing what play they were in, let alone what part they were playing!

The other major cost control device was to insist that five minutes screen time per day should be produced during shooting. That 'High Hopes' did come in on budget was, in Glynn's opinion, because Leigh is a very disciplined director who conducts a long working day. Moreover, if the film DID get behind schedule, it was not the case, given the absence of a

script as a blueprint for the film, that the completion of the scene in question would be seen as crucial to the whole project

Needless to say for such a low budget film, all shooting took place on location. It was centred on a council flat hired by the producers in King's Cross.

### 3. 'A World Apart.'

'A World Apart' was made by the independent production company Working Title for a total final cost of £2.715 million. This was slightly in excess of its budget of £2.652 million.

The film was photographed during nine weeks on location (there was no use of studios) in Zimbabwe starting in June, 1987. This followed eight weeks of pre-production, a period which included extensive tests and rehearsals designed to discover the right actress to play the role of the thirteen year old girl at the centre of the film. Post-production took a final period of eighteen weeks.

Film production costs are normally categorised as 'above the line' and 'below the line'. While the latter are the costs of actually making the film (including such items as the cost of the production unit, supporting cast and location expenses), above the line costs comprise the fees of the producer, director and principal artists plus the costs of story acquisition and scriptwriting.

For the co-producer of 'A World Apart,' Tim Bevan (interview, 1990), above the line costs, at about 8.6% of

budget, were remarkably low. He felt that the services of the writer, Shawn Slovo, and of the American star, Barbara Hershey, were obtained on very favourable terms - although the decision to make the late addition of Ms. Hershey to the cast during shooting did in fact lead to a brief period of financial concern.

An eminent technical crew was secured at fees which were low relative to market rates. Personnel were attracted by an affinity with the work of Chris Menges, the celebrated South African cinematographer, for whom 'A World Apart' was the directorial debut.

The main area in which the film went over its budget was in post-production. The contingency had already been spent and there was little room for manoeuvre on music and cutting, etc.. Editing costs, for instance, were some £40,000 over budget.

#### 4. 'A Fish Called Wanda.'

'A Fish Called Wanda' was by far the largest scale of the projects under discussion with a budget of \$7.3 million (about £4.5 million).

The producers felt that if the above the line costs were as low as possible, this would maximise the chance of the film's financiers keeping to the kind of arm's length relationship with the production that they sought. This was their major objective.

Hence, the film's four stars (Cleese, Palin, Curtis and

Kline) were signed for well below market rates, but with profit participation points. The budget would have been perhaps \$9 million, rather than \$7.3 million, had Hollywood salaries been paid. In the event, above the line costs were approximately \$2 million.

A reason for keeping the budget to about \$7 million was that the average cost of a Hollywood studio film at this time was \$14 million. The producers felt that they might gain a negotiating edge in going to the table offering, as it were, a half price film.

Such a budget is, of course, far from small by the standards of British film making and this allowed for a degree of relative luxury: an approximate 50:50 division between location and studio (Twickenham) shooting. The film was shot - using an entirely British crew - in ten weeks. These were five day weeks to allow, among other things, for the advanced age of the director, the Ealing veteran Charles Crichton.

The cost of a completion guarantee did not have to be incurred as such, but the producers' and director's fees were deferred against the possibility of the film being more than 10% over budget. A bonus was paid for delivery on time.

Although certain cost categories were over budget - the largest being music, 'Wanda' came in about \$300,000 under budget. After test marketing in the US, this money was then used for some reshooting designed to make the film less bloody and generally more user friendly!

One can conclude from these cases that in the absence of a British major, the finance constraint on British film makers is very real. The access of a John Cleese to Hollywood finance is rare.

While Terence Davies, in the case of 'Distant Voices, Still Lives,' provides a model of efficiency through extreme care in the preparation of script and schedule, Messrs. Glynn and Leigh, for 'High Hopes,' originally intended a much larger scale production. Mr. Glynn approached every conceivable finance source - but without luck. The only response he had was from Yoram Globus and Menahem Golan of the Cannon Film Group (who offered \$100,000 for the world distribution rights!).

But even the very finance sources which 'High Hopes' fell back on, and which have sustained a low budget British sector in this recent period, remained uncertain. By 1991, the future of British Screen was by no means guaranteed, while the boom in television investment in feature films had collapsed.

The medium budget 'A World Apart' supplemented the finance sources of 'High Hopes' by pre-selling half the budget against North American rights and discounting the contract through a merchant bank. Of this model, it is worth noting that the costs of financing are high since perhaps £¼ million would be required to meet bank costs and interest.

Moreover, the pre-sale to the American distributor leaves the fate of the film in the US at the mercy of the amount of marketing the distributor decides to undertake. In the case of

'A World Apart,' Atlantic Releasing - in financial difficulties - did relatively little marketing, with the resulting under performance of the film.

It would have been ideal, other things being equal, to have had the weight of a Hollywood major behind the film, as with 'A Fish Called Wanda'. But with 'A World Apart,' no major would get involved in the first place. The independent sector of distribution in the US is very volatile as a succession of corporate failures in the late 1980s showed. (Atlantic itself went out of business in June, 1989.)

According to the former Chief Executive of British Screen, Simon Relph (1991), where the typical British independent production might have obtained 60% of its financing from this source in the mid 1980s, it might have achieved, if anything, only 20% by the end of the decade.

It is interesting to note the nationality of finance revealed by the case studies. The small London production company Working Title, for example, have, in addition to 'A World Apart,' produced such films as 'My Beautiful Laundrette,' 'Personal Services,' 'Caravaggio' and 'Wish You Were Here'. Their British finance sources have usually been limited to British Screen and television. Piersons is a Dutch merchant bank, and Working Title's corporate investor is also Dutch. The bulk of overseas revenues accrue to the foreign distributor.

So where a film is successful, money does not come back to the UK film financing scene.



References are to the following interviews:

Steve Abbot, Executive Producer of 'A Fish Called Wanda,' at Prominent Studios, London, 5/4/90.  
Tim Bevan and Graham Bradstreet, Executive Producers of 'A World Apart,' at Working Title, London, 28/3/90.  
Terence Davies, Writer and Director of 'Distant Voices, Still Lives,' at the British Film Institute, London, 5/4/90.  
Victor Glynn, Co-producer of 'High Hopes,' at Portman Productions, Pinewood Studios, 17/5/90.  
Jennifer Howarth, Producer of 'Distant Voices, Still Lives,' at Prominent Studios, 21/3/90.

and

Ralph S. (1991) 'The Film and Television Handbook' edited by D. Leafe. British Film Institute.

### 3.5 Structure, Conduct and Performance.

At the outset, six points were identified (page 6) as of preponderating importance to the study of the Decline of the British Film Industry. Chapters 2 and 3 have looked at the first three of these factors - the British majors, the Hollywood majors in Britain and British government policy.

A useful analytic framework for the consideration of these aspects is Structure-Conduct-Performance (S-C-P). Issues can be raised within the traditional context of this model: whether the economic performance of the industry follows from the nature of market conduct, and whether this follows from industry structure.

In other words, has the inefficiency of resource allocation to the industry been the result of such conduct variables as insufficient investment, restrictive practices, high prices, and an often dismal product strategy? And has conduct followed from a highly imperfect structure dominated by vertically integrated monopoly and a crucial American presence?

A picture has emerged of the main characteristics of the structure of the industry, and of the nature of the complex variety of issues that comprise conduct and performance. These points are summarised in Table 18 below.

The table is based on Scherer (1970), and formally itemises the components of the S-C-P model which evolved following the work of Chamberlin (1933) and Mason (1939), and, above all,

(continued on page 185)

Table 18.

SUMMARY OF THE STRUCTURE, CONDUCT AND PERFORMANCE OF THE BRITISH FILM INDUSTRY.

(a) STRUCTURE.

Features of Structure:	The British Film Industry:
1. Number of sellers.	Incipient duopoly; fluctuating independent sector
2. Foreign direct investment	Vast American presence.
3. Number of buyers.	Distributor and exhibitor buyers integrated or aligned. Final consumers: large in number, but declining.
4. Level of concentration.	High in distribution/exhibition.
5. Product differentiation.	High. Complex.
6. Barriers to entry.	Access to production finance and to US distribution.
7. Cost structure.	No real barriers to exit. High fixed costs per project; low marginal costs in distribution.
8. Vertical integration.	Fundamental from an early stage.
9. Diversification.	Considerable for British combines.
10. Information.	No major imperfections.
11. Public sector.	Some actual - much potential - participation.

(b) CONDUCT

Features of Conduct:	The British Film Industry:
1. Pricing behaviour.	Rapid exhibition inflation. Much price discrimination.
2. Product strategy and advertising.	Erratic, imitative, timid. Distribution and exhibition of much American product.
3. Restrictive practices.	Fundamental, especially in the distribution-exhibition relation.
4. Acquisition and legal tactics	Much acquisition in formation & disintegration of combines.
5. Investment.	Continual 'crisis' in production investment. Extreme volatility, esp. with respect to US.
6. Research and development.	Almost invariable neglect of an 'R & D' sector of production.
7. Regulation.	Quota requirements. Little other.

Table 18 continued.  
(c) PERFORMANCE

Features of Performance:	The British Film Industry:
1. Profits.	Rapid onset of crisis of loss and debt invariably follows expansion.
2. Prices.	Prices in both factor and product markets generally driven down to eliminate rents. Migration of labour to US and capital to other sectors.
3. Progressiveness.	Product often imitative, derivative; some major exceptions.
4. Allocative efficiency.	Sub-optimal resource allocation to production: market failure & externalities not adequately priced - government market improving policy small in impact; no market displacing policy.

(continued from page 182)

that of Bain (1951 and 1956). [Indeed, Shaked and Sutton (1987) refer to the model as the 'Bain paradigm'.] These contributions established the traditional S-C-P framework of analysis of the economic organisation of industries.

It is important to note that by the time of the second edition of Scherer's influential textbook (Scherer, 1980), the evolution of thought in the S-C-P area was beginning to lead to the widening of the network of relationships.

Industry studies, such as the seminal work of Bain, had traditionally viewed market structures largely as questions of industry concentration ratios, and had invariably identified positive linear relationships between concentration and profitability. Weiss (1974), summarising more than fifty such industry studies, affirmed that this had been the overwhelming trend up to the early nineteen seventies.

The work of Comanor and Wilson (1967), however, was one of a number of contributions to begin to introduce a wider range of factors. Its impact was that advertising, and barriers to entry created by advertising, came to be seen as indications of market power: concentration alone, without entry barriers, could not explain excess profits.

Comanor and Wilson inspired a wider range of explanatory variables to be brought in to profitability studies. Lustgarten (1975), for example, considered buyer concentrations (as opposed to the usual structural concern with the concentration

ratio among sellers) and their impact on profitability; Caves and Porter (1977) introduced the concept of 'strategic groups' and barriers to mobility within industries (rather than industry structure) as the key to profitability studies; and for Bradburd and Caves (1982), the notion of industry growth was to be seen as a potential determinant of profitability.

In the light of these developments, the S-C-P paradigm raises the question of the direction of causation. Is there a clear-cut relationship running from S to C to P, or is the industry one in which causation runs in the opposite direction - from P to C and S, and from C to S? Or is the network of relationships between these variables a more complex one with a variety of causitive and other links?

While the traditional neo-classical approach would imply the S to C to P sequence, a more dynamic appraisal would allow for a reversal so that structure and conduct may have resulted from the feedback from past performance, or a given structure may be due to feedback from past conduct.

In the methodology of 'New Industrial Organisation,' the emphasis tends to be placed on a direction running from conduct to structure. Conduct is expressed in terms of a non-cooperative or Nash equilibrium under which firms select a strategy which is optimal given the strategies of the other participants.

This can be based on Cournot or Bertrand equilibria. The Cournot Solution (Cournot, 1838), for example, analyses

equilibrium under duopoly when output decisions are made under the assumption that one duopolist can act without provoking a reaction from the other.

In Cournot's model, equilibrium is approached under duopoly where output is divided equally between the sellers, and their combined output is two thirds of the output that the industry would produce under perfect competition.

The model can be generalised to an oligopoly consisting of  $n$  firms. Equilibrium will be reached where combined output is  $(n/n+1)$  of the output that would be produced were the industry perfectly competitive.

As opposed to Scherer's model of S-C-P, this model, having established such an equilibrium, regards conduct (and the basic conditions of supply and demand) as exogenous.

It is not proposed to discuss the wide range of literature arising in this area, but, to take one example, Shaked and Sutton (1987) illustrate the implications of non-cooperative conduct showing that if vertical product differentiation is available as a strategy in an industry, this will lead to greater concentration among sellers.

In some respects, the conduct of the film industry can indeed be seen as designed to reinforce structure. The restrictive practices in the distribution-exhibition link (barring, alignments, block and blind booking) can be viewed as intensifying monopoly power because of their adverse impact on the existing independent sector, and their role in creating barriers to entry.

However, it has been argued that the enactment of legislative controls on aspects of firms' conduct may lead to structural changes in industries, for example, merger as a structural solution to the outlawing of restrictive practice. And for the film industry, the pace at which monopoly power was developed was indeed accelerated by the effect of the quota legislation.

What of performance as the starting point? If performance is poor, the environment created is likely to be such that interested parties - firms and/or their owners, and the government - take action on improving matters by changing structure and/or conduct. For firms, for example, if there is a crisis of profitability, this may lead to rationalisation and an increase in concentration through acquisition, or the implementation in the industry of new restrictive agreements.

From the point of view of the film industry, these notions have some plausibility. But as far as government intervention is concerned, it might be argued that only a market displacing policy would have had a sufficient impact on the structure of the industry to have facilitated a meaningful change in performance. Nationalisation in the UK was indeed the main model of post-war government policy for declining industries - eg. the coal industry.

The government implemented a market improving type of policy (NFFC; Eady) as a response to poor performance in the immediate post-war period. This policy included no overall



coherent statement of objectives with regard to a designated rate of activity and/or rate of decline of the industry. It had the effect of confirming in its essentials the continuation of the existing structure and conduct. As this was a state of affairs inimical to the success of the British sector, the view could arise that government policy might in fact have hastened decline.

The Theory of the Second Best (Lipsey and Lancaster, 1956) may be of relevance in this context. Is the film industry an example of a situation in which, in the absence of a socially optimum level of activity, the implementation of policy designed to push the industry as close as possible to a perfectly competitive structure is misguided? Ie. a situation in which it is not worse for society if a large number of optimality conditions are violated rather than only a few.

The structure and conduct of the industry had caused suppression of competition, preventing independent producers and cinemas from competing on an equal basis. But it is doubtful whether the legislative measures enacted had a particularly beneficial effect on the extent of competition in any sector of the industry, let alone the promotion of increased output to the extent that the price/marginal cost gap was narrowed. It must be noted, however, that governments have never fully implemented film policy recommendations.

Although the NFFC assisted independent productions, it was constrained by lack of both funds and control of distribution.

Meanwhile, independent exhibitors received virtually no assistance from policy measures. The Eady Levy often rewarded the existing competitive structure. The film education initiatives did not turn out to be a seedbed of capitalism.

By implication the main model of government policy for the film industry can be seen as a structuralist approach in which the S to C to P sequence of events is assumed: increasing the participation of British independents (through NFFC and Eady measures) would feed through to an improved performance.

Although, this would also imply that a policy on conduct was irrelevant in that structure will determine performance, it would tend to overlook some of the barriers to efficiency to be found in the conduct category - hence the intermittent question of a supplementary conduct approach to competition policy. This materialises in the form of the Monopolies Commission enquiries concerning restrictive practices in distribution-exhibition relationships.

UK competition policy for thirty years from its inception in 1948 used both structuralist and conduct-based approaches through the MMC and the Restrictive Practices Court respectively.

In the nineteen eighties, these approaches gave way to a Laissez Faire model of competition policy. The social cost of monopoly is regarded as small and what intervention is employed is reserved for attempts to ensure that there is free entry and free exit to and from the market in question.

This approach is sometimes expressed in terms of 'contestable' markets which was introduced as an 'uprising' in the theory of market structures (Baumol, 1982).

In contestable markets, there is ultra-free entry and exit. Industries with imperfect structures will be allocatively efficient because they are constrained by the sanction of instant entry whenever monopoly prices and profits are made.

Critics such as Shepherd (1984) observe that the notion of a contestable market can be seen as a limited development of ongoing trends in economic thought (such as those identified on pages 185/6), and one with little practical application given the difficulty of locating practical examples of markets with ultra free entry/exit.

However, the theory was intended by Baumol et al (1982) as a completely new approach which would be 'extraordinarily helpful in the design of public policy'.

This would not seem to be the case for public policy for the film industry. Barriers to entry are extremely high, especially with respect to the distribution-exhibition sector, and there are potentially high sunk costs in production (comprising investment in the building of studio facilities and production capability generally, minus any scrap value).

Were one to envisage entering, and then quickly leaving the industry, the writing-off of this investment cost would be considerable. It is safe to say that the industry has not lived in fear of hit and run entry designed to remove abnormal profits.

But what can be said from the point of view of the standard S - C - P sequence? Certainly, in the important immediate post-war period, the monopoly power of Rank and ABPC itself facilitated the unfortunate market conduct that was observed in terms of the choices made on the important decision variables of investment and product strategy. Moreover, pricing policy in the exhibition sector can be seen as having adverse performance consequences, and this was itself a form of conduct made possible by the power over the exhibition sector which was at the disposal of the monopolists.

There have, however, been two central driving influences, on the decline of the industry in the post-war era:

(a) the barrier to entry to the US distribution/exhibition sector. With a small domestic market, sustained British production of films of any real size is not viable unless an international audience can be obtained.

(b) the fundamental fall in demand for the industry's product at the cinema box office continuously from the mid nineteen forties to the mid nineteen eighties, but at a crucially rapid rate in the fifties with the coming of television.

As was noted in section 3.3, the success of the non-Rank financed Two Cities film 'In Which We Serve' numbered among the influences which led J. Arthur Rank to finance a brief and memorable age of expensive British independent production in the mid nineteen forties with the hope of capturing an international market. That 'In Which We Serve' had had access

to the American box office (where it had taken \$2 million) had been made possible by a war time agreement between the British Ministry of Information and the Hollywood majors by which the latter would distribute eight British films a year in the US.

And when Rank embarked in 1944 on his 'Attempt on the American Market' (Murphy, 1983), he was essentially trying to secure US distribution for the larger budgeted films among his output - those of IP, Two Cities and Gainsborough. His strategy was to facilitate perhaps eight big film productions a year, separated from the remainder of output, by gaining permanent and automatic US distribution.

Rank was, in principle, in a strong negotiating position. His empire had become as large in terms of total assets owned as any of the majors, his ownership of two of the three main British circuits was potentially a bargaining counter in relation to the majors, and he already had relationships with Universal, Fox and United Artists.

Early in 1944, Eagle Lion Films was founded by Rank to distribute on a world wide basis. But where its establishment in Britain merely meant the redeployment of resources from GFD, the requirements in terms of numbers of films and personnel for setting up in the US were a formidable barrier.

While the building up of Eagle Lion was to continue, alternative arrangements were made with UA who agreed, in mid 1944, to distribute Rank's larger budget films for two years. In the event, UA, in crisis following losses in 1944, performed

their role in relation to Rank poorly.

As the holder of a 25% stake in Universal through his GCFC, Rank was, however, able to make alternative plans: a new organisation - United World Pictures - was set up with a \$10 million capital to be financed fifty:fifty by Rank and Universal. It would distribute annually eight films from Rank and eight from a prominent American independent producer, International Pictures, which was half owned by Universal.

UWP was to commence operations at the beginning of 1947 on the basis of a remarkable strategy based on block booking. Traditionally, there had been resistance to British product among cinema managers, so the plan was to supply the American films of International Pictures only on condition that Rank films were taken with them! This ingenious plan was shattered when the Anti Trust Division of the Department of Justice won, in mid-1946, a court ruling which made block booking illegal.

So Rank's films rested with Universal distributors and the growing Eagle Lion which had improved its facilities by merging with an existing independent US distributor, Producers Releasing. Other things being equal, the films stood little chance for they were to be hired by cinemas purely on their own merit.

What changed matters was the growing perception in the US industry of the danger of the imposition by the British government of some form of import control on Hollywood films. Assuming - wrongly - that Rank had sufficient influence with

the government to ward off this threat, the majors, in 1947, awarded Rank's films space on their affiliated circuits. Bookings briefly rose....until the 75% import levy was duly announced. At which point, distribution of Rank's films in the US collapsed once and for all.

If Rank had lost his chance of the US market in this way, perhaps he could at least capture the British market where American films had dominated exhibition. As the US attitude became ever more unsympathetic to Britain and the loss of its market there, Rank eventually, in December 1947, complied with the government's request for him to raise production to fill the gap left by the missing imports. The programme of thirty two films was introduced.

When the settlement between the government and the MPEAA came, Rank, who felt he had been double crossed by the government, refused to cancel bookings in his British circuits of his new films. He announced that he would only have room for 25 Hollywood films in the remainder of 1948 and 75 in 1949. And at this point, the government lent assistance by raising the quota to 45%.

The MPEAA threatened another boycott, refused to allow any American/British double bills, and were briefly forced to exhibit in smaller circuits, suffering a fall in rentals. However, the audiences voted with their feet, and Rank's circuits' attendances collapsed. By the end of 1948, Hollywood films were back in the Odeons and Gaumonts, and what had, two

years earlier, been a very real threat to the majors of a British studio which would compete with them in the US and elsewhere had now totally disappeared.

Rank's loss in 1948 was £4,646,000. The retrenchment at Rank (as discussed in section 3.3) ensued. The programme of large scale film production was at an end and, without such films, there could be no hope of the US market. And the post levy production programme had shown that the circuits at home could not work profitably on the basis of British product.

The rate of decline became extremely rapid. UK production in general collapsed. Between September 1948 and March 1949, for instance, more than 2,000 technicians in British studios were laid off (Porter, 1983).

By the mid nineteen fifties, not only had Alexander Korda, momentarily a kind of replacement for Rank as a sponsor of large scale British cinema productions, passed away, but ten studios had closed or were no longer used for film making: Highbury, Islington, Isleworth, Welwyn, Teddington, Shepherds Bush, Ealing, Riverside, Wembley and Denham.

If some of these (Ealing; Shepherds Bush; Riverside) had become television studios, there was, to some extent, a televisionisation of the remaining feature film product. The ubiquity of 'Carry On,' Norman Wisdom, and television spin-offs like 'Steptoe' in the fifties and sixties has been noted.

Of the British combines, it was ABPC which embraced television directly in the fifties to the extent of acquiring a



television franchise and integrating the ABPC Board with directors from ABC TV, and, as observed in section 3.3, briefly assuming the appearance of a fully vertically integrated film concern in the television era. In the longer term, any stability emanating from this was dissipated following the conglomerate takeover by EMI.

Although Rank's strategy was one of unrelated diversification, it did accommodate television within Pinewood Studios in the mid sixties to the extent of building special quarters and a stage for MCA TV production, churning out, for example, the 'Court Martial' series of 26, 48-minute episodes each made in nine days. Investment subsequently took place to make four further stages dual purpose for television and film production. And in those periods, such as the early nineteen ineties, of the recession phase in the cycle of Hollywood production in Britain, Rank's Studio survives by hosting the manufacture of television commercials.

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## CHAPTER FOUR

### THE FIRM

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#### 4.1 Sources of Finance.

There have been a variety of ways in which a British film producer can approach the notoriously difficult task of attempting to arrange for a film to be financed. To a considerable extent, the types of finance sources likely to be available to the producer of a particular film have, in recent years, varied with the planned size of budget in the following manner:

##### (i) Low Budget Films.

These are budgeted to cost up to £1½ million - among examples from the nineteen eighties are 'Dancing Through the Dark' (which cost £1.4 million to make in 1989), 'Wish You Were Here' (£1.1 million in 1986), and 'My Beautiful Laundrette' (£650,000 in 1985).

As was seen in the example of 'High Hopes' in section 2.3, it has become customary for low budget films to be facilitated by British television money. Frequently, this has come from Channel Four. Taking the years 1987 to 1990, for example, Channel Four was able, from an annual budget of about £8 million pounds, partly to finance about sixteen films per year.

British Screen Finance Limited, the approximate successor to the National Film Finance Corporation, has played a vital supplementary role in this area. Between 1986 and 1989 inclusive, for instance, British Screen put eighteen million pounds into forty four films - about half of which were in the low budget sector.

(ii) Medium Budget Films.

The medium budget sector covers films costing between £1½ and £3 million pounds. Among recent examples are 'The Big Man' (£2.5 million in 1989), 'Maurice' (£1.6 million in 1987), and 'Paris By Night' (£2 million in 1987).

As was illustrated in section 3.4 by the case study of the financing of 'A World Apart,' medium budget productions require something substantial to be raised to add to the television and/or British Screen Finance money. The most frequently adopted method is that of pre-sales of distribution rights. The most important pre-sale is to a distributor in the United States, and this will be followed by pre-sales on a territorial basis elsewhere in the world.

(iii) Larger Budget Films.

British films costing more than £3 million include such recent examples as 'Henry V' (£5 million in 1988), 'Castaway' (£5 million in 1986), and 'Brazil' (£10 million in 1983).

Here the television/British Screen financial support mechanism fades from the picture. These more expensive films CAN be financed direct by Hollywood majors (cf. 'A Fish Called Wanda,' section 3.4), and occasionally there is a private individual investor. But pre-selling of distribution rights, whether to a US major or to an independent, is again likely to be of central importance.

As Table 19 shows, the Channel Four/British Screen model

of finance developed during the nineteen eighties to account for the part or whole financing of perhaps half the low budget sector and a third of the medium budget sector.

Table 19.  
 CHANNEL 4/BRITISH SCREEN FINANCE IN LOW AND MEDIUM BUDGET FILM  
 PRODUCTION 1981 - 1989.

	NO. OF FILMS: Low Budget	NO. WITH C4 SUPPORT	NO. WITH B. SCREEN SUPPORT	FILMS WITH C4 AND/OR B. SCREEN SUPPORT	
				NO.	%
1981	14	2		2	14
1982	20	10		10	50
1983	21	7		7	33
1984	22	14		14	64
1985	20	13		13	65
1986	14	7	1	7	50
1987	19	11	7	12	55
1988	18	9	6	10	56
1989	12	4	4	7	58
Medium Budget					
1981	4	0		0	0
1982	14	0		0	0
1983	11	1		1	9
1984	9	2		2	22
1985	13	4		4	31
1986	13	5	6	6	46
1987	25	8	4	9	41
1988	19	5	7	7	37
1989	16	2	4	4	25

Sources: adapted from

- (i) British Screen publicity brochure,  
 Cannes Film Festival, 1990  
 and
- (ii) 'Film on Four. Summary Information  
 on Individual Films' - unpublished  
 internal Channel Four document.

The Head of Drama of Channel Four, David Rose (interview, 1990), pointed out that, in its remit, C4 was required to engage INDEPENDENT film and programme makers. This led C4 to invite film makers to approach it with film projects which would have a life in the cinema before being shown on television. This was despite the constraint of the three year bar then imposed by the Cinematograph Exhibitors' Association.

1981, the run-up period to C4's launch, was the first year. It was, at this time, novel for British television to be involved in feature films. BBC 'drama' was not intended to translate to cinema distribution, and, if it had been, existing union agreements would have been constraining. Moreover, television drama was filmed on 16mm. where theatrical features are 35mm. which is more expensive

In 1981, C4 decided to allocate £6 million to 'Film on Four' with a target of twenty films to be financed - in the event, twenty two were achieved. In the first year, the average total cost of the films involved was £400,000, and C4's average input was £275,000.

There was no formula regarding the balance of C4's partners' investment. Some films were 100% financed, many less. For example, 'Angel' (produced in 1981/82) cost £469,000 with C4 putting in 82% and the remainder of the finance coming from the Irish Film Board. Contributions ranged from £100,000 to the 1982 production 'Heat and Dust' (total cost £800,000) to a maximum of £400,000.



By the mid nineteen eighties, despite the failure of the real value of its film finance to grow, C4 was sometimes referred to as the 'saviour of the British film industry'. However, it is interesting to note that there has been an element within the C4 funding philosophy which has considered it important additionally to part-finance some foreign projects. For example, films by Wenders, Tanner and Tarkovsky.

How has it been decided which British films to finance? C4 was set up as an alternative to ITV, and, by implication, to the BBC. It had to be experimental and innovative in content or form - but it still wanted to be popular.

Thus in judging the fifty or so scripts received every week, C4 claims to opt for what seems 'fresh'. This often comes from writers who are new to cinema film writing. Indeed, of the one hundred and sixty films with C4 involvement up to mid-1990, fifty were by first-time feature length writers. Similarly, directors backed have often been those stepping up from television for the first time.

If a film maker in the low budget sector has secured C4's participation to the extent of X% of the budget, his task is to raise the remainder of the finance elsewhere. Producers can be helped in this by C4's association with British Screen Finance. Ideally, the two bodies would assist different projects, but, given the lack of other finance sources, the overlap is unavoidable. For example, seven of the eight low budget films to which British Screen contributed a financial involvement in

1987 (and five of the six in 1988) were also C4 projects.

British Screen was established in 1985. It is a private company which is run on a commercial basis with the stated objectives of playing a key role in the financing of new British feature films, and of encouraging young and less established producers and directors. It has a feature film fund, a short film fund, and a one third interest in a sales agency, The Sales Company.

It is funded by a grant of £1.5 million per annum from the Department of Trade and Industry, and by private shareholders. For example, Rank and Cannon invested respectively £250,000 and £300,000 per annum from 1986 to 1989.

British Screen is a commercial operation and makes loans, rather than grants or subsidies, to producers (at 2½% above base rate) only where it feels that the film will be sufficiently popular in the exhibition market that it will get its money back. There is, of course, no guarantee that one's money will be returned when it is only secured on the film itself, rather than any more conventional asset.

Despite the activities of the National Film Trustee Company which collects debts (for a 1% commission) on behalf of British Screen (and other film companies), British Screen has had to write off several million pounds. In 1989, it was also forced to seek the agreement of its own shareholders to a two year postponement of the repayment of their loans. This is indicative of the precariousness of this vital source of finance.

What of the role of the banking system as a source of finance for feature film production in the UK? The banks might appear to be an obvious source of funds. After all, the producer of the average commodity, the manufacturer of chalk or cheese, would probably think of turning to the banking sector for some form of loan to facilitate production.

It is in the area of the pre-selling of distribution rights, noted in the introduction to this section as central to the financing of most medium and larger budget films, that the banks' main role vis-a-vis film production is to be found. That is, the film banking sector specialises in the discounting of distributors' contracts with producers thereby supplying the money which is spent on actual production.

Rather than the High Street clearing banks themselves, the film banking sector tends to be populated by their merchant banking subsidiaries, and by independent merchant banks. This activity is based in London and Holland and does business with producers on both sides of the Atlantic. The four most important banks in terms of the volume of their lending in recent years have been Credit Lyonnais Nederland, Pierson Heldring and Pierson, Guinness Mahon and British and Commonwealth.

Credit Lyonnais has been the largest lender with Piersons and British and Commonwealth in approximate joint second place. The latter went into administration in 1990 although not, it seems, as a result of its involvement in film banking.

Approximate levels of film industry lending outstanding in mid 1990 were:

Credit Lyonnais - between \$1 and \$1½ billion

Piersons and British and Commonwealth - over \$100 million each

Guinness Mahon - about \$50 million.

In both quantitative and qualitative terms, Credit Lyonnais has become accustomed to operating on a higher level than the others, extending revolving lines of credit to producers and distributors and lending to the largest projects. This is large scale finance which involves the permanent use of capital in a way which is inappropriate for the other, smaller banks.

The Entertainment Business Division of Credit Lyonnais had, by 1986, been involved in the finance of over five hundred films and been in the habit of financing more than seventy American, British and other films per annum. Although its facilities have extended to input in some very large budget productions such as 'Superman' or 'Rambo,' it has had a role in respect of the relatively small film which is more typically British, eg. 'A Room With a View' (total cost £2.3 m. in 1985).

Although the film business is a notoriously uncertain one and banking is - or at least should be - a very conservative activity, contract discounting amounts to a viable concept of 'film banking'. That is, such banks as the aforementioned Credit Lyonnais or Guinness Mahon view the method employed to

finance film projects through contract discounting as one which is directly tied to the basic principles of sound banking.

In general such banking practice means lending only against proper collateral. So when making a loan to a film producer against his contracted pre-sales, a bank would consider itself to be making a loan against 'receivables'. Moreover, when discounting a pre-sales contract, banks invariably require that the producer has a completion guarantee in place.

The fully discounted value for the sales received for the film are lent. The bank does not discount for risk as such - it either accepts or rejects the project and discounts for time. It is, in a sense, as if the bank is renting out the money for a period.

The bank borrows money on the inter bank market and lends against receivables at the LIBOR rate plus a 'spread' of between one and three per cent. The smallest spreads would be if a loan were to be made to a Hollywood major - the loan would be seen as virtually risk free, and thus not very profitable. The highest spreads are indeed relatively high by banking standards generally.

In addition to the spread, the bank also charges a fee which is typically between two and three per cent. The profitability of this activity (according to British and Commonwealth, interview 1990) is comparable with that which would be anticipated by the banks from such a field as, say, property lending.

The typical loan to a film maker is perhaps \$10 million and would be expected to yield about  $\frac{1}{2}$  million. Such a loan would have an eighteen month repayment timetable synchronised with the coming to fruition of the distribution pre-sales contracts on delivery of the finished film.

For the banks concerned, especially the relatively small merchant banks, activity in film banking is largely seen as a part of a 'niche' strategy of competition, and motivated by an overall objective of profit maximisation. Media finance in general is one such banking niche. Others are to be found in management buyouts, for example, or in local authority lending, property and leisure.

Such specialist services are not routinely of interest to the big 'retail' banks. Indeed, of the latter, the only direct involvement in film contract discounting in the UK is that of Barclays Bank through its branch in Soho Square which is located in close proximity to the film production companies of the Wardour Street area. However, in practice, the bulk of Barclays' activity in this field finds its way into television, rather than feature film, production. (Interview, Barclays, Bank, 1990.)

The standard process of syndication when large loans are involved means that other banks who are not expert in the film finance area do sometimes participate. Such banks follow the expertise of the specialist bank. For example, suppose that a \$20 million loan against sales contracts is required, a

merchant bank such as Guinness Mahon might undertake to lend £5 million of the £20 million and to find other banks to lend the remainder.

Frequent participators in such syndicates in recent years have included Gotabanken, Samuel Montague, and Creditanstalt. And Piersons and Guinness Mahon have been in the habit of joining forces in this respect, and thereby finding a way of effectively competing with the larger Credit Lyonnais.

It is useful to take Guinness Mahon's operations in the contract discounting field as an illustration of possible merchant banking practice. The bank's Entertainment Division says (interview, 1990) that it has a policy of lending only against acceptable distribution contracts. Such lending leads to its involvement in about a dozen films per annum. Before lending, it takes a view of the 'track records' of the creative personnel concerned and of the marketing prospects of the film.

As of mid 1990, Guinness Mahon's lending in each case was usually between \$5 million and \$10 million dollars, with total loans at somewhat less than \$100 million per annum. Total lending is constrained by banking criteria of sector exposure limitations, ie. a fixed sum which relates to the total capital of the bank. In this way, perhaps one sixth of the bank's lending is in film finance.

For the Guinness Mahon bank as a whole, this activity was an important source of growth during the second half of the nineteen eighties. Where the bank's 'traditional' film customer

may have been the UK independent producer, further growth is expected to come by tilting the balance (at present fifty:fifty) towards the finance of American films. The typical British film maker's one-off one and a half million pound deal is thus not seen as particularly attractive in such a growth oriented model.

Syndication is standard, and Guinness Mahon has been accustomed to doing much of its business with Piersons. Examples of recent films where finance has been syndicated in this way are 'Buster' (details of the financing of this film are discussed in section 3.1) and 'A Kiss Before Dying.' In the latter case, Guinness Mahon provided \$15 million secured against the contract of Universal Studios.

This is an example of the financing of a 'negative pick up,' ie. a picture which a major Hollywood studio has agreed to pick up for distribution. The studio does not finance such films directly, but, on delivery of the negative, will reimburse the producer in respect of the production cost. In the meantime, the studio's contract is discounted by the bank.

At one remove from contract discounting is the less frequently observed method of bank involvement in film finance known as 'underwriting.' When a bank agrees to underwrite a film project, it undertakes, for an additional fee, to lend the entire amount in question. The subsequent arrangement of syndication is not a source of concern for the producer because the deal is on whatever the difficulties the bank might face in



finding other lenders to participate.

This is in contrast to contract discounting syndication where the deal is off should the bank be unable to find other lenders. In the UK during recent years, the field of underwriting has been largely associated with Hill Samuel whose annual commitment has been in the \$30 million to \$50 million range. (Interview, 1990.)

Underwriting is perhaps a somewhat more adventurous financial model than contract discounting. Hill Samuel's underwriting is of individual films usually with budgets in excess of \$15 million. Its most well known involvement was with the Oscar winning 1986 production 'The Last Emperor,' a film with a budget of £15.7 million. This finance was syndicated with four other merchant banks including Standard Chartered.

Productions are selected on the basis that they are sufficiently weighty to secure international distribution by right as it were, rather than purely through good fortune. The films are selected on the basis that there is a very large international market for middle-to-high brow projects in the English language. That is, the field for underwriting has been narrowed down in this way and by Hill Samuel's requirements that films selected must have a first class producer and script, and reliable lawyers and sales agents.

Track records of personnel and of organisations are said to be a crucial factor in the consideration of projects for underwriting. But they do not guarantee that participation will

be forthcoming. The producer and director team, Jeremy Thomas and Bernardo Bertolucci, had a major hit in both critical and financial terms with 'The Last Emperor,' but they did not retain Hill Samuel and Standard Chartered finance for their next project, 'The Sheltering Sky'.

Producers often express the view that banks are far too timid when it comes to involvement in the financing of film projects and that their involvement largely boils down to contract discounting and little else. Not only do banks face no risk in this, but they charge very heavily for their services - in the example of 'Buster' the producer said (interview) that financing a \$5.6 million film involved incurring various bank costs totalling \$400,000.

The banks take a different view: wide and casual exposure to the unparalleled uncertainty of the film scene would be an outrageous abuse of their shareholders' interests. And in any case, they would argue, there is considerable risk even in contract discounting as the collapse of a number of independent American distributors in the last few years has indicated.

Nevertheless, it is very much the case that there is a kind of 'Macmillan Gap' in the availability of film production finance with respect to the banking system. And it is a gap which is not likely to be filled. Many observers feel that the Japanese banks are about to enter the entertainment industry and will, in due course, play an increasingly important role.

This may be of little comfort to the British because, not

only is the probable large scale of Japanese involvement unlikely to propel it towards small British projects, but the competitive effect of Japanese entry could easily be to force down the banks' 'spreads,' below one per cent perhaps, and thereby drive existing contract discounters out of this field altogether. A major rationalisation could be the result. Indeed, Guinness Mahon is already owned by the Japanese Bank of Yokohama.

Both underwriting and contract discounting relate to the finance of single film projects. But what of finance at the corporate level? In other words, what about the financing of film production companies as a whole - asset based as opposed to project based finance?

In principle, there is considerable scope for investment in film companies. Such investment can, for example, be viewed as a suitable form of concentric diversification for a conglomerate parent. For instance, Pearson came, by 1982, to have £12 million invested in the British film company, Goldcrest (Eberts and Ilott, 1990). It saw its investment in Goldcrest as potentially a fifth division of the corporation next to Penguin Books, the Westminster Press, Longmans and the 'Financial Times'. Its initial investment had been stimulated by the possible synergy from 'Watership Down,' a film made by Goldcrest of a book published by Penguin.

Moreover, investment in film companies is essentially a venture capital investment. Investment funds often have a sum

set aside for venture capital and it should be possible to attract participation from a variety of such sources. Again, the case of Goldcrest provides a useful illustration: its wide range of investors included City investment trusts and insurance companies, as well as the pension funds of the National Coal Board and the Post Office.

In practice, however, it is usually relatively difficult to persuade investors to back the prospectus of a film company. The likely nature of a film company's business is that, rather than looking for a particular annual rate of return, one will expect to make very large profits only on an intermittent basis, that is as and when hits arise.

While this can be one off-putting factor a further one is often the long memories in investment circles of past losses made on films. Eberts (ibid) has pointed out that 'most private investors who have put money into movies have lost every penny, and the film industry is generally given a wide berth by the investment community'.

While film entrepreneurs might see the turning down out of hand of film investment as irrational, a reinforcing factor in the UK, as opposed to the US, is a widespread absence among institutions and other financial sources of sector expertise, and a consequent reluctance to evaluate a film company prospectus favourably.

Such a prospectus has to show that relevant people are on board in the form of specialist management with successful film

industry 'track records'. Indeed, it is indispensable that the major personnel of the film company seeking finance have track records specifically in the film business.

For example, although television would appear to be the next door neighbour of film production, two of the most successful US television entrepreneurs, Norman Lear and Jerry Perenchio, were unable, according to Eberts (ibid), to raise a relatively moderate sum (\$100 million) during the mid nineteen eighties to finance Embassy Pictures, their film company. 'Film is a high risk business in which success depends on luck and the astute creative and commercial judgement, as well as extensive personal contacts, of a few top executives.'

Creative track records are also important in this context. It is less expensive and less risky, and thus more attractive to potential investors, for a film company to have relationships with established producers and directors, etc. rather than specialising in the nurturing of new talent.

That film making is very much a 'people' business where individuals and their creativity dominate is a further negative factor in relation to the task of attracting corporate investors. One can in fact go further and argue that a successful film company must be seen to have, at the head of its team of specialist accountants and lawyers, a single leadership figure - a creative decision maker who can dominate the organisation. For example, Hollywood studios normally have a studio chief, that is, one figure who is supported by, rather

than equal to, the team of senior managers.

The role of this leadership figure is to indicate an unambiguous business and artistic direction for the organisation, and to facilitate deals with the majors and with the independent distribution sector by inspiring confidence in those quarters.

An impoverished industry, such as that in the UK, cannot throw up such leadership figures more than on an occasional basis. For example, only Jeremy Thomas and David Puttnam have fallen into this category in the UK in recent years. And both do indeed have corporate investors. By the same token, however, the ability of the remainder of the British film industry to attract corporate finance is severely constrained.

The sheer difficulty of finding corporate investors for a UK film company is illustrated by Eberts (ibid) who had succeeded in this task for a company confined purely to film development, but found it almost impossible in relation to a fully fledged production company.

The idea of development is that one invests relatively small amounts in the progression of an initial idea for a film to the point at which both the script and budget are drawn up and the leading creative personnel are provisionally in place.

Given the high risk/high return nature of the film business, one looks for investors who wish to participate on a venture capital basis. Such investors are attracted by the promise of a high rate of conversion of development ideas into

realised projects (the average in Hollywood is one in twenty; a good independent developer can offer three in ten), and by a situation in which there will be, say, ten films in development at any one time. An investment of perhaps £40,000 in this context would be valuable, and the investor would effectively have relatively little at stake in any given film.

The problem with production, rather than development, finance is that the numbers must be much larger. Thus, in the case of Eberts, the successful raiser of corporate finance for development found that his first attempts to raise British production investment (in 1980) were futile. More than one hundred potential participants - insurance companies and pension funds; private investors and venture capitalists - were approached in the City, in Europe and in the US, but 'there wasn't even one close call'.

Rather than such a solo search for specialist corporate investment, one can enlist the assistance of an investment bank with film business expertise such as the Wall Street banks Merrill Lynch, E. F. Hutton or Allen and Co. Their presence is required to enhance the credibility of one's prospectus, and their role will be to identify and afford introductions to suitable investors.

Investment banks differentiate themselves not only from ordinary High Street banks but also from the European-style merchant banks. The main activity of an 'investment' bank is to find 'investors'. Investment bankers such as Faizal N. Syed, an

Associate of Merrill Lynch International (interview, 1990), feel that with respect to the film industry, 'investors are wary and tend to have very long memories in relation to any situation in which money may appear to have been squandered by a production company or individual film maker'. Hence, the investment bank then approaches would-be investors only when it feels able 'to tell a very strong story' about the film personnel involved.

Taking the example of Merrill Lynch, films are a part of a 'Media' financing section which also covers television and publishing. It raises money for the corporation concerned, ie. it deals at the corporate level rather than with individual film producers, although it claims to have understanding at the operating level.

Money is raised by placing various highly differentiated 'products' such as 'Zero Coupon Convertible Discounted Debentures,' or, a further product variant, 'Senior Subordinated Discount Notes' (with a coupon as high, on occasion, as fifteen and seven eighths per cent). In 1987, such transactions for 'Media' as a whole led to the raising of almost \$1 billion for Merrill Lynch's corporate clients. As far as the film industry was concerned, this included \$250 million raised on behalf of Columbia Pictures.

The scale of transactions in the investment banking sector suggests that in practice its services are unlikely to be of relevance to a new British film company. Perhaps a more



plausible corporate investment source in such cases is the UK venture capital market.

The venture capital sector generally in the UK was a typical growth industry of the nineteen eighties. Its massive expansion, facilitated to some considerable extent by the boom in management buy outs, involved the growth of its investments from £20 million in 1979 to £1.65 billion in 1989.

However, the provision of venture capital to film production companies is relatively rare. Such venture capital would be corporate finance supplied on an equity investment basis to a film production company, as opposed to the project finance involvement of the underwriting of specific films.

Although the merchant banks in the film finance sector specialise in contract discounting in which they do not take an equity position as such in single film projects, there is a small amount of venture capital activity undertaken by, for instance, Guinness Mahon who have a venture role with the independent producer-distributor Palace Pictures, producers or co-producers in the second half of the nineteen eighties of eleven low or medium budget British films, including 'Scandal' (1988) and 'Dancing Through the Dark' (1989).

A larger source of such venture capital is the National Westminster Bank through its venture capital subsidiary County Nat West Ventures (CNWV). For example, taking the year 1989, of its total venture capital investment of £75 million, it invested something over £1 million of pure equity in film

production. And in the twelve months ending June 1990, CNWV's film investment was about £750,000.

CNWV's main involvement has been in The Bountiful Co. Ltd., the financing vehicle for David Puttnam's production company Enigma. Wholly untypical of British producers in his ability to generate investment in this manner and on this scale, Puttnam, coming back to British production after his period as head of Columbia Pictures, found it possible to raise a production fund of \$50 million. The other participants in the fund initially were the late British Satellite Broadcasting, Warner Brothers, and the Japanese distributor Fujisankei Communications.

The idea of venture capital in a general sense is to invest in a high growth and high return FIRM, rather than the particular sector as such. So the venture capitalist's response to a film producer's request for investment finance would raise the question of whether a film production company could be started now (by backing this producer), and then sold in, say, ten years.

Such a model of investment does not usually fit very well with film production where activity is project-by-project, and where one cannot easily invest on a continuous basis over a period of years in a group of people (producers, directors, writers, actors, technicians) because they tend to disperse after each project. Due to this, the venture capitalist in the film sector will more typically look at the possibilities of a significant divided flow in order to replace the need for capital gain.

It was observed above that the film business is an area in which the people and their creativity tend to dominate. A venture capitalist like Charles Target of Patricoff Associates, (interview, 1990) is almost certain to be ill at ease with this type of activity. That is, investment in areas like cinemas, video rental shops or satellite television - activities which USE the product - might well be preferred to investment in the producers of the product itself.

Moreover, the market structure of the film distribution-exhibition industry can be regarded as a further negative factor in relation to venture capital involvement with film production. Where a venture capitalist might, other things being equal, invest in, say, a record production company or a publishing firm, because he will assume that he will be able to get the records played on the air or the books into the bookshops, he will not invest in film making in the UK if there is a strong impression that the majors' control of distribution will prevent all but a small number of independent films from being distributed into the cinemas.

In the UK, Puttnam's idea is the exceptional investment that has appealed to the venture capitalists. The latter must therefore have been convinced that The Bountiful Co. is a well managed organisation which is going to be worth a great deal in the future, and that its output, which is diversified across a slate of six films over about four years, will be profitable. Furthermore, the rights to these and other films will

constitute a valuable library.

CNWV (interview, 1990) as suppliers of venture capital in the film industry initially have an investment team examine projects. They also have the right to approve budgets, and while they do monitor expenditure, they are concerned not to assume the role of producer. As a result, they do visit film sets during production from time to time.

Enigma's first film under these new funding arrangements was 'Memphis Belle' which was made in 1989 at a total cost of £21½ million - a very large budget for a British film. However, the early returns of this film from cinema exhibition alone were good. Although the American release of 'Memphis Belle' was not until mid-October 1990, it was the forty first largest grossing film in the USA for the year, taking \$25.5 million at the American box office and becoming the highest placed British film in the 1991 US box office league table.

Indeed only two other British films managed to find their way into the top one hundred of this table: 'Nuns on the Run' and 'The Witches' were in ninety third and ninety seventh positions respectively. Each grossed approximately \$10 million.

And in UK exhibition in 1990, 'Memphis Belle' grossed a further £4.8 million and was the only British film in the British top twenty box office table for the year. In fact, one could say that, with this particular film, Puttnam and the venture capitalists got off to a flying start!

References are to the following interviews:

Tina Boyden of Barclays Bank, Soho Square, 30/5/90.

William M. Jackson of CNW Ventures, City of London, 12/6/90.

Jorges Gallegos of British and Commonwealth Merchant Bank,  
Mansion House, 30/5/90.

Premilla Hoon of Guinness Mahon Merchant Bank, City of  
London, 4/6/90.

Rodney Payne of Hill Samuel Merchant Bank, City of London,  
6/6/90.

David Rose of Channel Four Television, Charlotte Street,  
26/4/90.

Faizal Syed of Merrill Lynch International, London EC2 12/6/90.

Charles Target of Alan Patricoff Associates, Venture  
Capitalists, Mayfair, 12/6/90.

## 4.2 The Financing Process, Risk and Film Investment.

It is the customary practice in the film industry for the total cost of production of a film to be capitalised in the balance sheet of the production company as an asset. The future revenues throughout the anticipated income generating life of the film, discounted to present value, are estimated. The film is then amortised at the rate determined by the income forecast: if 50% of the anticipated revenues will arise in the first year, then the valuation will be written down by this proportion at the end of the first year.

After several years, the asset's value will have been eliminated from the balance sheet altogether. In general, the average period for this is between three and five years as the film accrues revenue in theatrical exhibition and in the ancillary markets. In this way, the need to absorb the whole cost of the film in a single year is avoided.

Films which do other than exactly break even on production cost will have been inaccurately valued as assets. The importance of this is that the amortised film costs at any time represent the main assets of a film production company.

Films might be highly profitable, but their asset valuations cannot exceed their production costs. This can have the effect of constraining the ability of a film company to raise finance by understating the value of the organisation. In the case of Goldcrest, for example, potential investors in a

share issue in 1984 were presented with a lengthy prospectus which argued that the true value of the portfolio was 70% higher than its balance sheet value of £16 million (Eberts and Ilott, 1990). (And for the film, as opposed to the television, part of the portfolio, this claim did indeed, in due course, turn out to be roughly correct.)

In the opposite case, where films perform badly, the danger inherent in this conventional film accounting practice of income forecasting is over-optimism in the forecasts and the failure to amortise films fast enough. Moreover, if one weights one's over-optimism towards the later years of the revenue cycle, it is quite possible to initiate rapid growth.

For example, suppose that on completion a film, which has cost £10 million to make, looks as if it will be a loss maker which will take only £5 million over a productive life of two years - £3 million and £2 million in years one and two respectively.

Suspecting a probable flop, one nevertheless makes an over-optimistic and elongated forecast of revenues illustrated in this example by: (£ million)

Year 1 - $\frac{1}{2}$ .	Year 4 - 7.
Year 2 - $1\frac{1}{2}$ .	Year 5 - 8.
Year 3 - 3.	

In the event, the film takes £3 million in its first year. The total of forecast income was £20 million, so £1.5 million ( $\frac{3}{20}$  of total cost) is written off, leaving an asset value of

£8.5 million at the end of Year 1. At this point, things look very healthy: in addition to the remaining asset value, there is a paper 'profit' of £1.5 million (composed of the revenue minus the write-off), and one can make bullish claims about the film's better than expected performance.

In this example, the effect can be continued in Year 2 where the £2 million accruing will lead to a write-off of £1 million, a book asset value of £7.5 million, and a year's profit of £1 million. Cumulatively, this £10 million production is showing profit of £2.5 million!

However, now that there are to be no further revenues, the third year is the year of crisis. One is obliged to make a full write-down now that it has become clear that the revenues were over-estimated. The £7.5 million is written off, giving an overall loss of £5 million, (ie. £7.5 million minus the profits of years 1 and 2).

It is interesting that, despite having administered a £10 million project which could take no more than £5 million in revenues, it will have been possible to have initiated an expansion of production. Pointing to the 'profits' during the early years, one can increase one's overdraft and attempt to attract new investors.

However, without a major hit among the new films, one can only survive in this scenario by releasing an ever increasing number of films in each succeeding year. The early 'profits' of the new films must exceed the expanding realisations of losses.



Further complications would be the expectation of taxation payments and dividends from purely artificial profits.

During the nineteen eighties, The Cannon Film Group, run by the Israeli entrepreneurs Golan and Globus, rapidly burgeoned into a presence of world significance in the film industry, backing about nine hundred films in ten years, but without a single major hit. Their share price (Yule, 1987) rose from 20 US cents in 1979 to \$45 in mid 1986.

After this date, however, the tide rapidly turned. A year later an accumulated operating loss of \$92 million was announced for 1983 to 1986 (and Cannon's share price collapsed to under \$5). The announcement included, with respect to the year 1985, for example, the writing off of \$32 million of asset valuation which constituted the total elimination of profits previously shown for the period 1983 to 1985. Despite the scale of this, there remained in Cannon's books at this time over \$500 million of unamortised film costs.

The incoming revenue which one forecasts - accurately or otherwise - can come from a wide variety of possible deals. There is in fact a tendency for the main sources of finance available to the British film maker to change over time. The British majors were once the dominant source, but their role had all but disappeared by the late nineteen seventies. However, at that time, there was a trend in the direction of tax deals and 'tax shelter' finance. This in turn was followed by a period during the nineteen eighties in which new funding

sources emerged: Channel Four television, and the American independent distribution sector.

The latter category has rapidly evolved further. As financiers, theatrical distributors have declined relative to video and cable distributors. Distribution to US network television to facilitate finance has fallen away very sharply. And the recent period has also been one with emphasis placed on domestic sales agents with specialist finance raising skills enabling them to tease out the best deals from this range of distributors both in the US and territory-by-territory.

Indeed, the essential basis of the three main film markets - Cannes, Los Angeles and Milan - is the making of these deals and the pre-selling of products for distribution. That these gatherings have continuously expanded has not, however, necessarily meant a commensurate increase in the availability of finance. Boorman (1991) records frequent excursions over the years trying to drum up finance for his films. "At first, I was astonished at how easy it was, until I learned that a 'Yes' in Cannes was really only a 'maybe' back at the office. Executives feel a compulsion to make deals in Cannes but they don't feel bound by them."

If a deal is negotiated, its nature is of great importance because the structure of these financing arrangements will determine the extent to which a film which turns out to be successful in the range of markets in the territory concerned returns revenue to the film's maker.

The most important deal is for distribution in North America which constitutes about 65% of the world market. The usual arrangement is one which secures for the producer participation in 'net' profits. In practice, this may mean that the film must be outstandingly successful before a producer's share materialises.

The sequence of access to revenues in such a deal is that the exhibitor is entitled to keep perhaps a half of the box office gross. The remaining half is known as the 'rental'. 30% of the rental is then accounted for by the distributor's fee, and the costs of prints and advertising expenditure incurred by the distributor are also reclaimed at this stage.

If one assumes that such expenditure might typically constitute 25% of the rental, this would leave 45% of the rental (and under a quarter of the original box office gross) as revenue potentially accruing to the producer. However, from this net profit, the distributor is entitled to recoup the original advance that was made to the producer when the deal was struck.

If anything is left, the producer is at last able to participate. This will be done in agreed proportion with the distributor, the producer getting perhaps 75% of this residue. However, in putting the project together a year or eighteen months earlier, the producer may have given away much of this share by way of incentive to investors as well as to leading cast, the director and possibly members of the crew. They will

have 'points' in the film which constitute a percentage of this net profit.

It was observed in section 2.3 that the 'net' can be an extremely elusive area because deal structures can be envisaged in which the achievement of the breakeven point at which the producer's share materialises is delayed. So it is perfectly possible that a successful film can return profits to all but those who have actually made it.

A producer's contract with a studio giving the producer net participation will spell out at what point breakeven is reached. This definition can be a source of aggravation for producers if they feel that the studio has incurred little or no overhead cost in relation to the film in question and yet is loading an arbitrary sum of perhaps several million dollars onto the deal.

Thus a 'gross' deal is a more attractive proposition. Very major stars, for example, can have the negotiating power to exchange the optimism required of a net profit participator for the confidence of one higher in the pecking order with points in the gross profits to be taken before the producer's share.

Similarly, the best deal that a production company can aim for is a gross distribution deal like that obtained by Prominent for 'A Fish Called Wanda' (section 3.4). Such a deal allows one to participate in the rental - the distributor's gross - in progressively larger measure as revenues arise.

In the case of the early Goldcrest, Eberts' particular

skill was in the area of making deals of this kind. For Puttnam's 1983 film 'The Killing Fields,' there was a gross deal between Goldcrest and Warners. Goldcrest wholly funded the film at a total cost approaching £10 million. Warners bought all US rights for one third of this total cost, paying in advance. Goldcrest then had gross participation which entitled them to 30% of the first \$20 million of rentals, 40% of the next \$5 million, 50% of the next \$5 million, 60% of the next \$5 million, and 65% of anything further.

As far as other US markets were concerned on this deal, Goldcrest had gross participation of 75% on video, 77.5% of the first \$6 million from cable and \$4 million from network television sales. Eberts and Ilott (1990) record that this deal became something of a model to be aspired to (but never again quite attained) for subsequent productions. It was a deal which meant that Warners could only make about 25% of the grosses at the maximum. It is unusual for the majors to allow this figure to fall below about a third.

Moreover, there was not a 'cross-collateralisation' clause in 'The Killing Fields'. This feature of many gross deals can be a further constraint on producer participation because it allows the distributor to recoup from the ancillary markets (or from a second film in a package deal) if the film's performance in cinema exhibition is not good enough for him to recover his outlays under the terms of the theatrical part of the deal.

Where the gross deal for 'A Fish Called Wanda' was one

which covered the entire budget of the film, Eberts' structured his 'Killing Fields' arrangement carefully to leave a large but finite degree of risk with Goldcrest. Where MGM's purchase of the former film was for world rights and accounted for the entire budget, Warners' deal left two thirds of the budget uncovered. Goldcrest retained all world rights except the US to exploit further the project.

In the event, 'The Killing Fields' made a net contribution of £2¼ million to Goldcrest. However, the danger with this type of finance is that during production, after the deal has been made, costs escalate over the planned budget and thus push up the assumed risk. For example, the model of 'The Killing Fields' deal was replicated (but with cross-collateralisation) for Goldcrest's subsequent and famously over budget production 'Revolution' in 1985. Warners' contribution of one third of the initial budget was fixed leaving them with no responsibility for the ever rising excess.

As it happened, with 'The Killing Fields,' Eberts' strategy was that Goldcrest took a risk equal to one third of the budget. This meant that, in addition to Warners' deal, a further third of the project had to be pre-sold abroad.

If a producer has struck a distribution deal covering only North America, a variety of other pre-sales deals can be made with independent distributors in other territories. As noted by Chambers (1989), these can be outright sales in which the foreign distributor retains all revenues in his territory for

the period, perhaps five years, of the sale.

Alternatively, there can be percentage contracts with or without advances. The distributor recovers his costs and the advance (if made) from the gross rental. The negotiation of the 'back end terms' determines what percentage of the remaining revenue goes to the producer. These sums, which can be relatively large, are known as 'overages'. Both the size and the timing of overages are unpredictable elements, contributing to the difficulty producers experience on cash flow forecasts.

As Prescott (1991) has observed, cash flow is also influenced by the timing of any tax relief eligible in the film making project. Finance based on tax deals can be an important aspect of the financing process. Tax shelter financing in the 1970s and early nineteen eighties facilitated many millions of pounds of film finance not only from sources in the UK, but also from Germany and Australia.

Between 1979 and 1984 in the UK, expenditure on the production of the master negative of a film, given that the film had an expected life of not less than two years, qualified as investment in plant and was thus entitled to a 100% first year capital allowance from the Inland Revenue. The upshot was the introduction into British film financing of sale and lease back deals which had been developed to exploit first year allowances more generally.

For example, Barclays Bank's through its leasing subsidiary, Mercantile Credit, was able to reduce its overall

tax liability. Barclays would buy an item of capital equipment which attracted the capital allowance, and lease it to the firm which wanted to use it. The latter would pay rent and would enjoy the advantage of obtaining the capital item without having to raise the initial investment funds. In exchange, Barclays could obtain the tax shelter attached to the capital equipment, thus reducing the tax liability of the bank overall.

And so it was with film production after the Inland Revenue Statement of Practice SP9/1979 had extended the entitlement. For example, in 1980, Goldcrest and Barclays attempted to arrange a leasing deal whereby Barclays would buy the film 'Gandhi' and lease it back to Goldcrest just as if it were a factory building or an oil tanker.

In principle, such tax deals were extremely attractive to both sides. The lessor would reduce a high tax liability by making use of the production company's tax shelter. The latter facility would typically be irrelevant to the producer who would not be making any profits at this stage. There was a further advantage in that, if the film eventually did go into profit, the production company would not have to give a profit share to the lessor, whereas one would have been so obliged in a more conventional deal with a studio or the like.

For the producer, the tax deal did not merely solve at a stroke the formidable problem of how to raise film production finance, it was also capable, on occasion, of giving rise to the notion in film financing of 'free money'.



In the best tax deals, such as those arranged by Eberts for Goldcrest, the lessor's purchase price for the film, unlike conventional finance lent by, say, a major studio, would not have to be repaid. Essentially, the seller would receive a share of the lessor's tax savings, which would cover a part of the total production cost, and this would constitute the free money. For example, \$2 million of the total cost of about \$17 million was raised in this way for Boorman's 1984 film, 'The Emerald Forest' (Boorman, 1985).

However, another kind of deal often arose in practice in which repayment was made. Here, there was a role for distributors to act as middlemen. In these leasing deals, a film producer standing alone, unlike Goldcrest - an established film company with a conglomerate (Pearson Longman) parent, would appear too insecure a partner to attract a lessor. So a distributor would buy the film from the producer and act as lessee.

At least one organisation, Albion Films, was set up (by a collection of City interests in 1981) to specialise as lessees for film deals. Silverstone (1985) notes the example of the financing of 'Educating Rita' which was made in 1982 by a one-off production company, Acorn Pictures. The cost of production (£2.8 million) was arranged by Albion who organised a leasing deal with the financial subsidiary of Marks and Spencers.

The British tax regime which facilitated these arrangements was short lived because, from the point of view of the Inland

Revenue, the balance between its two effects - the opportunity for banks and other large corporations to reduce their tax liability, and the expansion of British film production - had tilted too far in the direction of the former. Film entitlements were scaled down in the Budget of 1982, and first year allowances in general were abolished two years later.

Indeed, a variety of governments moved in this direction during the mid to late nineteen eighties on the basis that lessors had had no particular interest in the film business as such, let alone the national one. In Germany (Eberts and Ilott, 1990), there had been counter productive results in the form of encouraging investment in films which looked likely to flop - profitable films would lead to profits tax more than wiping out the tax benefit of the deal; in Australia and Canada (Prescott, 1991), the 150% and 100% respective first year write offs came to be seen as over-generous; while in the UK, there was a perception (Silverstone, 1985) that the arrangements facilitated tax avoidance unduly and did not always benefit British film production. Barclays, for instance, in 1981, had purchased from Paramount for £40 million a batch of purely American films.

Tax shelter finance in the UK led to one of the occasional periods in which the City of London become a finance source for British film production. The Chemical Bank, for example, under a variety of leasing deals, financed such substantial British films as 'The French Lieutenant's Woman' and 'The Eye of the Needle' (which each cost £6.5 million to produce in 1980), and

'Local Hero' (£2.6 million in 1982). Other participants in film finance in this period included the Midland Bank, Bank of America and Manufacturer's Hanover.

A second factor in City interest in films in this period was the coincidental success of the early Goldcrest and the demonstration of the high profitability that could accompany investment in British films. In particular, there were the returns to Goldcrest's modest investment in the 1980 film 'Chariots of Fire' which gave it a rate of profit of about 5,000%!

The downfall of Goldcrest came hard on the heels of the abolition of first year allowances with the cumulative effect that, by 1985, there was almost no City participation in the British film industry. It is unquestionably part of the legacy of the Goldcrest debacle that, for the foreseeable future, the City is again an unlikely finance source.

The average City institution, unlike its counterpart in the US, has been constrained not only by a lack of sector expertise in relation to the film business which makes it an uncomfortable interpreter of a film company prospectus or investment proposal, but also by past losses which have arisen during the occasional periods of participation.

Such negative experiences tend to lead to a prolonged general period of withdrawal such as that which followed Morgan Grenfell backing a production fund in the early nineteen seventies and losing the investment within two years.

Similarly, it is said that there is a generalised reluctance of Scottish funds to participate following an investment from that quarter of \$9 million in 1985 in an abortive blockbuster, 'Gunbus,' which did not achieve UK theatrical distribution.

Both this reduction in City investment and the changes in taxation policy do not mean that the British film industry remains totally without support from these sources. A handful of banks with a specialist interest in contract discounting and the like (section 4.1) constitutes a kind of irreducible minimum of City financial interest, and, although production cost is regarded as revenue rather than capital expenditure, a proportion can be written off annually against tax.

One writes off in any given year a proportion of the film's total cost equal to the proportion of its expected total income that accrues in that year. This process of writing off can only take place over the income earning life of the film, ie. it commences after the film's production has taken place.

In contrast, this taxation arrangement would be more supportive of production if it had the vital effect of assisting with cash flow during the various phases of production itself by allowing the write off to be brought forward. The British film industry has lobbied for a change of this kind through the recommendations of the Tax Incentives Working Party established following the 1990 Downing Street meeting. (Prescott, 1991).

Investment in film production is a high risk activity as is

indicated respectively by Vogel (1986) and Goldman (1985):

'Of any ten major theatrical films produced, on the average, six or seven are unprofitable, and one will break even.'

'Nobody knows what movie will work. (Never, NEVER forget that).'

There is, however, the possibility of high return. It was noted above that the typical distribution deal is structured in such a way that, once revenues are high enough for producers' shares to materialise, participation is at an increasing marginal rate.

This can make make the initial investment very profitable indeed and, from time to time, individual investors are observed to be making huge returns from film investment - for example, following the successes of 'Star Wars' in the late nineteen seventies and 'Crocodile Dundee' a decade later.

However, as Eberts puts it (Eberts and Ilott, 1990), 'rule number one' in film investment is 'never risk your own money in the movies'. Eberts' first involvement in the film business was as a private investor in an abortive blockbuster, the 1979 film 'Zulu Dawn,' and he had to carry the heavy burden of the resulting personal debt for many years.

Thus one attempts to attract outside investors for a film project. The British are at a disadvantage: apart from it being notoriously hard to attract funds to a purely British project

in the first place, in practice the most difficult kinds of films to finance are low concept, period pictures - and the typical British film, at least according to conventional wisdom (the evidence is reviewed in Chapter 5), is a complex adaptation of a literary novel set in the past.

This does not mean that investors have a real insight and that films with these attributes are not worth backing. For example, 'Chariots of Fire' was a vastly profitable Eberts project which was indeed a British period film. Moreover, it was low concept, ie. a film whose plot was hard to explain in a couple of lines. For Eberts: 'The chances of success in raising money for a film are in direct proportion to the ease with which you can tell its story'.

On occasion, an investor might be attracted by expectations that, if the film in question is successful, returns will accrue both directly from the film investment and from another, related product of that investor. For example, Pearson Longman, important investors in Goldcrest, were prepared to invest in the 1978 film 'Watership Down,' an early project of Eberts, because there was the possibility of a profitable crossover concerning the original book which they themselves published.

Such a diversified investor would be ideal if, as in the case of Pearson, it also controlled a merchant bank! Pearson's ownership of Lazard facilitated the raising of the \$1 million investment. Furthermore, once this sum had been raised in this way, it was relatively simple to unlock the remainder of the

investment finance required for 'Watership Down' by showing other City sources that Lazard's was in already.

That there is always a chance that a project will turn out to be a blockbuster endows film investment with possible returns which other, comparable forms of investment lack. For example, television production, as opposed to film making, does not have this upside potential: in each territory, there are usually a limited number of television purchasers, they will have a standard rate for most product based on a single showing of the programme and with the anticipation of no subsequent revenue earning life.

Films, on the other hand, are different. Some films every year are going to make enormous profits. Because nobody knows in advance which particular films it will be that make these profits, it would thus seem clear that one must invest at any one time in a large number of films. In this way, the losses on the numerous failures will be more than covered by the vast profits on the few hits.

However, the case of Cannon (Yule, 1987) makes it clear that simply investing at random in large numbers is not a sufficient strategy. Cannon invested in about 900 films in a decade to the late nineteen eighties, but not one single picture was a major hit.

So, although it is crucial to invest in large numbers, one must also be very selective in the choice of projects. As Eberts put it (interview, 1990), the indiscriminate approach to

a portfolio would simply be 'like going to a casino and backing every bet that came up. It is inevitable that you would eventually lose all your money'.

In principle, unsystematic risk can be managed by diversification, but one must go to a very great deal of trouble to protect the downside. One attempts to put projects into one's portfolio according to principles of risk management. These rules seek to control exposure to risk, and to maximise the chances in the market of each project:

- (a) there is a ceiling on investment in any one picture.
- (b) a completion guarantee is in place for each picture.
- (c) exposure is further reduced through securing pre-sales contracts with distributors.
- (d) high quality is sought for the distribution secured.
- (e) attention is paid to how the marketing of completed films is to be conducted.
- (f) personnel: one's investment is only in producers, directors, editors, etc. with 'track records'.
- (g) films in one's portfolio have the kind of subject matter with potential appeal in a range of territories including the USA.
- (h) subject matter will have enduring appeal, helping to build a valuable asset in the form of a library.
- (i) the portfolio management organisation has low overheads.
- (j) the organisation has a recognised senior figure whose



decisive creative leadership is a factor in attracting investment and building confidence among investors.

There is a continuum for the degree of risk-return for film financiers. At one extreme is the very low risk and low return position which arises if involvement is pared down to a role akin to that of a conventional banker. In this role, one merely hopes to get one's money back plus interest.

At the other extreme, the position is like that of the venture capitalist: interest is in net participation which can be high - but this is coupled with retention of risk.

The portfolio is positioned somewhere along this spectrum by deciding to what extent one will reduce risk - and potential return - by laying off some proportion of the risk. That is, one pre-sells and pre-sells, laying off more and more of the risk, until one is satisfied to retain what is left as one's own risk.

For Goldcrest in 1984, for instance, the main constituents of the portfolio were five large films including 'Revolution,' then expected to cost \$15 million, and 'The Mission,' costing £17 million. The strategy was to cover a large proportion of these budgets through pre-sales and to hold risk to the extent of only \$4 and \$5 million in 'Revolution' and 'The Mission' respectively.

This would be in accordance with the more general point that one is able to reduce the degree of risk in the portfolio on favourable terms if there is a capital market in which one

can lend at the risk free rate of interest. If one reduces risk by moving along the Capital Market Line, this is a more favourable option than reducing risk along the Efficiency Frontier in the conventional Mean-Standard Deviation diagram. The optimal portfolio, which depends on the shape of the investor's utility function and degree of aversion to (or preference for) risk, will lie on a higher indifference curve than under conditions of no capital market.

The Goldcrest case (discussed in section 2.3) was one in which most - but not all - of the above rules of risk management were broken. But Goldcrest's downfall is most closely associated with the ceilings rule. Ceilings on investment in any single picture are a crucial part of such a risk management strategy. Sooner or later, the rule is likely to mean the exercise of considerable self-restraint because, to stick to this rule in the case of promising but expensive projects, one must bring in third party investors, giving away a percentage of future profits.

Indeed, the ceilings rule is a hard one in several ways. A particular problem with it comes when you have a project in which you have invested a substantial amount already and then, during production, the budget suddenly has to be raised (as with both 'The Mission' and 'Revolution'). New external investors are not forthcoming, and one faces the choice of losing the existing investment, or breaking the ceilings rule.

No matter how carefully one's risk-managed portfolio is

assembled, there is, of course, no absolute guarantee of success. And when portfolio productions continue for a significant period without a box office hit, it becomes ever more essential that there is such a success. The danger is then that, in looking for this elusive success, one becomes obsessed with a single project and the portfolio ideal, to all intents and purposes, is abandoned.

Moreover, after a period without a success, the hit that is now sought must be of major proportions in order to cover the accumulated overheads and expenditure on the ever increasing list of other films.

For example, at the time 'Revolution' was being made in 1985, 'Dance With A Stranger' was on release. In relative terms, the latter was a massive success for Goldcrest which received almost 50% profit on its investment. However, by this point only a 50% return on a very large outlay would do. The £108,000 profit on Goldcrest's £253,000 investment in 'Dance With A Stranger' was far too small even if considered only in the light of the accumulated investment. (Goldcrest's predicament in this respect was compounded by the loss of control of overheads which had risen to £2.7 million a year.)

The case of Goldcrest shows how a sound and careful portfolio strategy in the film business can rapidly degenerate. It shows, moreover, that it is likely to do so if one does not have control over the distribution sector - an absence of such control contributes to poor returns which undermine the whole strategy.

The situation evolved to the point where, just before the downfall, Goldcrest's risk was largely in just four films. All these budgets rose during production leading to a rapid increase in Goldcrest's exposure to risk. This wrecked the risk management techniques and forced a total change in strategy: the sole objective became survival.

As many partners as possible were frantically sought in the hope of fending off collapse and, in place of a conservative portfolio model there came to be a crude and increasingly desperate strategy of staying alive. In the words of Eberts and Ilott (ibid), Goldcrest eventually reached the stage where it simply hoped to survive long enough to stay in the game until it threw a double six.

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#### 4.3 The Structure and Control of Production Costs.

The costs of production of a feature film project have an unusual profile: costs are mainly 'front end,' ie. they are concentrated on the high fixed cost of producing the master negative. There are relatively low variable costs for the subsequent making of a number of prints (and the purchase of advertising space) to facilitate the exhibition of the film in one, a few or many cinemas. In fact these latter costs are normally incurred by the distributor of a film rather than by its producer.

The negative costs (sometimes referred to as 'certified' costs) of a film are those incurred up to the point of the film's delivery to the distributor. The nature of the costs which almost invariably arise as the project evolves are identified by Vogel (1986) as follows:

- (a) Story Rights Acquisition - concepts, scenarios, books and screenplays
- (b) Pre-production - the drawing up of the budget, location scouting, costume and set design, crew selection, casting and script development.
- (c) Principal Photography - the producer, director, cast and writers. Set construction and sound stage/studio facilities. Labour costs.
- (d) Post production - soundtrack, special effects, dubbing, credits, scoring and editing.

However, in order to analyse the structure of costs, it is useful to refer to the customary categorisation of the costs of production of any particular film that are made by production accountants. There are three categories:

1. Above the Line.
2. Below the line.
3. Indirect.

1. above the line:

This category relates to the costs of story rights acquisition, the fees of the producer, director and writer, and the payment to the principal artists - the stars of the film.

Although producers are not particularly forthcoming with information concerning costs, it has been possible to study the final cost statements of thirty British films made between 1986 and 1989 inclusive. These statements were made available to this author by British Screen Finance.

The thirty films have an average budget of £1.6 million. Fourteen are low budget productions costing below £1½ million, ten cost between £1½ and £2 million, and a further five cost between £2 and £3 million. The final one amounted to slightly over £3 million.

Table 20(a).

The Structure of Production Costs: Above the Line Costs,  
Average Percentage of Total Budget of 30 British Films, 1986 -  
1989.

1. Above the Line.	
A. Story and script.	2.7%
B. Producer's Fees	2.6
Director's Fees.	1.9
E. Principal artists.	5.2
Total Above the Line.	12.4



One of the long term developments in relation to costs in British film making has been the reduction of relative above the line expenditure. On the kind of low and medium budget productions which comprise the films in this survey, it is of the greatest importance to hold down this component in order to leave as large a proportionate amount of the budget for the making of the film.

By way of illustration, one can compare the figure of 12.4% for average above the line costs in very recent years in the above table with a corresponding figure of 20.7% in the case of fifteen films which were the subject of the PEP Report (1952).

It is interesting that the higher cost productions among the thirty films surveyed exhibit well above average proportional above the line costs. The producers of the single film which cost more than £3 million ('The Big Man,' £3.122m) spent 18.5% of the budget on above the line items. And three of the projects with costs between £2 and £3 million, had high above the line costs at 19.5%, 18.6% and 15.5% [respectively 'High Season' (£2.005m), 'Loser Takes All' (£2.482m) and 'Tree of Hands' (£2.388m.)]

Also in this category, however, are 'Paris By Night,' where above the line was severely held down (to 6.25%), and 'A World Apart'. In considering the latter on a case study basis in section 3.4, it was observed that the producer found it most unusual that above the line costs could be kept down to 8.6% for such a film. In fact, it is probable that the Principal

Artists category was somewhat underbudgeted.

2. below the line:

these are costs concerned with the physical task of making the film, as opposed to the payments to the major participants which comprise the above the line category. The composition of below the line cost is shown in Table 20 (b) below, and the relative importance of the components is again illustrated with reference to the sample of thirty recent films.

The series of codes on the left hand side of the table, and of Tables 20 (a) and (c), and the tables' general layout, is that of the standard cost statement form used in the industry. It is interesting to note that the design of this form was developed after the introduction of the Eady Levy in 1950.

The headings were designed to facilitate the analysis of the labour content of the film in the light of the Levy. The segregation of information in this way made it easier to gauge the extent to which the the producer had employed British labour and would thus be entitled to a distribution from the British Film Fund.

Table 20(b).

The Structure of Production Costs: Below the Line Costs,  
Average Percentage of Total Budget of 30 British Films, 1986 -  
1989.

2. Below the Line:

C. Production Unit Salaries.	
1. Production management and secretaries.	2.8%
2. Assistant directors and continuity.	1.7
3. Technical advisors (inc choreographers).	0.2
4. Camera crews.	2.3
5. Sound crews.	0.8
6. Editing staff.	3.2
7. Stills camera staff.	0.2
8. Wardrobe staff.	1.4
9. Make-up artists.	0.8
10. Hairdressers.	0.4
11. Casting.	0.4
12. Production accountancy.	1.5
13. Projectionists.	0
14. Misc. studio staff.	0
15. Foreign unit technicians.	0.7
D. Art Department Salaries.	2.6
E. Artistes.	
1. Cast other than principals.	3.7
2. Stnd-ins, doubles, stunt men.	0.4
3. Crowd.	1.6
F. Musical Direction, Musicians, etc.	1.2
G. Costumes and Wigs.	1.0
H. Misc. Production Stores (excl. sets).	0.8
I. Film Stock and Lab. Charges.	5.7
J. Studio Rental.	3.3
K. Equipment.	4.1
L. Power.	0.2
M. Travel and Transport.	
1. Location.	5.4
2. Studio.	0.3
N. Hotel and Living Expenses.	
1. Location.	5.5
2. Studio.	0.2
O. Insurances.	1.6
P. Social Security.	4.2
Q. Publicity Salaries and Expenses.	0.2
R. Miscellaneous Expenses.	1.4
S. Sets and Models.	
1. Labour: construction.	2.0
1a. Materials: construction.	1.0

(contd.)

Table 20(b) Continued.

2. Labour: dressing.	0.9
3. Labour: operating.	1.5
4. Labour: striking.	0.1
5/6. Labour: lighting and lamp spotting.	1.6
7. Labour: foreign unit.	0.1
8. Properties.	2.0
T. Special Effects.	0.6
U. Special Location Facilities.	1.9
Total Below the Line.	72.1%

### 3. indirect costs:

The final category includes various overheads - see Table 20(c) below. There is a considerable variation in the amount of production company overhead which is likely to be assigned to the budget of a particular film: at one extreme, if a Hollywood major studio were involved, it might introduce a twenty per cent overhead to contribute to head office expenses, while, at the other extreme, the producer of a small independent film will usually be entirely unencumbered by cost in this particular category. The NFFC had a policy of limiting this item in films in which they participated to  $2\frac{3}{4}\%$  of budget.

Another component of indirect cost is the cost of the participation of a completion guarantor which is required by most films of any significant size made in the independent sector. It is the early acquisition of a completion bond which facilitates the binding of the relationship between a film's producer and its financial sources.

For a fee, usually in the region of 6% of the film's budget, the guarantor acts as an insurance company, guaranteeing to investors that the film in which they have placed their funds will actually be produced, that it will be produced within its planned budget, and that it will be a reasonable manifestation of the proposed film that attracted their investment in the first place.

The final area of 'overhead' is the contingency fund. The fund is normally 10% of combined above and below the line

costs. According to Harcourt et al (1986) in a discussion of independent film production, the contingency is a cost which it is essential to incur. This is both because such a fund will often be needed in practice and because finance sources are unlikely to be forthcoming if a contingency is not built into the budget.

Moreover, completion guarantors normally require that a contingency be in place and that, in the event of a claim, it be spent before the completion bond becomes payable. There is a slight variation in the case of finance from Channel Four, the main source in the British production sector from the early nineteen eighties, which has depended on contingencies for specified items rather than the more usual overall percentage.

Table 20(c).

The Structure of Production Costs: Indirect Costs, Average Percentage of Total Budget of 30 British Films, 1986 - 1989.

3. Indirect Costs.	
Y. Finance and Legal Fees.	5.1%
Z. Overheads:	2.4
Completion bond.	1.5
Production company.	0.4
Contingency.	6.0
Total Indirect Costs.	15.4%

When a film is being made, the Guild of Film Production Accountants and Financial Administrators usually has one of its members on the production team. In one sense, the role of the film production accountant is to advise the producer where the project will be with respect to the budget if expenditure continues as at present.

For the Secretary of the Guild (interview, 1990), it is difficult to generalise about vulnerable areas of production cost. However, for location filming, it is not rare for hotel and transportation costs to be sensitive areas. Progress in production is often dependent on reasonable good fortune with weather conditions and it is therefore easy to fall a day behind schedule. This can set in motion an unfortunate domino effect subsequently on costs when there are a succession of locations.

Thus on location one must take out a kind of cost insurance policy by having a weather cover interior location available, or a standby set built in a studio somewhere. To have a production unit standing idle until the weather improves means incurring costs of perhaps £20,000 per hour.

Location work in Britain, and particularly in London, is not always as cheap as elsewhere. It is perhaps a cultural factor which means that, where most cities in America, for example, routinely have a Films Office which facilitates the location film maker (on the basis that this is in the city's own interest given the publicity spin-offs, etc.), going on



location in Britain can be somewhat problematic.

Producers frequently complain of an unhelpful attitude on the part of the authorities in terms of such areas as roads, parking and policing. This may mean, for instance, that one is forced to shoot on a Sunday if one wishes to film in a central location. The labour costs of Sunday filming are, of course, higher than at other times.

One is similarly constrained if wishing to film in a tube station. Moreover, filming for, say, two hours on the London Underground means a fee of perhaps £1,500. This might include a payment of £200 for a replacement station manager - an item which would be a source of annoyance for many film makers as it appears to them to be typically petty and obstructive.

A low budget film maker, Jacobsen (1990), discusses the obstructive bureaucracy and high costs of filming in London. He records being charged £1,500 by the British Museum for two hours filming in the courtyard there, £150 an hour by Camden Council for permission to film in a library, and £350 by the Port of London Authority for filming beside the Thames. (Greenwich Council's parking fee was £400 per day - 'Every day, I wrote out cheques for hundreds of pounds just to enable us to park!')

A further qualification in relation to the achievement of cost reduction through location filming concerns sound reproduction. An advantage of studios is that one can assume that the sound quality obtained will be perfect. Numerous

problems can occur in this respect however in the uncontrolled environment of an external location. And this can give rise to possible added cost in post production if one has to re-loop the sound. Furthermore, as re-recording does not necessarily give the authenticity of the original, there can be costs in creative, as well as financial, terms.

This gives rise to a wider point about costs and post production. It is far from unknown for a director, dissatisfied with the raw material obtained from the principal photography stage, to try to make amends while assembling the film - and to do so in a way that does not reflect the budget. The ten weeks originally envisaged for post production can now seem insufficient. This can become an area of tension on cost control because a producer may wish to make amends in the opposite direction, ie. in respect of earlier cost over runs.

Completion guarantors insist on a contingency to cover all items on the cost form from A to Z. However, some items, such as rights acquisition, for example, are fixed in cost. Thus, if one has a 10% contingency, there is, in effect, a somewhat greater than 10% leeway on movable, below the line items.

This is not to say that 10% is the invariable size of the contingency. If one had a good track record and were operating in the controlled environment of a studio, it would be possible to negotiate a lower contingency - down to, say, 5%. But, by the same token, in the absence of a track record, contingencies of 12½% are sometimes insisted upon.

The completion guarantee itself has a cost which can be, in small part, recoverable. A completion guarantor's fee of 5%, for instance, sometimes has a no claims bonus, enabling its net cost to be reduced to perhaps 4%. It is worth noting that the completion guarantor is an important influence on cost control, monitoring cost statements because they - the guarantors - are potentially vulnerable.

In the case of Goldcrest (Eberts and Ilott, 1990), the company provided its own completion guarantees on 'The Mission' and 'Revolution'. While the former film was not over budget (but had several agreed upward revisions), the latter was approximately 50% over.

Eberts (interview, 1990) agreed that providing one's own completion guarantee was unsatisfactory and was not standard practice outside the major studios. "Goldcrest did it because their experience on 'The Killing Fields' was that it was alright not to have had a completion guarantee at all - only war insurance was taken out - given that David Puttnam and Iain Smith were absolutely reliable. And 'The Mission' was not over budget. However, the situation in relation to 'Revolution' was particularly unsound. It may have come about because actual production was started in such a hurry." (Puttnam and Smith were producer and associate producer respectively.)

'Revolution' raises a further and somewhat unorthodox issue of budgetary over runs in relation to the exchange rate. Puttnam was a board member of Goldcrest and Goldcrest's major

film maker. He said (interview, 1990) that, among other factors outside the control of Goldcrest which he felt had conspired against, it was the volatility of the exchange rate.

There were indeed huge exchange rate losses. 'Revolution' was first budgeted at \$12.6 million when the pound Sterling was at \$1:05. But the receipts were in dollars after delivery, by which time the pound had risen to \$1:55. Even if the film had been made at its budgeted cost, this would have meant a \$6 million gap. As it happened, of course, 'Revolution' famously over ran its budget. The total final cost was £19 million which, at \$1:55, came to about \$30 million. Thus the shortfall was about \$18 million.

But, like much else in the saga of Goldcrest, the highly profitable earlier film 'Gandhi' had given a misleading precedent. On that occasion, the currency fluctuation had worked in Goldcrest's favour. Sterling fell between budget and completion from \$2:40 to \$1:50, giving a \$9 million windfall.

In a sense, it seems wholly typical of the story of Goldcrest that it did not cover forward on exchange rates on 'Revolution'. When Eberts subsequently returned to Goldcrest and discovered this situation, he was 'unable to believe my eyes' (Eberts interview).

'Buster,' made in 1987, is another recent British production which was budgeted in dollars but incurring most of its expenditure in pounds. The budget was formed when Sterling's external value was at \$1:58. During production, the

rate rose (to \$1:71) thus forcing down the operating budget of the film.

Reference to 'Buster' in section 3.1 threw some light onto the financing of an independent production. The project also offers a number of useful illustrations concerning costs. For example, as a result of the enforced stringency following the rise in the exchange rate, the production designer's budget was reduced to £225,000 - and this to include construction materials (although not labour).

On 'Buster,' above the line costs were held down as a result of a lack of acquisition costs. Although the film deals with one of the Great Train Robbers, the script was not based on any particular book or confession. There were, however, a significant number of costly legal consultations concerning about twenty pages of the script particularly with respect to the police role and to the position of British Railways. [The latter declined to extend filming facilities - the sequence in the film showing the mail train leaving Glasgow was footage from an earlier film (Peter Yates' 'Robbery,' 1967), while the robbery itself was filmed on a private railway line.]

An important part of the film concerns the escape of the train robber to Mexico. With cost considerations in mind, it was initially thought better to film in Spain. However, this turned out to be no cheaper than location in Mexico itself.

The Mexican location was intended to be for two weeks of the total ten week shoot. During this period, however, film was

lost in the laboratory, an insurance claim followed, and the stay had to be extended to three weeks. This raises a further example of how filming on location, in sacrifices a controlled environment, can result in cost over runs.

A more fortunate situation followed the designation of an arbitrary sum of £75,000 to the music budget. An album materialised with the very profitable and unexpected spin-off of three top ten hits in the US. And by the same token, £25,000 was put aside from the budget for the making of another film - a video of "The Making of 'Buster'." This, like the 'Buster' enterprise as a whole, was expected to turn out to be a profitable venture.

'Buster,' despite the problems noted, was produced at \$300,000 under its budgetet cost. Ms. Heyman (interview, 1990) pointed out that her fee as producer and the fee of the director had been deferred. Apart from this, she did feel that the film's coming in under budget was attributable to any particular point. It was more a case of careful line control.

While projects like 'Buster' and Goldcrest's 'Revolution' offer an important lesson for film makers whose budgets are struck in dollars but who are spending in Sterling, the typical British producer, raising money from such parochial sources as Channel Four television and British Screen, will focus on what are perhaps somewhat more mundane areas of cost saving.

At the earliest stages, this can boil down to the film's projected cast. If the cast has not yet actually been

contracted, a compromise is frequently necessitated. A star role is downgraded to a supporting one. The feeling might be that the cast is an area where such savings can be achieved as opposed to, say, the camera department where one simply cannot manage without the fourth man.

During principal photography, one could enact savings by the cutting of the schedule. But this is such a drastic step that one might wish to look for gains from reducing particular items of expenditure.

For example, the size of a projected crowd might be cut. Crowd scenes can be a not insignificant expense if crowd artists are paid, say, fifty pounds per day for eight hours with additional location costs of catering and travel (the latter probably at overtime rates) bringing a total per capita crowd cost per day into the region of one hundred pounds.

The size of crowds might be reduced, but most film producers would resist the temptation to save money by putting local bystanders in the place of professional crowd artists - the former tend to stare at the camera making the producer wish that he had incurred the expense of bussing out the extras.

As is noted in section 4.4, there has been a trend from the studio to location pictures in the post-war period. While this has been a trend motivated by the relative cheapness of location, a further factor has been a desire for maximum authenticity. Studio pictures can achieve an authentic look. For example, in 1961, much of the action in 'The Guns of

Navarone' was filmed in a tank at Shepperton Studios, and the Spanish Steps of Rome were built on an elaborate set at Elstree for 'The Roman Spring of Mrs. Stone'. To ensure further that the appearance of the latter film was plausible, Italian extras were flown in from Rome and the relevant GM model from the US.

For the typical British film maker in recent years, with a budget of between £1½ and £3 million, such ideas of expensive studio fabrication have been entirely academic. The lowest of low budget British films have been those made by Derek Jarman whose 'Sebastiane' (1976), for example, cost £35,000.

It is hard to find examples of cheaper films than this although there is at least one: Bill Forsyth's first film 'That Sinking Feeling' in 1979 is said (Hacker and Price, 1991) to have been made on a budget of £6,000! It is interesting to note that the raising of this tiny budget was a task every bit as difficult as the raising of more conventional sums. Forsyth eventually achieved a patchwork of sponsorship from such diverse sources as brewers, chain stores and youth clubs.

Forsyth's initial success enabled him to graduate to rather larger budgets - £200,000 in the case of his second film, 'Gregory's Girl' in 1980. This was followed by budgets of £2.6 and £1.5 million for 'Local Hero' (1982) and 'Comfort and Joy' (1984) respectively. Forsyth then went to Hollywood and the two films that he has directed there, 'Housekeeping' (1987) and 'Breaking In' (1989), were each made for between £3m. and £4m..

Jarman, however, has not had at his disposal quite such a



ladder of escape from ultra low budgets. The successor to 'Sebastiane' was 'Jubilee' (made in 1978) for which the budget had risen from the earlier £35,000 to only £70,000. And, by the time of 'Caravaggio' in 1985, this upward trend had still to reach half a million pounds.

While Jarman himself is unhappy about this situation, feeling that he is a victim of a process of 'financial censorship' which he sees as prevailing in Britain, he is able, as the most financially constrained of all film makers, to give insight concerning very low cost film making.

For example, the task of script writing becomes a highly specialised one. Jarman has usually had to write his own scripts for he feels that there is no one who would know quite how to write the script that would facilitate a realisation of the subject for such a low outlay. There has to be a sixth sense about what can and cannot be put onto the screen for such miniscule sums.

For 'Caravaggio,' the entire art department budget was only £40,000 but the standard of set design achieved did not convey the message that the film was under budgeted. Examples of the skill involved: a lavish collection of art which was too expensive to be reproduced in the film is brought to mind for the viewer through the device of showing many apparently recognisable objects covered by dust sheets. And as Hacker and Price (ibid) put it, 'the opulence and foreboding of the Vatican is suggested merely by showing a long corridor of black velvet lit through muslin'.

Peter Greenaway's "The Draughtsman's Contract" (1982) was a comparable project in that, although it had at, £300,000, a somewhat more generous funding than 'Caravaggio,' it was another art film in which the attempt was made to put sumptuous production value on the screen despite a low budget. The main factor in the film's success in this regard was the acquisition of a suitable location at a low price.

The location - a country house and grounds - was very important to the look of the film. And this house was rented at a cost of only £600 per week. Moreover, it was full of elegant antiques, the use of which further enhanced the desired appearance of the film. Indeed, the film makers were amused to gather that the antique china in this stately home had recently been valued at a figure which was about three times the total budget of the film.

"The Draughtsman's Contract" was a project for which the British Film Institute put up the initial funding. And, as was noted in the case of 'Distant Voices, Still Lives' in section 3.4, the BFI's presence in a production can help to keep formal costs down in a variety of ways. Specifically with "The Draughtsman's Contract," the BFI negotiated agreements with the unions - on the basis that BFI films would not be profitable - whereby the usual minimum rates were waived so that everyone on the film worked for a flat rate (of £199 per week).

Nevertheless, as is generally the case with low budget film making, the project had to be accomplished in a short period of

time. Only seven weeks could be afforded for pre-production, and the shooting of the film lasted but five weeks.

The working of very long hours for the duration of a five week shoot may be seen as an important part of the key to the bringing in on budget of a cheap film. Section 3.4 has raised several other aspects of successful cost control, especially the importance of careful planning in the pre-production phase as illustrated by 'Distant Voices, Still Lives.'

However, for Stephen Frears, who has had a lengthy career in the making of low budget films for both television and cinema, the key to cost control in a low budget environment is a rather different matter. It is embodied in the word 'decisiveness': 'decisiveness at the point of shooting is crucial' (Hacker and Price, *ibid*). For Frears, there comes a point during shooting when a director gains a sufficient insight into how the piece can be filmed and made to work. Such decisiveness is then of the essence, enabling the reduction of the number of set-ups, and facilitating speed in the filming.

It is interesting to note, however, that there have been occasions when film makers faced with very limited budgets have been able to make a virtue of necessity so that the cost constraint has, ironically, the effect of contributing a memorable quality to the finished film.

For example, Lindsay Anderson's most well known film is 'If,' made in 1968. It is a film which is in colour in some sequences and black and white in others. This comes across as

a notable device to raise the issues of reality and fantasy. However, filming in colour was more expensive [as illustrated (Walker, 1974) in 1962 in the case of 'Doctor No,' the first of the James Bond series, where a decision to film in colour added \$50,400 to a budget of \$900,000], and it transpires that the origin of Anderson's use of monochrome was simply the by-product of an inability on low budgets to afford to light certain interiors adequately for colour.

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Cost statements of 30 films were examined.

(a) low budget.

Produced in 1986: Rita, Sue and Bob Too. Total cost £0.891m.

1987: American Roulette 1.174	The Dressmaker 1.275
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Eat the Rich 0.75	Just Ask For Diamond 1.4
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The Nature of the Beast 1.199	On the Black Hill 0.744
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Sammy and Rosie 1.389	Vroom 1.462
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1988: Joyriders 1.171	Ladder of Swords 1.265
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Venus Peter 1.203	We Think the World of You 1.368
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1989: Reflecting Skin 1.32

(b) medium budget. 1986:	The Belly of an Architect 1.925
--------------------------	---------------------------------

Empire State 1.642	High Season 2.005
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The Kitchen Toto 1.767	Personal Services 1.651
------------------------	-------------------------

Prick Up Your Ears 1.986	1987: Dream Demon 1.94
--------------------------	------------------------

Paris by Night 2.015	Soursweet 1.987
----------------------	-----------------

Stormy Monday 1.65	A World Apart 2.7
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1988: Danny the Champion of the World 1.78

Diamond Skulls 1.648	Loser Takes All 2.482	Tree of Hands 2.388
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(c) higher budget. 1989: The Big Man 3.122.

#### 4.4 Surveys of Production Costs.

For British films, the question has often been asked as to the relative importance of the various components of the negative cost. In section 4.3, the structure of production costs was illustrated with reference to thirty recent films, and it was seen that 72% of expenditure was in respect of below the line production items rather than fees to major participants or overheads.

A much earlier breakdown of costs of British production was that produced by Gater (1949). The Report of the Working Party on Film Production Costs, under the chairmanship of Sir George Gater, was one of several official documents produced during the period of post-war crisis in the industry.

The Working Party studied the costs of production of a sample of forty three first-feature films produced between 1946 and 1948. Table 21 on page 276 shows the percentage breakdown across all the films studied.

The Gater sample films were divided into five cost categories, and into two period groups - twenty one of the forty three films were finished before 30/9/47, and the rest after that date.

The finding on cost categories was that proportional direct labour costs (ie. those costs in the first part of the table) fell as the total cost of the film rose. Where labour costs were 49% in the highest two categories (total costs of

production between £250,000 and £350,000; and over £350,000), they averaged 57% in the least expensive category (total costs less than £100,000). This pattern did not vary between the two periods looked at.

Table 21.  
 COMPONENT COSTS OF PRODUCTION, 1946-48. (%)

Labour Costs:

'Production staff' (including producer, director, writer, and technical staff)	18.5
'Actors and musicians' (including extras)	18
'Other staff' (including craftsmen and general labour)	14
	-----
Total labour costs:	50.5
'Materials and third party services'	15.5
'Stage rents and equipment hire'	14.5
'Overheads'	10.5
'Other costs' (including story acquisition, script, insurance, publicity)	9.0
	-----
	100.0.

(Source: Gater Report, 1949.)



It is interesting to compare the Gater findings with the situation revealed by the thirty recent films (1986 to 1989) for which cost statements have been available - see Table 22 below.

Table 22.  
 COMPONENT COSTS OF PRODUCTION, 1986-89. (%)

Labour Costs:	
Production staff	26.8
Actors and musicians	12.4
Other staff	10.2
	-----
Total labour costs:	49.4
Materials and third party services	8.6
Stage rents and equipment hire	23.7
Overheads	3.0
Other costs	15.2
	-----
	99.9

The categories in the above table contain, as far as possible, the same items as those in Table 21 showing the Gater findings. However, 'Production Staff' in the 'Total Labour Costs' category in the 1986 to 1989 period includes the cost of story rights acquisition. This item, which was counted in the non labour section of the Gater table, cannot be so separated in the later survey.

Assuming a figure of 1% for story right acquisition, the labour costs total in the nineteen eighties survey is 48.4%. It is notable that this figure, after a period of forty years, remains close to Gater's total labour cost of 50.5%.

While this might appear to suggest that, on a fractional basis, labour costs in British film making are a constant factor, there has, however, been some variation in the components of this total.

'Production Staff' formed 18.5% of total costs in the nineteen forties but has subsequently risen to 26.8%, or 25.8% allowing a nominal 1% for acquisition costs. Within this category, as is discussed subsequently in this Section, the fees of producers and directors relative to budgets have fallen sharply, while those of writers have also subsided but at a somewhat slower rate.

Thus the remaining item in this category, 'technical staff,' has been the major factor within labour costs to have risen. This is composed of items C and D of the cost statement form, ie. salaries of the production unit and art department.

While this area of total wage expenditure relative to budgets has risen, the 'other staff' category, which consists of the wages of craftsmen and general labour, has moved in the opposite direction, falling from 14% to 10.2%.

This might suggest that, rather than a long term trend of generally increasing relative wages in the industry, there has been a necessity for producers to increase expenditure on the services of hiring their own technical personnel for a particular project as film making during the post war period has moved away from the studio and become more location based.

As noted above, the Gater Report also found that, as total budget increased, proportional labour cost fell from 57% for the least expensive films to 49% for the most expensive. For the 1980s survey, the four most expensive films (those costing more than £2 million), had total labour costs averaging 47.3% compared with the overall average of 49.4%. However the picture is somewhat ambiguous in that, of the three cheapest films - those costing below £1 million, two had total labour costs slightly below the overall average.

One of the problems of the Gater Report was the variation in that element of total cost that depends entirely on the type of film being made - elements such as the cost of music, costumes or locations. In producing a more detailed survey of costs in 1952, the PEP Report took this aspect into account and allocated a 'type factor' to its breakdown of costs.

The PEP survey looked at fifteen first-features made in the

period between October 1949 and October 1951. The Report's breakdown is shown in Table 23 below.

To make the 'direct labour costs' of the PEP survey (see last row of Table 23) comparable with Gater, one must add the cost of musicians (which are assigned to the 'type factor' category in the PEP Report). And the Report suggests a figure of 3% for musicians. Resultingly, as with Gater, labour costs amount to approximately half of total production costs. Although only fifteen films are looked at, it could also be argued again that labour costs as a proportion fall with a rising total budget - only in the most expensive category does direct labour cost fall below 40% (for two of the three films in that category).

A report published in 1973 by the ACTT on 'Nationalising the Film Industry' expresses the view that these labour cost percentage breakdowns still held good at that date. However, sufficient data for a full survey had been unforthcoming.

Table 23.

## BUDGET ANALYSIS OF FIFTEEN BRITISH FIRST-FEATURES (%).

	FOUR FILMS WHOSE AVERAGE COST WAS: £109,000				£152,000			
Producer & director	8.6	6.8	12.0	6.0	5.9	3.4	9.6	8.2
Story	5.2	4.4	7.9	4.5	3.9	2.0	10.4	10.1
Acting:								
Two stars	9.2	7.7	9.5	5.1	9.3	5.9	9.1	8.2
Support	9.3	9.6	10.1	11.3	5.6	10.0	7.0	8.1
Salaries and wages:								
Unit	11.2	14.4	12.9	11.8	13.6	11.3	10.6	13.3
Manual labour	6.9	8.0	6.2	9.1	11.2	13.9	8.5	7.0
Set materials, props & special effects	3.7	3.5	3.0	5.8	5.1	5.5	3.0	4.2
Type factor: location, costume & music	9.5	3.3	8.3	8.1	4.5	2.8	1.9	6.3
Film and laboratory	8.0	4.4	6.1	6.4	4.9	4.2	3.7	5.5
Studio: rent, equipment, etc.	10.6	19.8	9.5	16.9	20.8	36.2	18.9	14.4
Finance & misc. insurance, legal, etc.	17.8	18.1	14.5	15.0	15.2	4.8	17.3	14.7
Direct labour costs *	45.2	46.5	50.7	43.3	45.6	44.5	44.8	44.8

(Continued.)

[\* 'Direct labour costs' exclude musicians' salaries and consist of the fees of producers, directors and actors plus unit and manual labour wages.]

Table 23 continued.

	FILMS WHOSE AVERAGE COST WAS						
	£221,000 (4 films)			£360,000 (3 films)			
Producer & director	10.0	10.3	7.5	13.5	9.0	4.1	6.8
Story	2.1	8.4	4.8	4.2	2.6	4.3	0.7
Acting							
Two stars	8.8	3.2	5.2	14.6	8.4	5.4	3.9
Support	5.4	8.8	8.1	9.8	10.8	5.3	7.3
Salaries & wages							
Unit	12.8	11.8	13.6	13.5	12.4	11.3	11.4
Manual labour	6.8	13.5	9.3	8.6	5.7	12.0	9.5
Set materials, props & special effects	2.9	5.2	2.9	3.0	3.7	7.6	5.7
Type factor: location costume, & music	8.1	4.9	12.2	8.7	14.4	6.4	21.2
Film & laboratory	4.1	4.8	4.6	4.0	3.8	10.1	4.7
Studio: rent, equipment, etc.	21.4	15.8	20.3	7.3	17.4	24.9	21.3
Finance & misc. insurance, legal	17.6	13.3	11.5	12.8	11.8	8.6	6.9
Direct labour costs	43.8	47.6	43.7	60.0	46.3	38.1	38.9

(Source: PEP Report, 1952.)

Perilli (1983) offered an updating of the PEP analysis - see Table 24 on page 285. Percentage figures for each of the PEP categories are given on a decade by decade basis from the nineteen thirties. Perilli's cost percentages were deduced from film budgets held by the library of the British Film Institute, although no indication of the number of films looked at in this way is given.



Table 24.

## ANALYSIS OF PRODUCTION COSTS BY DECADE. (%)

	1930s	1940s	1950s	1960s	1970s	1980s
Story & script	4.7	7.9	10.4	3.2	6.7	1.2
Producer & director	11.3	14.5	9.5	8.1	9.5	4.2
Production unit salaries	8.9	5.6	7.6	10.4	15.6	16.6
Craft labour	6.7	6.4	7.7	8.0	1.6	4.4
Sets & materials	2.7	4.9	6.4	3.5	6.0	6.6
Acting	18.2	17.5	18.5	12.7	18.0	21.5
Film & laboratory	9.2	8.0	4.2	11.5	10.6	5.1
Studio facility	18.1	17.8	11.3	11.3	6.1	6.6
Type factor	5.2	2.9	1.3	2.5	1.6	2.2
Finance & ins.	9.0	10.7	16.6	18.0	2.2	11.5
Miscellaneous	6.0	3.8	6.5	10.8	22.1	20.1

(Source: Perilli, 1983.)

From Table 24, the aggregate of the direct labour categories is as follows:

1930s - 45.1%	1960s - 39.2%
1940s - 44.0%	1970s - 44.7%
1950s - 43.3%	1980s - 46.7%

These figures are fairly stable over the long term, and, with an additional allowance for musicians, direct labour costs remain close to half total production costs throughout the entire period.

However, the question of direct labour contains both above the line and below the line items. Above the line costs are those of story and script, producers' and directors' fees, and principal cast. The Perilli figures indicate that 'acting' has remained roughly constant - and the most expensive category - hovering around 18% throughout. Here 'acting' includes the leading players and the below the line cast (ie. cast other than principals).

Nevertheless, it is clear that there has been a downward trend in relative above the line costs with the proportional salaries of producers and directors falling from the 1940s, and story and script costs falling from the 1950s.

Below the line labour costs average 21.5% in the PEP survey (1949 to 1951) and 16.6% over the whole of the Perilli survey (taking production unit salaries plus craft labour from Table 24). However, production unit salaries (which cover production staff, set designing, camera crew and stills, sound crew,

hairdressing, costumes and make-up staff) are seen to have risen sharply within below the line labour costs, approximately doubling over the whole period.

So it would appear that the main labour cost trends revealed are:

(i) direct labour costs as a whole constantly approach half the total costs of film making.

(ii) above the line costs have been squeezed, pushing up the proportion of the budget available for the actual making of the film, ie. the below the line category.

(iii) there has been a downward trend in producers' and directors' salaries as proportions of total costs, but a significant upward movement in proportional costs of production units.

(iv) on a proportional basis, actors' salaries have been fairly constant.

In an environment for the production industry of endless financial constraint, the question of reducing production costs has been central. Point (iii) [above] has sometimes been accomplished by a tendency for producers and directors to exchange salary for participation in a film's profits. And the deferment of fees in the independent sector is a frequent contemporary practice.

But the main emphasis of cost control is to reduce the

number of days spent on shooting the film. For instance, an account by Boorman (1985) of the excruciating pains suffered by a film maker in setting up and financing a project (in this case, the 1985 film 'The Emerald Forest') explains that high set-ups-per-day productivity is the daily lot of the film maker, and that the power of the completion guarantor usually makes over-runs impossible. (Ie. the latter sacks the producer and/or director.)

The idea of film production as a business - a marriage of creativity and the balance sheet - is itself, in a sense, a kind of contradiction in terms. The point was once made to perfection by the director Billy Wilder: "No one has ever said, 'I must go and see that movie - I hear it came in under budget'!"

The Gater Report in 1949 gave a figure of ninety five camera days as an average duration of principal photography for the films in its survey. To illustrate the trend to cost control in this area, the ACTT (1973) offers an average of forty one camera days in the four years to 1972 for films financed by the NFFC.

Another measure of productivity is screen time per camera day - how much film eventually exhibited is shot per day. Gater and PEP gave figures of 1.29 minutes and 1.18 minutes from their respective surveys (twenty two films completed in the year ending 30/9/48; twenty eight films financed by the NFFC and completed in the year ending 30/9/50). That is, there was

no productivity improvement apparent in that short period.

That expenditure by producers on the production unit has risen in spite of the tendency for reductions in camera days per film may be partly explained by the significant overtime payments required to keep production within tight schedules.

The industry has a history of poor labour relations. The PEP Report noted this with particular regard to the then ACT. The Report asserted that the ACT was at that time (May, 1952) the only union in the economy whose members had, since the war, suffered high unemployment. Casualisation of labour was seen as an explanation for the uncompromising attitude on closed shops and high overtime. The industry's costs could be significantly reduced, it was felt, by studios introducing security of employment.

In the Perilli table, the second highest cost category for the period as a whole is that of studio facilities: the rent for stages, theatres, and equipment hired, and the studios' fees for overheads. While this averaged 18.4% in the PEP survey, it has shown a very substantial decline over successive decades, falling to below 7%. And for the thirty films of the 1986 to 1989 period, rental and other costs related to the use of studios had fallen to 3.8%.

Until well after the war, almost all films were made in the studios, and it was inefficiency in this sector which drew the attention of the Gater Report in its explanations of production cost problems. Considerable spare capacity in the studio sector

was the norm, and resultingly large studio overhead apportioned to any single production constituted a major cost penalty. (The PEP Report found that studio capacity utilisation in the period studied was only about three fifths.)

So, in addition to reducing the number of camera days, a second important form of cost control in the industry has been the move from studios and onto location. Consequently, the studio sector has undergone considerable rationalisation - the 1973 ACTT survey observes that where, in September 1948, twenty five British studios operated with twenty seven features 'on the floor,' there were, on the corresponding day in 1972, only fourteen studios - and six of these were making only commercials.

By September 1990, there were only three important studios, and the production unit lists published in 'Screen International' indicated that the vast majority of production activity was location filming.

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#### 4.5 The Economics of the Firm.

In developing an analysis of the economics of film production and the firm, one is confronted by a spectrum of models of the firm ranging from the smallest producer operating on a one-off basis, through more established independent producers, through 'mini-majors,' to the Hollywood major with vertical integration, multi-national operation and, in recent years, conglomerate parents.

Taking the independent part of this continuum, activity of an almost uniquely high risk nature is carried out. To emphasise this, a survey of film industry finance by 'Screen International' (1988) indicates a useful dichotomy between film production as 'project' investment and the typical manufacturing industry as 'product' investment.

Product investment - motor car or furniture production, for example - is seen as the kind of activity which has an initial high risk period of product development, followed by a lengthy period of continuous manufacture during which marketing feedback enables intermittent fine tuning of the basic product in the light of consumer taste. High initial fixed costs of product development and factory investment are placed into an economies of scale context.

Film production, on the other hand, is a project based activity: every single film is a discrete exercise, carrying its own specific costs of development and production. Consumer sensibilities change more rapidly in this sphere than in most

other sectors of the economy. And yet the development and production of each project, the costs of which can be as high as those of constructing a small factory, must take place entirely in advance of marketing.

Once the film in question has been manufactured, one must return to the starting line for the development of the next project. For the independent producer, this is about the best that can happen - if the first project has been a commercial failure, the sources of finance for the second project will probably not be forthcoming.

Against this background of project risk can be seen, as one moves along the continuum and away from the independent sector, the impetus for the development of the major studios in the US and for their imitators in the UK: risk is spread across an annual output of a large number of film projects. Furthermore, vertical integration reduces some aspects of the basic risk situation by ensuring that each project will be adequately distributed and exhibited.

In a sense, the industry in the major studio sector is converted from 'project' to 'product' based. The firm's activity adopts a continuous flow appearance - a never ending procession of films runs smoothly from studio through distribution and into cinemas.

Fixed costs no longer relate to the single film project but to the overall investment in the studio-distribution-exhibition operation as a whole. The expense of any one film produced can



be seen as an incremental, rather than a fixed, cost. Simple managerial decision making ensues: do the incremental revenues anticipated from this film - in a market environment which is substantially under control - exceed the incremental costs?

Success breeds success, and the firm can build a large capital base to fund its production. From time to time, an incremental loss is sustained, but it can be apportioned across the board as if it were an overhead. In this manner, as the 'Screen International' survey observed, "Twentieth Century Fox could survive 'Cleopatra' in much the same way as Ford survived Edsel. But Goldcrest could not survive 'Revolution'."

That is not to say that the Hollywood major studios are completely immune from the threat of financial disaster. From time to time, there is rampant inflation in film production costs and, in the extreme, a "Heaven's Gate" - United Artists debacle (Bach, 1985).

Vogel (1986) notes that production costs of feature films distributed by the US majors rose at a compounded annual rate of 21.5% during the 1970s - a period of Hollywood self-indulgence, poor management, and unrealistic expectations of profitability. Such expectations were particularly encouraged by 'Star Wars' which made over \$150 million profit in the first four years of its release on an initial investment of \$11 m..

However, the advantages of the major studio model of the firm in the film industry are so large that the impetus for activity to be based on this model meant that from the mid-

1920s, the 'Studio System' in Hollywood was firmly established. There were eight majors: Warners, Paramount, 20th. Century-Fox, MGM, RKO, Universal, Columbia, and United Artists.

The first five of these were fully vertically integrated combines, while Universal and Columbia owned only production and distribution facilities. United Artists was different again - it was solely a distribution company for independent producers.

The Hollywood studios had a highly developed internal division of labour (Staiger, 1979). They were large scale manufacturing firms: the studios, in the words of Storper (1989), 'explicitly used Henry Ford as their role model'. That is, the organisation of a studio - or 'film factory' - was an assembly line approach to the manufacture of perhaps fifty films per year. As a result of such mass production, the studio film was a standardised product made in accordance with a formula approach to the western, musical or gangster film.

The apotheosis of the Hollywood Studio System was reached in the mid 1940s - just before the onset of decline. MGM, the wealthiest studio, had about 5,000 employees on the 178 acres of Culver City (Kelley, 1991). MGM boasted 'more stars than there are in the heavens,' ran a school for child stars, a private zoo and thirty one sound stages.

When decline set in, there were a variety of causes :

(i) 'divorcement' came in 1949 under the decision of the US Supreme Court in *United States v Paramount Inc.*. By the mid

nineteen fifties, the major studios had completed the enforced divestment of their exhibition chains.

(ii) television: for Storper (ibid), the studio system had meant 'mass production for stable oligopolistic markets.' The coming of television constituted an upheaval in these markets.

(iii) The Star System was central to the mechanics of the Studio System. But, in 1945, the (Olivia) de Havilland Decision of the Supreme Court of California meant that the 'suspension clause' (ie. the practice of indefinite extension of the stars' seven year contracts through the addition of suspension time) was declared illegal.

What is interesting is that the British film industry in general - including its own Studio System - was simultaneously subject to comparable undermining pressures (the arrival of television; the withdrawal of Rank from large scale production). But where the British film industry embarked upon a continuous decline from this era (ie. the nineteen forties), its Hollywood counterpart was able to emerge in such a way as to continue to dominate both home and world markets.

Thus it is interesting to ask whether there have been aspects of the film firm in the British case that have been inimical to British recovery, and, if so, how have the British differed from the more successful American model.

As Storper (ibid) has demonstrated, the Hollywood model of the firm in the film industry evolved during the post-war period as an early example of post-Fordism, that is of a

transition, noted more recently in a wide variety of industries, from a system of mass production to one comparable to the flexible specialisation model of Piore and Sabel (1984).

'Legal Eagles Rule The Roost - Hollywood lawyers cut the big deals, but some doubt they deserve the big cuts' ('Variety,' 1990). These were the headlines to a survey in the Hollywood trade newspaper alluding to the present model under which powerful lawyers and agents 'package' projects which they take to the studios. Complex deals concerning taxation, the sharing of revenues and the financing of the film are then struck with the studios.

As opposed to the moguls of the mass production era, the studios are, in turn, often run by former lawyers and agents. They facilitate a range of producing firms: the studio puts its logo onto the film, finances it and - crucially - distributes it. The major studios control 90% of the American distribution sector, and in this way they are the very hub of the wheel of American film production.

In contrast, what has happened in the British case in the post-war period in terms of the firm is that there is no British major studio or other organisation able to play on a permanent basis this role at the hub of the wheel of production. As a result, an occasional British production firm of importance will grow up, but its rapid demise is always imminent. From time to time, a bright star will light up the skies of the British industry for a few brief years before

inevitably coming crashing down to earth.

Ealing, London, British Lion, Hammer, Woodfall, Bryanston, ACC and Goldcrest - all have had periods as firms producing a number of good, enduring British films. Then comes the fall: at best, the firm rapidly dwindles as a productive force: at worst, and more usually, there is debt, loss and liquidation.

The model of the firm which emerges in the British film industry is a kind of Destructive Creation, as it were. There is a disastrous cycle of boom and bust, reflecting pure and unfettered capitalism, extreme entrepreneurial risk taking, greed and megalomania.

Such boom and bust of the British firm can be reviewed as follows:

(a) Ealing.

Life Span: 1931 (Ealing Studios built) to 1959 (Ealing production terminated by ABPC following takeover).

Entrepreneur: Michael Balcon.

Notable British Films: Passport to Pimlico (1949), Kind Hearts and Coronets (1949), The Man in the White Suit (1951), The Cruel Sea (1953), The Ladykillers (1955).

Reason for Downfall: Rank's rationalisation caused the sale of the Studios, and the gradual demise of Ealing production followed. (Rank's retrenchment accounted for the downfall of a number of other British firms - see Section 2.4.)

(b) London Films.

Life Span: (i) London Films f. Korda 1932 to 1942.

(ii) Korda's return from Hollywood: 1946 to 1956.

Entrepreneur: Alexander Korda.

Notable British Films: (i) The Private Life of Henry VIII

(1933), The Scarlet Pimpernel (1934), The Four Feathers (1939).

(ii) Anna Karenina (1948), The Third Man (1949), Richard III (1956).

Reason for Downfall: (i) Heavy debt following high production expenditure led to Rank takeover of Denham Studios, 1938.

(ii) Korda died, 1956. There were expensive flops in a period where London was a sort of successor to Rank as facilitator of independent producers.

(c) British Lion.

Life Span: f. 1927. (i) 1946 to 1954: Korda's distribution arm.

(ii) 1955 to 1963 - NFFC owned.

(iii) 1964 to 1966.

(iv) 1966 to 1975.

Entrepreneur: (i) Korda.

(ii) The Boultings, Launder and Gilliat.

(iii) Balcon

(iv) Barry Spikings and Michael Deeley.

Notable British Films: (i) see London (above).

(ii) I'm All Right Jack (1959), The L Shaped Room (1962).

(iii) The Family Way (1965).

(iv) Don't Look Now (1973), The Man Who Fell To Earth (1975).

Reason for Downfall: (i) despite NFFC loan (1948), losses connected to those of London (above), and bankruptcy in 1954.

(ii) sale to private sector. (See Section 2.5.)

(iii) Lack of access to exhibition circuits.

(iv) Persistent financial crisis. The strategy evolved into one of making American, rather than British, films. In 1975, EMI, attracted to this, tookover and absorbed British Lion, and Spikings and Deeley. EMI's American strategy culminated in Honky Tonk Freeway (1981): the greatest commercial failure in film history in terms of its production cost:box office ratio.

(d) Hammer.

Life Span: f. 1947 - sale of Bray Studios, 1970.

Entrepreneur: James Carreras.

Notable British Films: The Quatermass Experiment (1954), The Curse of Frankenstein (1956),

Reason for Downfall: gradually declined after 1970 when lack of film finance sources in the UK led to the move to Elstree.

(e) Woodfall.

Life Span: from 1958.

Entrepreneurs: Tony Ricardson, John Osborne.

Notable British Films: Look Back in Anger (1959), Saturday Night and Sunday Morning (1960), Tom Jones (1963), The Knack...and How To Get It (1963), Kes (1969).

Reason for Downfall: Dispersal of the original 'angry' era creative personnel to Hollywood and the theatre; the Woodfall name was subsequently behind a variety of mainly indifferent films.

(f) Bryanston.

Life Span: 1959 to 1965

Entrepreneur: Michael Balcon.

Notable British Films: The Entertainer (1960), Saturday Night and Sunday Morning' (1960) (both with Woodfall), The System (1964).

Reason for Downfall: Lack of finance for the development of an alternative strategy when the 'angry' era ended.

(g) Associated Communication Corporation.

Life Span: 1974 to 1981

Entrepreneur: Lew Grade.

Notable British Films: The Eagle Has Landed (1977), The Medusa Touch (1978), The Long Good Friday (1980)

Reason for Downfall: Huge ambition (the production of 80 films in six years), production expenditure (including \$35 million on 'Raise the Titanic,' 1981) and investment (with EMI) in distribution in the US and in exhibition - but no



major hits. The highest estimates of ACC losses: \$100 million. ACC takeover by Robert Holmes a'Court, 1981 and its British film production all but eliminated.

(h) Cannon.

Life Span: in Britain, Cannon tookover Screen Entertainment, including Elstree Studios, in 1986.

Entrepreneurs: Menahem Golan and Yoram Globus.

Notable British Films: None.

Reason for Downfall: Cannon had engaged in indiscriminate over-expansion worldwide, producing 900 films in ten years but without a single major commercial success.

(j) Goldcrest.

Life Span: 1977 to 1985.

Entrepreneurs: (i) To 1983 - Jake Eberts.

(ii) James Lee and Sandy Leiberson.

Notable British Films: (i) Gandhi (1982), Local Hero (1983).

(ii) The Killing Fields (1984), The Emerald Forest (1985), A Room With A View (1986). The Mission (1986).

Reason for Downfall: Large losses in television programme making. And the ideal of a balanced film portfolio gave way to open-ended expenditure commitments to three large budget commercial failures (including Revolution, which itself contributed a loss of £9.616 million).

The downfall of the British film firm is, it would seem, inevitable. Talking of Balcon (at both Ealing & Bryanston) and of Korda, Michael Winner points out that 'the tragedy of the British film industry is that people equate periods of great film making with periods of success. Of course, they are a success because there are great films. But invariably, they've gone hand in hand with bankruptcy for the people who made them' (J. Walker, 1985).

This is in complete contrast to the majority of sectors of the economy. Indeed, there is a body of economic theory concerning the growth of the firm which would suggest that, other things being equal, there will be growth in industries at the level of the firm.

Incipient growth theory can be traced back to Marshall (1890) who offered a dynamic model based on a biological analogy. This model rapidly met its demise (although its resurrection in the case of the film industry is suggested below) and a long period ensued during which purely static models of the firm with determinate equilibria were developed, for example by Robinson (1933), Chamberlin (1933) and Sweezy (1939).

During this period, however, there was clear evidence of a long term trend towards concentration in manufacturing, and therefore the implication that some firms were growing rapidly. In the 1930s, the only model which sought to explain this was Gibrat's Law of Proportionate Effect (1931).

Given an economic environment characterised by uncertainty, Gibrat's Law predicts that it is inevitable that the distribution of firm sizes in an industry will become positively skewed over time. A few firms will grow to a very large size while the majority remain relatively small.

This was tested by Prais (1976). He found that if the Gibrat model had been applied to data on British manufacturing industry in 1910, it would have been a reasonably accurate predictor of the increase in concentration which took place over the following sixty years. In fact, it would have slightly underestimated concentration and the growth of the large firm.

For Penrose (1959), firms are capable of continuous growth. A major impetus for such growth arises from indivisibilities in factor inputs which give rise to unused resources and economies of growth. But the firm will also undergo costs of growth which will constrain the overall rate at which it grows.

Marris's model (1964) is both a continuation of the ideas of Penrose and a development of the managerial branch of the alternative theory of the firm. That is, it is based on the notion of separation of ownership and control (introduced by Berle and Means, 1932) and it assumes that the objective of the firm's managers is to optimise - in this case, the maximisation of the rate of growth of the firm is the goal.

Marris's managers are concerned with the maintenance of a minimum share-valuation ratio which is both a constraint on the managerial objective of growth and a component of managerial

utility - it implies security from takeovers. The limits to a firm's growth are embodied in the need for a safe growth path in which the supply of capital and costs of demand growth are balanced.

There have been a number of empirical studies of aspects of the Marris growth model and these have led to somewhat ambiguous results, for example, Radice (1971) and Sorensen (1974).

The behavioural branch of the alternative theory of the firm was established following the work of and Simon (1959) and Cyert and March (1963). Rather than the prescriptive, optimising approach of a managerial theory such as that of Marris, behavioural theories set out to be positive. They assume satisficing goals.

The model of Nelson and Winter (1982) is in the behavioural tradition. It assumes that the structure of an industry at a point in time is the result of evolution. It is a biological analogy in which the 'genes' in the process of evolution are represented by the 'routines' of firms, ie. the established procedures in production, advertising or personnel, etc.

One inherits routines, and growth lies in the discovery of new routines. One can also copy other firms' newly discovered routines and, in this way, the evolutionary process is more rapid than the biological one.

A further strand of economic literature which gives a rationale for the growth of the firm is that founded by Coase

(1937) who raised the question: why do firms exist at all?

The reason lies in the notion of the firm displacing markets in order to reduce the number of contracts involved in the production of a commodity, and thus to reduce the transactions costs involved.

For Williamson (1975), high transactions costs stem from a mixture of human factors (like bounded rationality) and environmental factors (such as uncertainty) and lead to market failure. This encourages firms to grow by vertical integration - internal organisation is substituted for the market mechanism. Moreover, internalisation has an important role to play in the analysis of firms' growth through overseas direct foreign investment.

There are a variety of theories concerning such multinational growth. Vernon (1966) explained the post-war expansion overseas of US multinationals in terms of product life cycles. During the maturing product phase of the cycle, direct foreign investment would constitute both a necessary defensive strategy and an accessible source of corporate growth

The Hymer-Kindleberger model (Kindleberger, 1969) envisages imperfections in both goods and factor markets, and in the market for knowledge. These are pull factors in a corporation's international growth. Buckley and Casson (1985) regard this as purely a short term theory applying only at the time the firm first crosses an international boundary.

In the tradition of internalisation, Buckley and Casson

envisage an internal specialisation in the multinational firm in such 'market-making' activities as contract specification and negotiation, and payment - and avoidance - of taxes. The firm is seen as backward integrated from the production of the market-making activity to the production of goods or services.

If one considers the range of British film firms discussed on pages 297 to 301, there is little indication of sustained growth. The typical pattern (for all except ACC and Cannon) is the enjoyment of a brief period of success before the inevitable demise.

It is interesting to envisage a model in which, at the time of each British film firm's success it had embarked upon a modest rate of growth - equal, say, to that of the economy as a whole. Such a conservative rate of expansion would have had a cumulative effect by which a large British film industry would have evolved, producing hundreds of feature films every year, ie. a British 'Hollywood'.

What then are the crucial differences between British and American film firms?

The US model is a hub with spokes. The Hollywood major studios form the hub and connect to the spokes formed by production firms and packaging agents. The traditional role of the studios as factories may have disappeared after the late nineteen forties, but the studios have remained in control of

distribution. As such, they can act as facilitators of a wide range of producing firms.

Moreover, a US studio's position in this regard is strong due to its ability to distribute each film into a vast domestic market. And a continued control of distribution in overseas territories (like Britain) is a further reinforcement.

In contrast, the British combines did not perform the role of the hub after the brief era in the nineteen forties when Rank was a major facilitator of production firms. This is discussed in section 3.3 where it is observed that Rank's retreat was largely in response to the high barriers to entry to the distribution sector in the US.

It is extraordinary that the model of the growth of the firm with the greatest applicability is that of Marshall (1890): that is, an analogy with the trees in a forest. This model is, of course, normally thought of as hopelessly out of date, subsequently even by Marshall himself!

The industry looks like a forest composed of trees of varying heights. At any two points in time, the trees which are tall and those which are short are different. The tall trees inevitably die; young trees grow, fighting for their share of air, water and light.

The firm, by the same token, enjoys a period of growth during the life of its founding entrepreneur, but, on his death, his children will lack aptitude and enthusiasm and the firm itself will die. From 1862, however, the law had widely

extended the possibility of forming joint stock companies with limited liability. This meant that the firm had a separate identity from the entrepreneur - there was no reason for the firm not to survive when he died.

The British film industry, however, remains an environment in which Marshall's analogy is a good fit:

(i) Marshall's trees were growing as long as the founding entrepreneur was strong and involved. There is, at a fundamental level a very real importance in the film firm of a founding entrepreneurial figure who is dominant and decisive in the context of creative decision making and leadership. And the entrepreneurial figure - Korda, Balcon, Carreras, Lew Grade, Golan and Globus, Eberts - is indeed one of the characteristics of the British firms considered above

(ii) Marshall's trees would grow as a result of gaining access to air, water and light. The distribution sector is the 'air' which the film firm must breathe, and, when the supply of this air is cut off (barriers to entry to the distribution sector, especially in the US), asphyxiation rapidly sets in.

The 'water' is production finance without which the firm will not enjoy growth even to an average stature - like a dehydrated tree, it will keel over and die without even living its full life cycle. And without light, a tree will be vertically challenged - light is what is projected onto the cinema screen, but there is monopoly control of the exhibition circuits and access is restricted.



(iii) As a forest, the British film industry is rather like a Brazillian rain forest: it shrinks over time. The trees in it at any one time are both different and less numerous than at a corresponding point ten or twenty years before.

During the nineteen eighties there was a total of 342 trees in the forest, and although some were taller than others, there were no giants. Many of the trees have already withered and died.

In that decade, the structure of the British production company industry was fragmented to the extent that the 454 films produced required the participation of 342 firms. Alliances of production companies, often on a one-off basis, were a typical characteristic: 214 (63%) of these firms were involved in at least one such co-production.

The following table shows the largest firms in the decade. None has a dominant position. For example, a market share of 5% of the number of films produced in the decade would require participation in at least 23 films. Channel Four/Film Four International is the only firm to exceed this figure, solo producing 2 films and having a co-production role in 37 others.

Table 25.

The 1980s: British Firms in the Production of More Than 10  
Films During the Decade.

	Total No = Solo + Coprodns.		
Channel 4/Film Four International	39	2	37
British Screen	20	1	19
British Film Institute Production	19	11	8
Handmade	17	16	1
Goldcrest	16	3	13
Cannon	14	11	3
Enigma	12	6	6
Zenith	11	6	5
Palace	11	3	8

(Source: Primary.)

Analysis of the nineteen eighties shows that barriers to entry to production are extremely low - 250 companies came in and produced a single film in the period. There were no barriers to exit.

Regarding the above table, Cannon and Goldcrest both collapsed during the decade, Palace went into administration in 1992, while the level of activity of most of the others has fallen.

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## CHAPTER FIVE

### PRODUCT COMPETITION

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## 5.1 Background to Product Competition.

If product differentiation is interpreted as the use of any factor, apart from price, designed to raise revenue in markets, then consideration of the film industry would suggest the importance of a variety of types of product differentiation.

Phlips and Thisse (1982) discriminate between horizontal and vertical differentiation. The former occurs where, for example, different consumers prefer different film stars. Vertical differentiation would be exemplified by the higher quality to be found in a West End auditorium as opposed to a local multi-screen. Consumers can recognise such vertical variation in an unambiguous way and are willing to pay premium prices for the higher quality product variant.

Whether a film is a British production, from Hollywood or from elsewhere is itself an important question of product differentiation. Moreover, it is possible for the production sector of the industry to achieve strong differentiation in terms of the studio or production company involved. This can be noted in relation to the Hollywood studio system in its heyday, eg. the MGM musical, or the Warners crime film. And the more recent corporate strategic importance of this aspect is illustrated by Bach (1986) in the case of Trans America's ownership of United Artists.

In the British case, differentiation by studio or by production company has been applicable from time to time, for example with Ealing Studios productions under Sir Michael

Balcon, or, more recently, with a Channel Four production.

The mode of distribution of a particular film is also of relevance, sending signals to the consumer - the perceptions about a film with an initial exclusive run in a flagship cinema (and, in the extreme, with a Royal Command Performance thrown in) are likely to be somewhat different from reactions emanating from a film which has been subject to a blanket release on the bottom half of a four walled double bill!

In exhibition, film censor certificates differentiate, as does the particular cinema chosen for the presentation: West End, circuit, Art and independent venues themselves signal packaging messages to consumers.

Entrepreneurs in the film industry have always varied the mode of exhibition to follow the waxing and waning of mass audience demand. The 'nickelodeon' gave way to the 'Picture Palace' and 'Super Cinema' as the audience grew in the late nineteen twenties and into the thirties. With the decline of the mass audience after the war, there were of course cinema closures, but there was also a shift to the 'Split Screen' cinema. The Odeon, Nottingham was the first split screen in Britain when it was sub-divided in 1965. The mass audience demand had gone, but the smaller audience could sustain exhibition of a variety of films in smaller auditoria.

The 'Multiplex' mode of exhibition enjoyed rapid expansion in Britain from the late nineteen eighties. Such a cinema has perhaps twelve screens under one roof. The evident level of



demand for each film is monitored, and the films are switched around between auditoria at very short notice in order to match the perceived levels of demand.

The exhibition sector - whether large halls, split screens or multiplexes - also has an important overall role to play within the context of product differentiation in the sense that the product gains its status as a 'film,' as opposed to just another television programme once it has enjoyed a release in the cinema and been advertised and reviewed on this basis in the national press. Activity in cinemas is vital in that it is cinema exhibition that gives to a film its credibility and reputation. In turn, this establishes the film's desirability from the point of view of the television and video audience, and thus the terms of its sale to television and its performance in the video market.

However, the most fundamental way in which product differentiation in the film industry takes place is by means of genre: the Musical at the Empire Cinema might be attracting large audiences and the Western at the Rialto moderate ones, while almost nobody is in attendance for the Costume Drama at the Ritz. Competition is not through price - for the consumer, the respective costs of admission to the Empire and the Ritz are neither here nor there.

In order to take an initial step in the direction of analysing the product strategy of the British film industry, it is interesting to look at the subject categories which British

film makers have favoured. The table in the Appendix records the British long film output by category of subject matter for the period 1927 to 1989.

It can be seen that Comedy, Crime and, to some extent, Drama are the genres with consistently high relative frequencies over the whole period. Between 1930 and the mid nineteen forties, Comedy films are the most important category, forming between a quarter and two fifths of annual output. Crime is in second position in some years during this era, but at other times it is in third place due to the high output of Musicals. The British Musical became something of a genre in decline by the end of this period.

From the late forties to the late sixties, Comedy and Crime are, by a considerable distance, the prevailing categories for British film makers. These two genres account for at least half the films throughout much of this period.

After the nineteen sixties, the picture changes in that, although there is a downward trend in the annual total number of films made, the major genres do not predominate to quite the extent that can be observed for the earlier years. This allows for a greater proliferation of subject categories than before. In the mid 1970s, for instance, product strategy is distributed relatively evenly across a variety of genres: not only Comedy, Crime and Drama, but also Horror, Musicals and Sex.

While sexual intercourse for Philip Larkin began only in 1963, it was even later, in 1970, that the British film

industry first penetrated this particular sector of product differentiation. As a genre, Sex immediately accounted for about 10% of films in 1971. There followed a proliferation of such titles as "I'm Not Feeling Myself Tonight" (1976) and "Can You Keep It Up For A Week?" (1974).

As it happens, the industry was able to keep it up - at above 10% - for most of the 1970s. Sex was the largest category in 1976, and was only allowed to subside after 1979.

Sex is not alone as a new or previously neglected genre materialising and assuming major relative importance. Horror, for example, is a subject category which lies dormant until the mid fifties when it begins a steady climb until it attains a double digit share of output in the mid 1960s. Horror maintains this relative importance in most subsequent years - it is the largest subject area in 1974 - until falling away after 1981.

In contrast, War is an example of a genre which is represented by at least one film in almost every year and which is subject to a cyclical variation. There are peak years of popularity for War as a choice of subject matter by film makers: the late 1920s, the middle years of the Second World War, and towards the end of each subsequent decade.

The question arises as to whether the British film industry has been unable to halt its long decline because it has failed to locate its product in the right sectors of the product differentiation landscape.

Before examining a variety of aspects of this question by

means of the clustering analysis of the subsequent sections of this chapter, it is interesting to consider the pattern of Hollywood films by subject category in comparison with the British picture.

Table 26 on page 321 gives an approximate comparison of the distribution of national American and British film production across the main film genres. The US figures are adapted from a survey by Finler (1988) of the American releases at ten yearly intervals of six of the Hollywood major studios, that is excluding Columbia and RKO.

The British figures are adapted from the data assembled for the table in the Appendix. They show the percentage in each category of all British films released. The subject categories used in the table in the Appendix are those of Gifford (1986), are rather more numerous than those offered by Finler. Hence, it has been necessary to redesignate some films from their categorisations in the Appendix table.

For example, Sex and Horror are British subjects according to Gifford's categorisations, but are not part of Finler's. After considering the plot summaries of the films concerned, they have been placed as appropriate under Comedy, Drama, etc..

Although one might therefore have some reservations about a comparison based on these classifications, it is interesting to observe that there appears to be some correspondence between the subject categories into which the British and American industries have distributed their respective outputs of films.

Table 26.  
 American and British Releases by Subject Category. (%)

	1935		1945		1955		1965		1975	
	US	GB	US	GB	US	GB	US	GB	US	GB
Action/ adventure	9.0	7.9	6.5	2.6	12.8	5.5	8.5	8.3	22.7	6.2
Comedy	16.8	29.2	16.6	13.2	8.7	38.4	18.5	19.4	17.3	26.6
Crime	17.2	13.5	15.4	15.8	12.8	28.8	15.4	25.0	21.3	15.6
Drama	28.5	19.1	26.0	34.0	32.9	15.1	23.8	16.7	22.7	28.1
Fantasy	1.9	3.4	3.0	7.9	3.4	1.4	6.9	15.3	4.0	7.8
Musical	18.0	24.7	16.6	15.8	12.8	4.1	7.7	9.7	6.7	14.1
War	1.5	2.6	8.9	10.5	4.0	6.8	9.2	5.6	1.3	1.6
Western	7.1	0	7.1	0	12.8	0	10.0	0	4.0	0

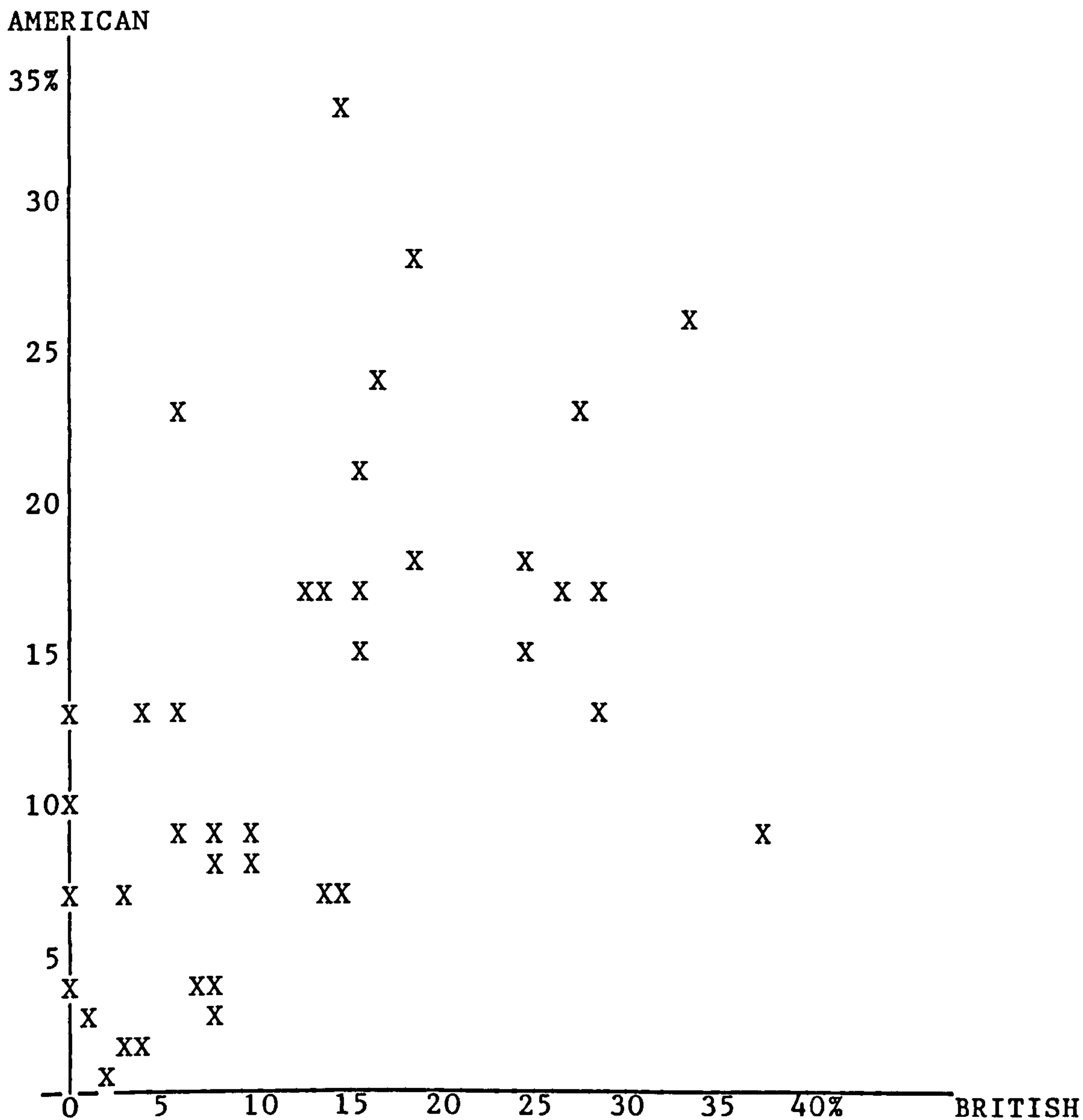
[Source: adapted from Gifford (1986) and Finler (1988).]

Correspondence in terms of the relative importance placed on genres by the US and British industries is at its closest in the earlier years: the coefficient of rank correlation for 1935 and for 1945 is near to + 0.8 in each case.

Figure 3 (below) presents a picture of the data in the above table and suggests that, over the entire period concerned, the British have not tended to distribute their product in a wholly different way from Hollywood.

The shape of the scatter indicates a weak to moderate positive association. The overall product moment correlation coefficient is + 0.55.

Figure 3.  
 Scatter Graph: Association of American and British Releases by  
 Subject Category, 1935 to 1975 (see Table 26 above).



As a means of examining the nature of consumer choice between differentiated goods, the characteristics approach of Lancaster (1966) can be considered. This would suggest that the consumer attempts, subject to a budget constraint, to maximise the utility derived from the consumption of the attributes of films, rather than from the films themselves.

The economic theory of horizontal differentiation is considered in detail in section 5.5. But in the context of the fortunes of the British production industry, the importance of the question of similarity in the characteristics - and the cross elasticities - of British and Hollywood films exhibited can be stressed.

And if one takes the full range of product characteristics, the question arises as to how the market might manage to sustain such a diverse range of characteristics, and why there is no market rationalisation of this variety. This sustained differentiation would appear to stem from a kind of interdependent production model in which economies of joint production are conferred, rather than simply from consumer demand itself.

The issue of agglomeration economies, analogous with spatial and location theory, is useful in the context of the location in product space of product characteristics, and the tendency for the clustering of characteristics. Shaw (1982) and Swann (1985) have examined product competition in characteristics space in the Fertilisers and Microprocessors



industries respectively.

These studies are considered in section 5.5 in the light of the clustering of characteristics of British films.

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## 5.2 Clustering Analysis 1: Genre, Budget and Censorship

### Certification.

By way of analogy to product differentiation in the film industry, the location model originating with Hotelling (1929) would imply that the advantages of agglomeration would lead to several producers making films which were similar in terms of important product characteristics such as their subject matter, source material or use of film stars.

After this initial phase, a subsequent entrant would aim to locate his or her film in an open area of the product characteristics space. Avoiding the crowded locations by making a film which offered different attributes from the currently popular ones would now be a suitable strategy for the maximisation of market share.

The decision to deglomerate in this way would, in turn, lead to a new agglomeration as other producers, with films imitating the new product variant, joined in in search of market share in the new location.

In the light of the decline of the British film industry, it is useful to use the product characteristics approach to investigate the British product strategy and to ask whether this strategy has contributed to the poor performance.

The following analysis covers the period of the nineteen eighties and incorporates three important aspects of the product differentiation of British films released for exhibition in Britain during that decade. As noted above, films

as goods competing with one another in markets are differentiated in a variety of ways. The following analysis considers differentiation

(i) by genre - is the film a Musical, a Comedy or a Western?

(ii) by size of budget - is the film able to show lavish special effects and to use expensive talent?

and

(iii) by censorship certification - is the film competing in an 'X' certificate niche, or for a more general audience?.

NB In the following tables, abbreviations for the subject classifications of films are as follows:

Adv = adventure	Hor = horror
Ani = animated cartoon	Mus = musical
Ch = children	Com = comedy
Cri = crime	Re = revue
Dra = drama	Ro = romance
Fan = fantasy	Sp = sport
His = history	We = western

And the use of production budget categories is as follows (at 1985 prices):

Low = below £1.5 million.

Medium = between £1.5 and £3 million.

High = in excess of £3 million.

Censorship categorisations = U, A, AA, X, PG, 12, 15, 18.

1 = a British film released in Britain during the year.

Table 27.

1980 to 1989: British Films Released For Exhibition in Britain.  
Location of Product Characteristics in the Decade As a Whole.

		Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
U	1			11			111	1	1		11						
L	A/	1			111		111	1	111		111		1		11		11
O	PG				111		111		1								
W					111		111										
B					11												
U	AA/				111	111	111	111	1	1	111	11	11	1	11		111
D	15				111	111	111	111			1	1	11				
G					111	111	111	11					11				
E					111	1	111										
T					111		111										
					111		111										
					1		111										
							111										
							111										
X/					11	111	111	111	11	111	111	11			111		
18						111		11							111		
															111		
M	U			11			11				1						
E	A/		1		111	11	111	111	1	1	1		11		111		1
D	PG				111		111	111					1				
I					1		1										
U	AA/1				111	111	111	1	111	111			11		1		111
M	15				111	111	111						11				
					111	111	111										
B					1	1	111										
U							11										
D	X/				1	111	1	11	1	111	1		11	111			1
G	18					111				11							
						11											
H	U	1						111									
I								11									
G	A/	111			11	111	111	111	111								1
H	PG	1				111		111	111								
						111		111	1								
B						11		111									
U								111									
D	12	1															
G	AA/11				1	111	111	111	111	111	111		1				111
E	15					111											111
T						111											1
						1											
X/					1	11	1	1	11	111							1
18										1							

For the nineteen eighties as a whole, Table 27 shows that the main areas of clustering are in columns running across from Com (Comedy) to Fan (Fantasy). This block contains the four routinely popular subject locations - Comedy, Crime, Drama and Fantasy. They happen to be contiguous alphabetically.

To the left of these columns is a block with a width from Adv (Adventure) to Ch (Children). This thin strip consists of largely virgin, unexplored territory despite a small measure of Adventure in the high budget area. There are few films in the Children category, and only a single Animated Cartoon.

And to the right of the table is a wider area running from His (History) to War. Ten years' prospecting has left, in this terrain, a handful of small clusters here and there looking rather like abandoned settlements in a hostile landscape.

A brief propensity for low budget Sex and Musical projects accounts for some of these settlements. As a whole, the right hand block of the table shows the limited extent of accumulated 1980s agglomeration in these areas and in War, Romance, History and Horror.

The question which arises is whether the apparent lack of a full exploration by British film makers of the territory in the left and right hand blocks has mattered. For instance, has the British film industry failed in relation to the Hollywood industry in the competitive market during the nineteen eighties because of a constraint in terms of its product location

strategy?

In order to examine this issue, one can superimpose upon the distribution of product location by the British in the nineteen eighties the most successful films of the decade in their respective product characteristics locations.

To facilitate this exercise, the Top Ten films at the cinema exhibition box office in Britain in each year of the nineteen eighties has been added in order to constitute Table 28 below.

Of these box office hits twenty seven were British (denoted in the Table below by £), two were Australian (\*), one was Canadian (&) and the remainder were American (\$).

Table 28 on page 331.  
1980 to 1989: The Top Ten Box Office Films in Britain, and All British Films Released For Exhibition in Britain. Location of Product Characteristics in the Decade As a Whole.

	Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
U	1		11			111	1	1		11						
L A/	1			111		111	1	111		111		1		11		11
O PG				1£1		111										
W				111		111										
				111		111										
B				11												
U AA/				111	111	111	111	1	1	111	11	11	1	11		111
D 15				111	111	111	111			1	1	11				
G				111	111	111	11					11				
E				111		111										
T				111		111										
				1		111										
						111										
						111										
						11										
X/				&11	111	111	111	11	11	111	11			111		
18					111		11							111		
														111		
M U			11			11				1						
E A/		1		\$11	11	111	111	11	1	1		11		£11		1
D PG				11\$		111	111					1				
I				1£\$		1										
U				\$1												
M AA/1				£11	111	111	1	111	111			11		1		111
15				£\$1	111	111						11				
B				1\$\$	111	111										
U				111		111										
D				111		111										
G X/				1	111	1	1	1	111	1		11	111			1
18					111				11							
					11											
H U	\$1	\$\$\$						\$\$1		\$						
I		\$\$						\$\$\$								
G								1££								
H								£								
B A/	1\$£	\$		\$11	111	\$£\$	1£\$	£11	\$					\$\$		1
U PG	\$1\$			\$\$\$	£1£	11£	££1	111								
D	1\$			\$	£££	\$1\$	1£1	1								
G							1\$1									
E							£1\$									
T	12	1					11\$									
AA/	\$11			\$\$\$	111	\$11	111	£1£	1\$1	111		1\$				11\$
15	**			\$\$\$	£11	1\$	1		1\$							111
				£\$\$	11\$											\$1\$
				\$	111											1
					£\$											
X/				£	1\$£	1\$	\$11	11	11\$				\$			\$\$\$
18									11							\$
	Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War

Has the British industry competed poorly with Hollywood in the British market during the nineteen eighties because of its product location strategy?

As previously noted, the main area of the table in which British producers have located their films is the block between Com and Fan. This turns out to be an area which is indeed very productive in terms of competitive success. Sixty eight of the hits in the period are located there.

Comedy, the first constituent of this block, is seen to be mainly located by the British in the low and medium budget areas. This is not infertile ground because Comedy is unique in being able to offer hits, albeit with a rather low relative frequency, for low budget films. And it is almost unique in offering hits for medium budget projects.

But where the British have failed to compete in the Comedy market is in the high budget segment. Although Table 28 shows a remarkable clustering of hits in high budget comedy, the British were only able to supply four films in this category in the entire decade, and, of these, two became hits.

The remainder of the cluster of high budget comedy hits is thus comprised of expensive Hollywood comedies which have faced next to no competition in this segment of the market.

Indeed taking a more general view, Table 28 implies that you are only to be a real competitive force in the British market with films differentiated by characteristics that require high budget. British drama, for example, is a



prolific area with thick clusters in the medium and (especially) low budget areas where there is not a hit in sight.

Looking at Table 28, it turns out that it is Crime and Fantasy where the British have been effective competitors in the high budget segments - there are substantial clusterings of high budget British Crime and Fantasy hits.

If one turns to Crime, it would appear at first sight that the British were able to compete very well despite the budgetary requirement. However, of this cluster of successes, six are James Bond films. Clearly Bond says nothing about the competitiveness of the industry in general - even when British film business fortunes are at their lowest ebb, one would still expect Bond finance to be forthcoming.

'Fantasy' covers 'dramatic or humorous films with a fantastic or impossible story, including science fiction' (Gifford, 1986). This category includes many of the all time biggest blockbusters - 'Back to the Future,' 'Ghostbusters,' 'ET'. The special effects required for Fantasy usually make high budgets compulsory. So how have the British managed to compete so well?

The apparent British success (Table 28) in this particular market is largely accounted for by that category of films which one could characterise as American Production in Britain. The cluster of 'British' hits includes for example 'Superman' (Parts 2 and 3) and 'Batman.' As with Bond, these

films say little about the fundamental competitiveness of the British industry at large. As has been noted, American investment in British production is extremely volatile. After all, 'Superman Part 4' was made in the US and plans for the production of a 'Batman Part 2' in Britain fell through (due to concerns about British taxation).

Turning to the left hand block in the Table 28, British producers during the nineteen eighties, as noted above, left this territory almost entirely unexplored. This lack of adventure (in two senses) was costly in terms of competitive strategy because, largely unhindered by competition from domestic sources, a clustering of foreign hits can be seen in the first column of the above table.

There is a further such cluster in the second column. These hits were reissues of Walt Disney cartoons like 'Snow White and the Seven Dwarves,' 'The Jungle Book,' or '101 Dalmations'. It would seem that there is a big audience for animation, and it could be argued that the British would be equipped to explore this territory. The American animation hit detached in the Table from the Disney cluster is 'Who Framed Roger Rabbit?' which was drawn in London by British artists.

Turning to the wider block on the right of the table from His (History) to War, the high budget area is a landscape from which the Hollywood industry has struck oil in several places, while, with the single exception of History, the limited amount of British drilling has struck only rock.

American prospecting in the regions of Musicals, Romance, Sex, Sport and notably Horror and War has taken place in the absence of much British competition and has paid off as indicated by the scatter of \$ in the lower right hand quarter of the table.

Where there is British competition, it is ineffective. For example, there are small clusterings of unsuccessful British large budget films in both Horror and War categories.

A further interesting question concerning the location of products is whether the British have been purely imitative in their product differentiation strategy and have made their way to locations only AFTER Hollywood successes there.

Table 29 (below and on pages 338, and 340 to 342) considers the Top Ten British box office hits and the evolution of British product location during the 1980s.

The subject category abbreviations and other symbols are as before.)

Table 29.

1980 - 1989: The Top Ten Box Office Films in Britain, and All British Films Released For Exhibition in Britain. Location of Product Characteristics, Year By Year.

1980:		Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
L	U 1																
O	A				111												
W	AA				1			1			1	1	1				
M	X						1				111	1		111			
E	U						1										
D	A				\$	1	1	11	1								
H	AA				£	1										1	
I	X					1							1				
H	U							\$									
I	A 1					1	\$	11\$									1
H	AA \$					11											1
H	X									11\$				\$			\$
TOTAL	11\$				111	111	111	111	1	11\$	111	11	11	\$	111	1	11\$
					111	111	\$	11\$			1			\$			
					£\$			\$									
								\$									
								\$									
								\$									

In 1980, the most productive territory for success in Britain was high budget Fantasy. In this area, there were three films, two 'U' and one 'A' certificate, among the box office hits. In general, the period from a film's conception to its theatrical premiere varies widely, but one can assume that most projects fall within a range from nine months to two years.

Thus, if British producers in 1980 used the High-Budget-Family-Viewing-Fantasy as their model in formulating their product differentiation strategies, one would expect to find clusters of British productions in the corresponding area of the table for 1981, 1982 and/or 1983.

Reviewing the section of the table for 1981 (below), there is indeed a notable cluster of high budget British Fantasy, and these films include three British hits! Furthermore, although there is no British presence in this area of the map in 1982, another small British cluster does appear in 1983, and this includes one box office success.

In the light of the 1980 pattern above, it is possible however that, given the perennial scarcity of finance, the most attractive area for British producers in 1980 would be Comedy: this was productive of two hits made on medium, rather than high, budgets. In fact, it is not until 1982, when a small cluster begins to materialise in the relevant area, and 1983, when it thickens somewhat, that the British arrive in this part of the landscape.

Table 29 continued.

1981:Adv		Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
L	U									1						
O	A			1		1				11						
W	AA				1	11			1							
	X				1		1	1	1				11			
M	U															
E	A						1		1					1		
D	AA								1							
	X						1		1			1				
H	U	\$					1									
I	A	\$			11£	£	£££									
G	AA			\$\$	1		1	£				1				1
H	X								1							
TOTAL	\$	\$		1\$\$	111	111	111	1£	111	111		11	11	1		1
					11£	£	11£		111							
							££									
1982:Adv		Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
L	U															
O	A			£												
W	AA			11	111	111	1				1					
	X			&	1	1							1			
M	U															
E	A			11			1					1		£		
D	AA				1			1								
	X															
H	U	\$	\$				\$			\$						
I	A				1			1						\$		
G	AA			\$	1£					11						\$
H	X															
TOTAL	\$	\$		111	111	111	11\$	11		11\$	1	1	1	£\$		\$
				1£&	111	11										
				\$	1£											
1983:Adv		Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
L	U					1										
O	PG			1												
W	15			11		111					1					1
	18					1			1				1			
M	U									1						
E	PG			11\$		1						1		1		
D	15			11		1			1							
	18				1	1							1			
H	U						\$\$									
I	PG			\$	£1	\$	£11	£								
G	15				1							\$				11
H	18			£		1										
TOTAL				111	111	111	11£	£	11	1	1	1\$	11	1		111
				111	£	111	\$\$									
				1£\$		111										
				\$		\$										

In contrast to the production of British Fantasy and Comedy films in the wake of the 1980 successes, one can observe that in 1980, large budget 'X' certificate Horror, War and Sex yielded one hit in each case from largely solo locations but, the subsequent period, examined in the above tables, did not generate any imitative British location decisions whatsoever, let alone clustering, in the respective areas.

In general, the clustering revealed throughout Table 29, both in the above sections and in those for 1984 to 1989 which follow, indicates that, on at least a dozen occasions, there was no British locational behaviour in the wake of a box office hit. The factor inhibiting a higher frequency of migration of British product to those locations which have proved profitable has been the financial constraint.

Ninety of the 1980s box office hits were high budget films, costing over £3 million. Of course, many of these films enormously exceeded this threshold and thus suggest little likelihood of being followed locationally by the British. For example, when the average finance available to a British producer was well below \$5 million, the estimated negative cost ('Variety') of the 1980 War hit, 'Apocalypse Now,' was \$31 million, and the 1980 Horror hit, 'The Shining,' \$18 million.

Table 29 is continued on page 340:

Table 29. (continued).

1984:		Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
	U							1									
L	PG				111		1	1					1		11		
O					11												
W	15				111		111						1				
	18				1									1			
M	U																
E	PG						1				1				1		
D	15				£\$	11	11										
	18					1				1							
H	U		\$					1									
I	PG	£\$			1	£	11	11		\$							
G	15				\$		\$	1	1								1
H	18					1\$											
TOTAL	£\$	\$			111	111	111	111	1	1\$	1		11	1	111		1
					111	1£\$	111	111									
					111		111										
					1£\$		\$										
					\$												
1985:		Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
	U						1		1								
L	PG				1		11										
O	15				11	111	111	1					11		1		
W						1											
	18					1											
M	PG				1			1									
E	15				11\$		11			1							1
D					\$												
	18																1
	U		\$					1£									
H	PG				1	£	£	\$	1								
I	15	1				111	1	1	1	1\$							
G						\$											
H	18									1							\$
TOTAL	1	\$			111	111	111	111	111	111			11		1		11\$
					111	111	111	1£\$		\$							
					1\$	11£	111										
					\$	\$	£										
Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War		



Table 29 (continued).

1986:		Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War	
	U						1		1								1	
L	PG						111	1	11				11					
O	15			1			111											
W	18			1														
M	U																	
E	PG			£\$\$				1					1				1	
D	15						11											
	18					1	1		1									
H	U							1£										
I	PG 1\$						\$	11\$	11						\$			
G	15						1	1		11	1						\$	
H	18							\$										
TOTAL	1\$			11£	1		111	111	111	11	1		111		\$		11\$	
				\$			111	111	111									
							111	£\$\$										
							11\$											
1987:		Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War	
L	U						1				1							
O	PG				1		111		1									
W	15				111		11	11						1	1		1	
	18				1			1				1		1				
M	U						1											
E	PG		1			1												
D	15				11	1	111										1	
	18				1	11				11	1			1				
H	U 1							£										
I	PG				\$	1£		\$\$	11									
G	15 1*				\$\$	1											1	
H	18																£\$	
TOTAL	11*	1			111	111	111	111	111	11	11	1		111	1		111	
					111	111	111	£\$\$										£\$
					11\$	£	111											
					\$\$		1											

Table 29 (continued).

1988:Adv		Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
L	12		1													
O	PG 1					1		1								1
W	15			1		111				11						
	18				1	1	111									
M	12															
E	PG					11		1								
D	15			1		11		1				11				
	18						1									
H	12															
I	PG			\$												
G	15 *			£\$	1£			£	\$							\$
H	18				1	\$	1									
TOTAL	1*	\$	1	11£	111	111	111	111	\$	11		11				1\$
				\$\$	£	111	11	£								
						111										
						\$										
1989:Adv		Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War
L	12		1													
O	PG			1		111				1						
W	15			11	11	11	11			1						1
	18				11											
M	12		11													
E	PG			1		11										
D	15 1			111	111	11	1	1				1				1
	18				1				1				1			
H	12 1						\$									
I	PG 1\$	\$		\$\$		1\$	111	1								
G	15			\$	\$\$	1\$										1
H	18							11	1							
TOTAL	111	\$	11	111	111	111	111	111	11	11		1	1			111
	\$		1	111	111	111	111	1								
				1\$\$	111	111	\$									
				\$	\$\$	11\$										
						\$										
Adv	Ani	Ch	Com	Cri	Dra	Fan	His	Hor	Mus	Re	Ro	Sex	Sp	We	War	

## Sources.

Tables 27 to 30 were compiled from various sources: -

- Gifford D. (1986) 'The British Film Catalogue, 1895 to 1985.'  
David and Charles.  
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Romer S. (1990) 'British Film Production Data.' Department of  
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'Variety Movie Guide' (1991) Edited by D. Elley. Hamlyn.

## References.

- Hotelling H. (1929) 'Stability in Competition' in 'The Economic  
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Variety. 'The Big Buck Scorecard' in 'The Variety Annual.'  
Various editions.

### 5.3 Clustering Analysis 2: Nostalgic and Literary Attributes - the Nineteen Eighties.

It was observed in Section 3.2 that such commentators as Walker (1974) have argued that the British film industry is placed at a permanent competitive disadvantage because there is a lack of a specifically cinematic sensibility within the British creative imagination. This has meant that, rather than the British film product variant being sufficiently differentiated as 'cinema,' it has typically remained more redolent of a culture which is literary and theatrical.

Park (1990) cites the inadequacy of British filmscripts as a fundamentally weakening factor for the British: after the demise of the British studio system, he argues, 'producers ....have relied on the ideas of novelists and playwrights with no deep interest in the cinema....or worse, they have simply transposed plays and novels to the screen, producing work at so many removes from the original stimulus to creation that the prospect of the finished film having any appeal to a contemporary audience was almost non-existent'.

For Petrie (1991), there has accordingly been an over-emphasis in British films on such characteristics as verbal primacy, social realism and the comic mode. And where in the Hollywood case it is the ideology of the American Dream which has informed the classic American genres, the British counterpart, in the absence of an equivalent cultural myth, has been a tendency to resort to nostalgia.

Hence, for these critics, the typical British film, irrespective of budget size, genre or censorship certificate, has been disadvantaged by two further attributes: it has been set in the recent past, and based on a pre-existing work in the form of a novel or a play, rather than on an idea originated specifically for the cinema.

What does clustering of product characteristics reveal in relation to this point? Has the British film clustered largely in the area of nostalgic literary adaptation? And have the box office hits clustered largely elsewhere?

In the following tables, films are categorised in terms of whether they are Set in the Recent Past, by which is meant the last one hundred years. This is an attempt to embody the alleged propensity of British film makers to over-indulge in nostalgia.

It is an imperfect indicator of nostalgia. For example while most films looking back at the nineteen sixties ('Buster,' released in 1988, or 'Scandal,' 1989) are captured, a few are not: 'The Return of the Secaucus Seven,' 1980, and 'The Big Chill,' 1983, are epics of sixties nostalgia but are set in the present.

And what of the eighteen sixties? For instance, 'The French Lieutenant's Woman' (1981) is partly set in 1867, just out of reach when one casts a one hundred year net, but arguably a film with a strongly nostalgic aspect.

Similarly, this arbitrary cut-off point eliminates films

set in the American Civil War and Westerns when they are set before the eighteen eighties (or where the date is not apparent). Again the view could be advanced that any American tendency to nostalgia could include the Civil War and the West.

Films are also located in this space in accordance with the categories on the left hand side of the tables. These cover the basic sources of the films, ie. were they Projects Originated for the Cinema, or were they based on one of a variety Pre-Existing Works?

Whether those works are Literary might be seen as simply a question of whether the film is based on a play or a novel - any novel. However, this would probably not be an adequate definition; after all, one would not say that the origins of a film like, say, 'The Dogs of War' were Literary. But the film IS based on the Frederick Forsyth novel.

So 'The Dogs of War' is recorded against Novel while, to take further examples, movies of 'Great Expectations,' 'Tess of the d'Urbervilles' or 'A Passage to India' are unquestionably Literary.

In general, any film based on a novel, short story or play which could be considered part of the 'canon' of literature is recorded in the Literary spaces, rather than as a plain Novel, Short Story or Play. A film of a play by Shakespeare, Shaw, Miller or Pinter is categorised as Literary; Lloyd Webber or Ray Cooney as Play.

Thus, in many cases, a subjective judgement has necessarily

been made: where Fleming's novels are not Literary, Greene's almost certainly are. But what about le Carre? Or Kingsley Amis? (In the event, le Carre is Literary; Amis not.)

A further concern with the Literary categorisation is that, there is occasionally a film which is steeped in literary attributes but is in fact a Project Originated for the Cinema. For example, 'Privileged' (1982) which concerns an OUDS production of 'The Duchess of Malfi'.

This Literary-Nostalgic analysis of British and American films exhibited in Britain - Table 30 on pages 348 to 352 - has been compiled from a range of sources: Gifford (1986), Halliwell (1991), Variety (1991), 'The Monthly Film Bulletin' (various) and Milne (1989).

Tables 31 and 32 on pages 354 and 358 give a summary of trends emerging from this analysis.

Table 30.

Literary and Nostalgic Attributes of American and British Films Released For Exhibition in Britain, 1980 to 1989.

A = an American film released for theatrical exhibition in Britain; B = a British film.

\$ = US film in UK Top Ten.

£ = UK film in UK Top Ten.

\* = other nationality film in UK Top Ten.

1980	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA\$	BAAAAAAAAAAAAAA
PROJECT BASED ON A PRE-EXISTING WORK: sequel radio TV sitcom TV series comic strip non-fiction book short story novel play literary	£A\$ BB BA\$ BBA AAA AAA BBBBBBBAAAAAAAAAAAAA AA\$\$ BA BBAAA	B BBBAAAAAA\$ AA BBAAAAAAAAA AAA \$
1981		
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAA\$\$	BBAAAAAAAAAA\$
PROJECT BASED ON A PRE-EXISTING WORK: sequel radio TV sitcom TV series comic strip non-fiction book short story novel play literary	BBB££AAAAA AA £A AA BBAA\$ BBBAAAAAAAAAAAAAAAAA AAA BAAAAAAAAA BAA	A £AAAAA A BAAAAAA A BBB£



Table 30 (continued).

1982.	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBB£AAAAAAAAA AAAAAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAAAAA A\$	B£AAAAAAAAAAAA*
PROJECT BASED ON A PRE-EXISTING WORK: sequel radio TV sitcom TV series comic strip non-fiction book short story novel play literary	BBAAAA\$\$  A  AA AA BB£AAAAAAAAAAAAAAAAAAAA A\$\$\$ BBAAAAAAAAA	A    BAAA BA BAA  BAA\$ BA
1983 PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAA\$\$\$	BBB£AAAAAAAAAAAAAAAAAAAA
PROJECT BASED ON A PRE-EXISTING WORK: sequel radio TV sitcom TV series comic strip non-fiction book short story novel play literary	B£££AAAAA\$\$\$  BA B  BBBAAAAAAAAAAAAA BBAAA BBBA	AA    AA  BBBAAAAAA BAA BBA

Table 30 (continued).

1984	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBBBAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAA\$\$	BBBBBBAAAAAAAAAAAAAAA A
PROJECT BASED ON A PRE-EXISTING WORK: sequel radio sitcom TV series comic strip non-fiction book short story novel play literary	B\$AAAAAAAAA\$\$  BA B BAAA BBBAAAAAAAAAAAAAA\$ \$AAA BBBA\$	\$  BAAA A BB\$AAAAAA BBA BBAA
1985 PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBBBBBB BB\$AAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAAA\$\$\$	BBBBAAAAAAAAAAAAAAAA AAA
PROJECT BASED ON A PRE-EXISTING WORK: sequel radio sitcom TV series comic strip non-fiction book short story novel play literary	B\$AAAAAAAAA\$\$  BBBBBBAAAAAAAAAAAAA\$ AAAA BA	A  AAA BBAAA BBBAAA B\$A

Table 30 (continued).

1986	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBBBBB££ AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA A\$\$	BBBBBBAAAAAAAAAA\$
PROJECT BASED ON A PRE-EXISTING WORK:	sequel AAAAA\$\$\$\$ radio AA TV sitcom A TV series BA comic strip AAA non-fiction book BBAAAAAAAAAAAAAAAAAAAA short story AAAAAA novel A play literary	A  AAAA  BBBBAAAAAA BAA B\$
1987		
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBBBBB£* AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAA\$\$	BBBB AAAAAAAAAAAAAAAAAAAAA\$
PROJECT BASED ON A PRE-EXISTING WORK:	sequel B£AAAAAA\$\$ radio TV sitcom A TV series A comic strip B non-fiction book BBAAAA short story BBAAAA novel BBAAAA play BBAAAA literary BBAAAA	A  BBBA BA B£AA AA BBBA

Table 30 (continued).

1988	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBB£AAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAA	BBBB££ AAAAAAAAAAAAAA\$
PROJECT      sequel BASED ON      radio A PRE-      TV sitcom EXIST.      TV series WORK: comic strip non-fiction book short story novel play literary	AAAAAAA*  A B AA \$ BBBBBAAAAAAAAAAAA BAAAAAAAA BAA	AA  BAAA  BAAAAAA AA BBBBBAAA
1989		
PROJECT ORIGINATED FOR THE CINEMA	BBBBBBBBBBBBBBBBBBBAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAAAAAAAAAAAAAAAAA AAAAA	BBBBB AAAAAAA\$
PROJECT BASED ON A PRE-EXISTING WORK: sequel  radio TV sitcom TV series comic strip non-fiction book short story novel play literary	B£AAAAAAAAAAAAAAAAAA \$  A BAAA BBBBBBBAAAAAAAAAA\$ BAAAA BBBBBAAA	B\$  £ BBBAAAA B BBBAAA AA BBA

Sources: adapted from: Halliwell (1991)  
Gifford (1986)  
Monthly Film Bulletin (various)  
Screen International (various)  
Variety (1991)

In considering the clustering shown throughout table 30, it is also useful to refer to table 31 on page 354 which gives a summary in the form of a percentage breakdown of product origin during the decade for the British and American industries respectively.

Table 31.  
Summary: Proportion of Total British and American Output Originated For the Cinema or Based on Pre-Existing Works.

Table 31.

	PROJECTS ORIGINATED FOR THE CINEMA		PROJECTS BASED ON PRE-EXISTING WORKS:											
	UK	US	Sequel		Radio		TV Sitcom		TV Series		Comic Strip		NonFic Book	
			UK	US	UK	US	UK	US	UK	US	UK	US	UK	US
1980	44%	60%	3%	1%	3%	0%	5%	0%	3%	1%	5%	1%	8%	8%
1981	46	61	14	5	0	0	0	0	0	1	3	1	3	5
1982	54	55	7	6	0	0	0	0	0	1	0	0	4	4
1983	39	69	11	8	0	0	0	0	3	1	3	0	0	2
1984	55	65	5	8	0	0	0	0	0	0	2	1	5	2
1985	64	73	5	8	0	0	0	0	0	0	0	0	0	2
1986	73	58	0	8	0	0	0	0	0	2	0	1	3	14
1987	51	72	4	7	0	0	0	0	0	2	0	1	9	1
1988	53	61	0	5	0	0	0	0	0	2	3	0	3	3
1989	44	63	7	13	0	0	0	0	0	0	2	0	6	4

	PROJECTS BASED ON PRE-EXISTING WORKS continued:							
	ShortStory		Novel		Play		Literary	
	UK	US	UK	US	UK	US	UK	US
1980	0	4	23	20	3	3	5	3
1981	5	3	11	18	3	6	16	1
1982	4	2	18	20	11	10	4	1
1983	0	0	22	15	8	4	14	2
1984	2	3	14	16	7	3	11	3
1985	0	0	18	11	7	5	7	1
1986	0	2	19	18	3	7	3	2
1987	6	5	13	5	6	5	11	4
1988	0	1	19	16	3	7	19	4
1989	4	2	20	11	4	4	13	3

Has the British film clustered largely in the areas of the Literary and Nostalgic adaptation as is argued by critics of the industry's product policy? And, if so, has such clustering inhibited the commercial success of the industry?

Taking the most purely cinematic locations in Table 30 (pages 348-52), that is the top left hand corners in which Projects Originated For the Cinema and Not Set in the Recent Past are located, there are large clusters of both British and American films there. Like the Americans, the British have had a policy of locating heavily in this sector.

Some British Projects Originated For the Cinema ARE Set in the Recent Past, but this would not be a disproportionate bias in British strategy when the extent of American clustering in this region - the top right hand corner of the tables - is observed. Hollywood is rarely criticised for a lack of commercial perception in product policy, but, as the clusters indicate, it was a consistent feature of product location in the nineteen eighties for some original American cinematic material to be Set in the Recent Past

The balance between setting original material in the Recent Past or not varies from year to year. However, the British typically have Set in the Recent Past about 20% of their Projects Originated for the Cinema, and the Americans about 18%. So one cannot conclude that, during the nineteen eighties, the British have had a distinct bias towards 'nostalgia' in their original screenplays.

Where film products are Based on a Pre-Existing Work, the data indicates the degree of importance of those areas which come closest to the pure Literary adaptation (as defined on page 346). Clustering is observed for the Play and, particularly, the Novel. But these are not areas in which the British are over-represented when compared with Hollywood's location. The summary table (31 above) indicates no consistent disparity of proportion between British and American utilisation of Novel and Play sources.

Over the whole decade, the British balance between the Recent Past and otherwise in respect of Novel utilisation is roughly similar to that of Hollywood, although the balance is tilted in the direction of the Recent Past in 1983, 1984 and 1986.

However, critics of British product location, who argue that the British cinema has been uncompetitive due to its propensity to emphasise Literary-Nostalgic attributes, would, with respect to Table 30, point to the Literary area itself.

In the Literary section of the product landscape (the last row of each year's table), absolute numbers of British Projects Based on Pre-Existing Literary sources equal or exceed those of Hollywood in eight of the ten years. The summary table indicates the relative position.

Moreover, the evidence indicates that the allocation of British Literary product between Set in the Recent Past or not tends to favour the Recent Past - the indicator of a Nostalgic



product character. This is particularly so in the second half of the decade.

But if this evidence does suggest a tendency in the direction of British Literary clustering in the Recent Past, it does not confirm the argument that such product policy has been a cause of the decline of the industry: the tables show two British box office hits during the decade among the Literary-Nostalgic clusters.

Thus the evidence would suggest that, despite the extreme difficulty for the British in competing in their own market, a certain amount of fishing in Literary-Nostalgic waters in the nineteen eighties led to two catches.

Table 32 on page 358 shows, for each part of the Literary-Nostalgic landscape, a 'strike rate,' ie. the number of box office hits (in the annual British top ten) per film made in each category.

Such a strike rate for the Literary-Nostalgic category for the British film industry in this period (0.0869) is more than twice as high as the rate for the supposedly more cinematic category, non-nostalgic Projects Originated For the Cinema (0.0361). Moreover, the US industry also has higher success rates in the Literary category than the Projects Originated For the Cinema.

However, while one might conclude that calls to abandon the Literary area would not be sound strategic advice, it is important to observe that (continued on page 359)

Table 32.

Literary-Nostalgic Characteristics of British and American Films Released For Exhibition in Britain During the Nineteen Eighties, and the Rate of Box Office Success Per Film Made.

	STRIKE RATE FOR FILMS:				OVERALL STRIKE RATE	
	NOT SET IN THE RECENT PAST		SET IN THE RECENT PAST		UK	US
	UK	US	UK	US	UK	US
PROJECTS ORIGINATED FOR THE CINEMA	.0361	.0384	.0979	.04	.0483	.0387
SEQUELS	.4762	.1954	0	.25	.4545	.2
NON-FICTION BOOKS	0	0	.0769	.0270	.0625	.0208
SHORT STORY	0	.0869	0	0	0	.0690
NOVELS	.0213	.0513	.0833	0	.0422	.0377
PLAYS	.0769	0	0	.0476	.0476	.0135
LITERARY	0	.05	.0869	.1538	.0488	.0909

(continued from page 357)

the highest strike rates for both British and American products is in Sequels.

Table 32 indicates that Hollywood achieved a 20% Overall success rate for the Sequels, and the British about 45% - as close as you can come to a sure thing in the film industry.

In a Goldmanesque product differentiation environment where there will be hits among new projects, but nobody has the slightest idea which films they will be, strategy is a matter of making large numbers of films in a variety of generic categories.

The largest absolute numbers of successes came, in the nineteen eighties, from Projects Originated For the Cinema. There were thirty four such American hits in Britain during the period.

However, as is recorded in table 32, adaptations of certain kinds of pre-existing work have offered a higher rate of success than Projects Originated For the Cinema - adaptations of Non-Fiction and Literary works in the British case, and Short Stories and Literary works in the American.

Whatever its source, a success is then typically remade in the form of a sequel. As the table shows, the probability of a repeat purchase by the consumer is relatively high.

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#### 5.4 Clustering Analysis 3: Nostalgic and Literary Attributes - the Post War Period.

It was observed above that an important point about product strategy during the period under consideration, the nineteen eighties, was that films were produced in various categories, but principally in the area of Projects Originated For the Cinema. And as and where hits resulted, Sequels often followed and frequently facilitated further success.

It can also be observed that on a relative basis - shown by the strike rates in the last column of of table 32 British films were highly competitive in the British market.

However, the drawback for the British industry of the random-hit-with-instant-sequel model of product strategy is that it requires large absolute numbers of films to generate a sufficient quantity of activity to enable one to dominate one's market.

But if it is the importance of numbers - the so-called critical mass of product - that is to be underlined, the problem for the British industry in this period is that the numbers (recorded on page 92) had never been lower.

Kay (1992) has likened this situation in the film industry to the notion of a 'dominant standard' emerging in the VCR industry. Like the British film, he argues, there is nothing inherently inferior about the Sony Betamax video system.

However, the VHS system (produced by JVC) prevailed over Betamax, just as Hollywood won out against its British

counterpart and became the dominant film standard, mainly because, Kay argues, the VHS product variant was made more widely available in larger quantities from an earlier date.

Table 33 on page 363 summarises British output during the eighties and indicates its paucity. It can be seen that, despite relatively few British Sequels, there were a number of successes in this area. However, the cycle only operates if there is simultaneously a large supply of new box office material coming through.

For example, during the decade, 879 Hollywood films based on Projects Originated For the Cinema were released for exhibition in the UK. Although the success rate was only 0.0387 in this category (compared with the British figure of 0.0483 - table 32, page 358), there were 34 hit films.

In the British case, as is illustrated by table 33, there is a fluctuating clustering of British Projects Originated For the Cinema which is almost invariably too small to provide a supply of successes each year sufficient to feed the machine.

Table 33 (page 363).

The Literary and Nostalgic Attributes of British Films Released For Exhibition in Britain in the 1980s, and the Location of the Annual Top Ten Films at the British Box Office.

Numbers indicate British releases:

each film first exhibited in 1980 is denoted by 0, in 1981 by 1, 1982 by 2, and so on.

£, \$ and \* indicate top ten hits at the British box office for British, American and other films respectively.



What of the earlier post-war period?

Tables 34 (a) to (d) review the Literary-Nostalgic characteristics of the output of the British film industry between 1946 and 1979. As before the the main commercial successes are indicated.

However, due to availability of data the basis is the American, rather than the British, box office. The locations are indicated for the top 50 films for the nineteen fifties, sixties and seventies, and the top 25 in the case of part (a) of table 34 (page 365) which deals with the second half of the nineteen forties.



Table 35 (a) to (d).  
 THE LITERARY ORIGINS AND THE NOSTALGIA CONTENT OF POST-WAR  
 BRITISH FILM RELEASES AND OF THE MOST SUCCESSFUL FILMS AT THE  
 NORTH AMERICAN BOX OFFICE. (By Decade.)

Table 35 (a).  
 The 1940s: 1946 to 1949.

	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
-----	-----	-----
PROJECT ORIGINATED FOR THE CINEMA	6666666666\$\$\$ 77777777777777\$\$ 8888888888888888£ 999999999999999999999999 9999999999999999\$	666666\$\$\$ 7777 88\$\$ 999999
-----	-----	-----
PROJECT sequel BASED ON A PRE-EXISTING radio WORK	\$ 88 9 6  888 999  TV series TV sitcom comic strip non-fiction book short story novel  play   literary 66 77 888888 999	\$   \$   \$   666\$\$ 777777\$ 8888888 999 6 7\$ 88 99 \$ 7 88 999
-----	-----	-----

(\$ for non-fiction = 1946.)

Table 34 (a) indicates that, between 1946 and 1949, there was considerable clustering in the area of Projects Originated For the Cinema and Not Set in the Recent Past. And as the industry expanded at the end of the period, there was a disproportionate rise in clustering in this area rather than a tendency to expand by locating more product in the Recent Past/Literary categories,

There was further clustering in the area of Non-Literary Novels, but the relative popularity of this fell at the end of the forties on both sides of the nostalgia divide.

Activity in general was considerably biased towards the left hand side of this divide. The Literary clustering was small and, on the whole, dwindled.

Table 34 (b).  
The 1950s: 1950 to 1959.

	IS THE FILM SET IN THE RECENT PAST?	
	NO	YES
PROJECT ORIGINATED FOR THE CINEMA	000000000000000000000000000000 00	0000
	1111111111111111111111111111\$	111
	222222222222222222222222222222 22\$\$\$	2222
	3333333333333333333333333333\$	333
	444444444444444444444444444444 4444444444\$\$	444\$
	555555555555555555555555\$	
	666666666666666666666666666666 666666\$	66
	777777777777777777777777777777 777777777	7
	8888888888888888	8888888888\$
	9999999999999999999999999999\$	99999

(continued)



Considering the nineteen fifties, the category with the highest frequency is Projects Originated For the Cinema and Not Set in the Recent Past. During the decade, the total number of films produced is fairly stable, and the proportion distributed into the top left hand corner of the table is around one third.

The industry shows little tendency to introduce nostalgia into its original screenplays - there is only a small cluster in the top right hand section of the table. The exception is 1958 when the balance between the Recent Past and otherwise is reversed.

Projects based on Non-Literary Novels Not Set in the Recent Past are also an important variant. The nostalgic side of the divide is neglected in comparison. There are several American hits there in the middle of the decade, followed by a small boom in 1958 in British Novels (and Originals) in the Recent Past.

But one cannot conclude that product location is determined by the position of hits in this space. After all, there are four Hollywood hits in 1955 resulting from Projects Based on Plays, but no subsequent agglomeration of British Play adaptations.

As with the 1940s, the emphasis of the clustering throughout table 34(b) is largely on the left hand side of the nostalgia divide. Where this might disabuse critics of the notion that the British film industry had a tendency to nostalgia, the observation that Literary projects were few in

number might further counter the standard criticisms.

The Literary clustering did not grow despite major hits, including one British, in this area. And of the six American Literary hits, four were in the nostalgic section.

Table 34 (c).  
The 1960s: 1960 to 1969.

		IS THE FILM SET IN THE RECENT PAST?	
		NO	YES
PROJECT ORIGINATED FOR THE CINEMA		000000000000000000000000000000	000
		000	
		111111111111111111111111111111	1111111
		111111111\$	
		222222222222222222222222222222	2£\$
		222222222	
		333333333333333333333333333333	33
		33333333\$	
		4444444444444444444444444444	4444
		555555555555555555555555555555	55555\$
		5555555	
		666666666666666666666666666666	66
		6666666	
		777777777777777777777777777777	777\$
	7777		
	888888888888888888888888888888\$	888	
	999999999999999999999999999999	99999\$	
	9999\$\$\$		
PROJECT BASED ON A PRE- EXISTING WORK	sequel	000012223333	
		4444£	
		555£	
		666	
		777£	
		888889999	
	radio		
	TV series	057	
	TV sitcom	0	8
	comic strip	6	
	non-fiction book		0022\$
		99	3555799
	short story	012333455777	
		888£	
	9		

(continued)





The clustering for the nineteen sixties again indicates that, rather than any other category, the British competed by distributing more product into the ostensibly most cinematic area - Projects Originated For the Cinema and Not Set in the Recent Past. The clustering in this area was fairly stable and slightly greater than in the nineteen fifties.

As in the fifties, the Non-Literary Novel and Play were the regions of next importance. One might well be advised to compete there as some hits at the North American box office, mainly, although not entirely, American were located there.

Although British location in the Literary region was again relatively restrained, it turned out to be a very profitable category offering up a number of successes including three British. Thus the British Literary film in this period had repeatedly found the Holy Grail of the British film business: major box office success in the US.

It was noted earlier that one of the main aspects of film product location in the nineteen eighties was the Sequel - the constant re-making of hits. Although the Sequel was not the goldmine it became in the eighties, clustering of Sequels is seen to build from the fifties and into the sixties when the profitability of the strategy is demonstrated from a British point of view. There are three British hits among Sequels.

Table 34 (d).  
The 1970s: 1970 to 1979.

		IS THE FILM SET IN THE RECENT PAST?	
		NO	YES
PROJECT ORIGINATED FOR THE CINEMA		000000000000000000000000000000	00000
		000000000000	
		111111111111111111111111111111\$	111
		22222222222222222222222222222222	222222
		22222222222222	
		33333333333333333333333333333333	3333\$\$
		3	
		44444444444444444444444444444444\$	4444444444\$
		55555555555555555555555555555555	5555555555
		555555\$	
		66666666666666666666666666666666	666
		6666\$\$\$\$	
		777777777777\$\$\$\$	777
	88888888888888888888888888888888	8888888888	
	99999999999999999999999999999999£\$\$	9999999999	
PROJECT BASED ON A PRE- EXISTING WORK	sequel	00	
		11	
		22222	
		33333	
		4444	\$
		555555	
		66777	667
		888888\$	8
		9£\$	
	radio	2	
	TV series	1	
		22222	
		4	
		7	
		8	
		£\$	
	TV sitcom	111	1
		22	
		333333	
		4	
	6		
	7		
	9		

(continued)



Finally, the nineteen seventies can be considered: as before, the predominant tendency of British film makers is to locate in the sector where Projects are Originated For the Cinema and Not Set in the Recent Past.

There is a reduction after 1976. However, the total numbers of British films being produced are falling. It is important to note that this decline, the subsequent crises of the nineteen eighties and the virtual extinction of the industry in the early nineties took place against a post-war background where product strategy had not indulged unduly in either Literary adaptation or Nostalgia.

Again in the seventies, there is relatively little location on the right hand side of the nostalgia divide. In the seventies, it is also apparent that there was little tendency to expand clustering around Sequels. This is perhaps surprising given the hits there in the sixties.

A major trend in the early seventies, emanating from the reduced circumstances of the major British producers (as discussed in Chapter 3), is shown by the growth of TV Series and TV Sitcoms as locations for product. This, rather than the Literary-Nostalgic, is a truly uncinematic genre.

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## 5.5 The Economics of Product Competition.

As noted in section 5.1, product differentiation can be either vertical (ie. by quality, whereby households can agree on rankings of products), or horizontal.

Horizontal differentiation can be viewed in two ways - different combinations of attributes appeal to different consumers (A prefers Westerns; B musicals), and consumers generally favour the availability of a selection of product variants (a wide range of genres and film stars).

Horizontal differentiation gives rise to the notion of the availability for incumbent firms of market niches for a range of products without price competition. Moreover, barriers to entry can be seen to arise in cases where incumbents offer such a proliferation of product variants.

This analysis arises within the context of spatial competition. As was observed on page 294, this is a strand of economic analysis concerned with horizontal product competition which initially grew out of the work of Hotelling (1929). Further major contributions can be attributed to Chamberlin (1933), Lerner and Singer (1937) and Lancaster (1966).

Hotelling's original model established that the equilibrium market-share maximising location for two firms in a linear market would be to cluster back to back in the centre of the market. In developing this model, subsequent analysis has increased the number of firms, looked at competition on a plane, rather than a line, and relaxed Hotelling's assumptions

concerning inelastic consumer demand.

Bain (1956) identified product differentiation as one of three sources of barriers to entry. Entry would be made difficult as a result of the high marketing costs imposed on the entrant when competing with the consumer brand loyalty, design know-how and access to distribution enjoyed by the incumbent.

Dixit (1979) found that barriers to entry need not be attributed to product differentiation per se if there is only one product variant: the source of the barrier is the economies of scale which accrue to the incumbent. But what about cases in which there is a range of horizontally differentiated products? Economies of scale remain important.

In general in the context of barriers to entry, it is customary to make an assumption concerning post-entry reaction of existing producers. Both Bain (op cit) and Sylos-Labini (1962) assume that incumbents sustain the pre-entry level of output.

In this tradition, if the incumbent has a proliferation of differentiated products, the potential entrant would make an assumption that the incumbent will not alter its product range after entry has taken place. Lyons (1988) shows that, in such an environment, entry will appear unprofitable and will be deterred.

The assumption of no post-entry product differentiation reaction is likely to be made on the part of the entrant if

there are economies of scale and sunk costs. The latter will have been incurred in the form of product development and in advertising of a location-specific nature. These sunk costs are assumed to have the effect of anchoring the existing firm in the existing product locations.

The incumbent has populated the product differentiation landscape with its product variants. The spaces between products give the incumbent a consumer population which 'travels' to product locations. With the presence of economies of scale, however, the spaces do not leave enough room for competitive entry.

An early illustration of this scenario is that of Schmalensee (1978) whose study of 'Entry Deterrence in the Ready-to-Eat Breakfast Cereal Market' showed that the existence of economies of scale necessitated, in effect, an impossibly high minimum efficient size for an entrant - on entry, three new product variants would be required.

For Hay and Morris (1991), the entry deterrence concerns of Schmalensee were succeeded in the story of spatial product competition by a new chapter written by Shaw (1982) and Swann (1985). As was briefly noted in section 5.1, these models deal with the question of the clustering of products in characteristics space.

Shaw's study of product competition in the UK fertiliser industry shows the location of products in this space to be related to the density of demand. The competitive process from



1958 to 1978 is analysed in terms of the introduction, relocation and proliferation of products.

Shaw's conclusions show, with Eaton and Lipsey (1975), that 'clusters of minimally differentiated products will tend to develop in the process of competition'. Moreover, rather than competitive leapfrogging to relocate products in open sections of the product space, firms persist with existing locations. Shaw attributes this, in part, to sunk costs.

Where leapfrogging does take place, this is explained by the launching of new variants based on new technology, and not as a competitive technique based on reshuffling into new combinations the existing attributes of products.

Swann considers the clustering of product designs in competition in the microprocessor industry between 1971 and 1981 and stresses that mutual agglomeration economies, ie. 'economies accruing to firms that locate close to each other,' provide an important incentive for clustering.

External agglomeration economies arise in various ways: there are infrastructural and informational externalities at existing locations. Imitators of products are not only attracted to clusters by the reduced design and development costs there, but by the lower level of market uncertainty implied, and the total market is increased as a result of reduced consumer search costs.

Hay and Morris (op cit) observe that 'more studies along the lines of Shaw and Swann are essential to a proper

evaluation of the theoretical models of product differentiation'.

Such a study is facilitated by the preceding three sections of the present chapter. These sections have considered the clustering in product characteristics space of British films. What conclusions can be drawn in the light of the economic theory of product competition?

The main theoretical concerns are barriers to entry and economies of scale, sunk costs, leapfrogging, clustering of minimally differentiated products, and external agglomeration economies. The operation of these factors can be observed in the data.

(i) Barriers to entry arising from incumbents' product proliferation and economies of scale: it could be argued from the film characteristics observed that barriers to entry do not arise from product proliferation - they lie elsewhere (in access to finance and to the distribution/ exhibition sector). A new firm producing only a single film project would be viable, other things being equal.

On the other hand, however, it has been established that the long term viability of the firm in the film industry necessitates, among other things, a production strategy in relation to uncertainty whereby there is a diversified slate or 'critical mass' of film product.

(ii) Sunk costs: the tendency identified by Shaw (op cit)

for sunk costs incurred at a particular product location to have the effect of keeping the firm in that location is reflected in the trend observed in the data for the growth of film sequels.

In the film industry, successful 'brands' are replicated as sequels largely because one has little idea of the location of other fertile territory in the product differentiation landscape. However, sunk costs serve to reinforce the propensity to produce sequels - one wishes fully to exploit the brand (James Bond, Superman, Batman and so on) into which one has invested unrecoverable expenditure.

Sunk costs of the development and advertising of a single film product are a significant influence on subsequent product location: Boorman (1992) records the costs of marketing a film for a release across the US: \$4 million for trailers, press junkets and screenings, plus at least \$15 million for television advertising.

(iii) Leapfrogging: it was observed in section 5.2 that certain product categories - comedy, crime, drama and fantasy - tended to be continuously popular locations, and that the practice of breaking out of these clusters and making for the open spaces was relatively rare.

As Swann (ibid) has pointed out in the case of the microprocessor industry, the tendency for firms to cluster can be explained either as a risk aversion strategy or as a reflection of 'the forces at work in the unmodified Hotelling

model'.

In the case of the film industry, the level of risk attaching to any single project is almost without parallel. Experimentations in characteristics space, leading to isolated location, is correspondingly uncommon.

(iv) Clustering of minimally differentiated products tends to develop in the process of spatial product competition: the most striking feature of product differentiation in the film production industry is the frequency with which cycles of films will appear dealing with the same subject matter.

For instance, 'Airport' (1970) introduced a 'disaster movie' cycle which ran through the nineteen seventies encompassing, among others, 'The Poseidon Adventure' (1972), 'Earthquake' (1974), 'The Towering Inferno' (1974) and two 'Airport' sequels (1975 and 1977).

When a cycle appears to have run its course, an extension can be forthcoming through films which set out to send up the genre in question - in the case of the disaster movie cycle for example, 'Airplane' (1980) which itself generated 'Airplane 2 The Sequel,' (1982).

For Goldman (1984), 'The movie business is a gold rush business!' A new combination of attributes which is seen to facilitate good fortune at the box office will rapidly attract large crowds of prospectors to the location.

The success of 'Lethal Weapon' (1987), for example, inaugurated a cycle of 'contrasting cop teams' ('MFB' 1989).

The protagonists of 'Lethal Weapon' (and its two sequels) were two police detectives, one black and sane, the other white but insane. This film was followed in 1988 by 'Saigon' (two cops, black/white), 'The Presidio' (military/civilian), 'Red Heat' (communist/capitalist) and 'Dead Heat' (living/dead).

In the early nineteen nineties, there was a cycle in Hollywood of films made by black directors. This was originated by 'House Party' (1990) an independent film which had cost \$2½ million to make but took \$27 million at the North American box office. By mid-1991, every studio wanted to make such black films (as opposed to the former model of Hollywood films about black people but made by whites).

In 1991, nineteen black films ('New Jack City,' 'Boyz N the Hood,' etc.) were made by the major studios. This was more than the total of black films for the entire decade of the nineteen eighties.

Such 'clustering of minimally differentiated products' is explained by Goldman's view and, more formally, by the notion of external economies as discussed under point (v) (below).

(v) External agglomeration economies: information externalities have a role in locating product characteristics in the sense that an existing success, in an industry where uncertainty is very high, indicates to producers, distributors and exhibitors what is at this time commercially, and perhaps technically feasible.

It may be felt that consumer search costs are reduced by

clustering of product, and that this will cause an expansion of total demand. For example, if films dealing with World War II are presently popular with consumers, the latter will enjoy zero marginal costs of search, it can be assumed, on the release of another production set in World War II, and thus the market equilibrium level of consumption will be at a higher level than one weighed down by costs.

Infrastructural agglomeration economies in product characteristic location can be of further significance in that current film themes, subject matter, production values, personnel or matters of exhibition strategy suggest to the firm where it needs to locate its product in order to achieve a minimum acceptable return on investment.

That this may, for some critics, have led to a dismal derivative and imitative British cinema may be beside the point. Of greater relevance perhaps is the notion of potentially high product relocation costs should the film fail to sell. The film industry is almost never experimental.

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## CHAPTER SIX.

### THE DECLINE OF THE BRITISH FILM INDUSTRY - CONCLUSIONS.

Although the American film industry has always had a dominant position in relation to the British industry, the latter has undergone a very real decline in recent years. In the post-war period:

(i) the British film industry has failed to hold its relative share in the home market - this has fallen from more than 25% to less than 10%

(ii) the industry's two Hollywood-type major studios have moved from the financing of significant numbers of films to total withdrawal from production

(iii) the annual output of films has fallen by more than 50%

In Chapter One, six central factors were identified as important aspects of the decline of the British film industry. By way of conclusion, each factor is reviewed below.

1. The British majors.
2. The Hollywood role in British distribution and production.
3. British government film policy.
4. Finance for independent production.
5. Production cost constraints.
6. The nature of the product.



## 1. The British 'Majors.'

(i) The British majors, ABPC and Rank/GBPC, emerged at an early stage as vertically integrated combines following the Hollywood model. However, their role in relation to the production sector of the British film industry was not sustained after the nineteen forties.

(ii) The British majors and the Structure-Conduct-Performance model: at first, the duopolists are vertically integrated and they facilitate British production. But this is curtailed because of high barriers to entry into the American distribution sector.

(iii) Conduct follows in the form of a product strategy of smaller and fewer films, and a squeeze on independent production through lack of finance.

(iv) Furthermore, barriers are erected by the duopolists reducing access for British independent production into domestic exhibition. The British majors' control of domestic exhibition shores up Hollywood at the expense of British activity.

(v) The British and American majors enjoy joint profit maximisation across the distribution-exhibition border under bilateral monopoly reinforced by anti-competitive practices like barring and alignments.

(vi) Performance: firms are unable to compete in their home market; expanding British film entrepreneurs invariably crash; the allocation of resources to the British production industry

is sub optimal; decline is continuous.

(v) In the absence of the British majors, the structure of the domestic production sector is characterised by numerous precarious firms, some producing just one film and others growing but failing to enjoy sustained growth. The industry is similar to Marshall's forest in which trees grow to a certain height but then die.

(vi) For a viable British film industry today, some form of British major studio is required. It must penetrate the US distribution sector and act (as the Hollywood majors do for US production) as the hub in a wheel of British film making.

(vii) This British major must have perhaps twenty five films a year, sufficient capital to withstand the inevitable intermittent expensive disaster, and appropriate organisational resources in terms of people and branches in the US.

(viii) This British major would be established as a public corporation by the British government. In addition to a central role as a distributor on both sides of the Atlantic, it would acquire production and exhibition facilities respectively at (say) Shepperton Studios and the MGM cinema circuit.

(ix) To facilitate the necessary expansion into distribution in the US, the new organisation would forge a partnership with a Hollywood major whose parent company would be induced into this relationship by subsidies and tax holidays concerning its other, non-cinema activity in the UK.

## 2. The Hollywood role in British distribution and production.

(i) Control of distribution has been the key to film industry economics generally, and the main preoccupation of Hollywood in relation to the British film industry.

(ii) In film production and distribution, there are very high fixed costs of production of the master negative, and subsequently low variable costs of producing prints and advertising screenings.

(iii) Hence, films are a very exportable commodity. Sustaining the early penetration of the British distribution market was a priority for Hollywood. The bilateral monopoly of American and British majors over British distribution and exhibition has constituted an important constraint on British production over many years.

(iv) In the permanent absence of a Competition Policy in respect of the cinema industry, Hollywood dominance of the British market has increased further. It is now almost total: from 1988 to 1990, American films' share of UK exhibition rose from 75% to 86%; the British share fell from about 16% to 12%. With UK admissions having recovered to 100 million, UK distribution subsidiaries of the Hollywood majors did very well in the UK: UIP, for instance, turned over £645m. ('Screen International,' 8/5/92). £510m was accounted for by repatriation to the parent corporation in the US (cf. any form of UK investment).

(v) Production: there have been a number of cycles of American

production activity in the UK, and many major Hollywood films (including six of the top ten all time North American box office hits) have been made in British studios.

(vi) Advantages for the British film industry: such Hollywood production is an important source of employment and output; without it, and in the absence of significant British production, the industry's infrastructure will decline and eventually disappear.

(vii) Disadvantages: the British film industry can operate at full capacity and yet produce no British films. And if British films ARE financed by Hollywood (as in the nineteen sixties), domestic finance recedes and sources are scarce when the Americans withdraw.

(viii) Why do the US majors periodically come to Britain? Push factors: high production cost inflation in Hollywood; periodic cash richness of the Hollywood majors. Pull factors: the common language, relatively low British production costs; a low Sterling exchange rate; skilled labour; Eady money; favourable taxation arrangements for visitors; fashion.

### 3. British government film policy.

(1) A national film industry gives rise to a wide range of positive external benefits. However, the effect of a variety of government policies which have been applied to the British film industry is that these externalities have not been fully

priced.

(ii) Numerous reports and recommendations concerning the British film industry have not been implemented in full: the Palache Report of 1944 recommended the setting up of an NFFC-type organisation but together with a public sector distributor; a Monopolies Commission report in 1966 was critical of the British majors' monopoly of the exhibition circuits and their restrictive practices in relation to distribution - and, nearly twenty years later, a Monopolies and Mergers Commission panel found itself writing almost exactly the same report.

(iii) For many years, successive governments' measures to sustain market improvement involved the use of three instruments: the Screen Quota, the NFFC and the Eady Levy. All three support measures had flaws: the Quota was abused; the NFFC was underfunded; and Eady rewarded the already successful film maker who was often American, not British.

(iv) It is now clear that, despite the imperfections, these small measures of government policy saved the British film industry from extinction. The industry declined, but it did not disappear.

(v) In the early nineteen eighties, the Quota, the NFFC and the Eady Levy were abolished in order to expose the industry to 'market forces.'

(vi) Market forces has destroyed the British film industry.

#### 4. Finance for independent production.

(i) Numerous British firms in film production have enjoyed periods of success, making memorable British films.....  
.....followed by inevitable collapse. Eventually, the entrepreneurial model of the film firm is almost invariably seen to lack viability in the British context.

(ii) Ongoing viability for such a film firm would require a relationship with a British major studio with control of distribution. Without this hub to the wheel of the film industry, film firms are spokes which will fall out of the wheel. Then the wheel itself collapses.

(iii) Such a presence in distribution would necessarily be on both sides of the Atlantic: the US major studios control over 90% of distribution inside North America. That this is a very large market is the basis of their competitive advantage

(iv) The British came close to having a working hub and spokes model during the Independent Producers era under Rank's aegis in the nineteen forties. Insurmountable barriers to entry to US distribution led to its downfall.

(iv) Ostensibly, a British film firm can manage risk through a portfolio approach. However, Goldcrest shows how, without control of distribution, a careful risk management strategy of portfolio investment is likely to degenerate into a doomed struggle for mere survival. A balanced film portfolio gives way to open-ended expenditure commitments to a few big budget commercial failures.

(v) Only occasional British projects get Hollywood major studio finance. Otherwise, British production usually means ad hoc finance through television, British Screen and/or pre-sales to independent distributors in territories.

(vi) Such deals are increasingly hard to come by. Deal structures discriminate against British producers.

(vii) City of London investment is rare. The film production company has limited appeal for venture capitalists. The role of banks is normally limited to loans secured against contracted pre-sales.

(viii) The nature and timing of tax allowances can unlock finance sources and constitute a crucial factor in terms of cash flow.

##### 5. Production cost constraints.

(i) British film makers' budgets are frequently low. This inhibits their ability to compete with Hollywood.

(ii) The production values exhibited on the screen are impoverished by low budgets (although there are interesting cases where necessity has been the mother of invention). Fewer stars are employed; there are short shooting timetables which thereby curtail time for preparation or experimentation with camera angles.

(iii) Locations have to suffice in place of the more expensive controlled environment of a studio. Unlike the situation in most American cities, attitudes of British officials are often

inimical to effective location work.

(iv) In British production in the late nineteen eighties, above the line expenditure was about 12½% of budgets, below the line 72% and indirect costs 15½%.

(v) Cost constraints meant that above the line costs had fallen from about 21% over a thirty five year period, pushing up the proportion of the budget available for the actual making of the film.

(vi) Direct labour costs as a whole have remained roughly constant over this period. The downward trend in above the line labour costs (including producers' and directors' fees) has been balanced by an increase in expenditure on production unit salaries (including overtime payments necessitated by the long working days which cost conscious film making requires).

## 6. The nature of the product.

(i) Product competition in the film industry in an environment of high risk frequently leads to a clustering of minimally differentiated products.

(ii) Film makers assume that there are agglomeration economies in the clustering of product in characteristics space around currently popular themes, stars and so on. The film industry is rarely experimental.

(iii) The British film industry has consistently attempted to compete with Hollywood in all the major subject areas of the cinema, except the Western and the Animated Cartoon.



(iv) Where the British have not been able consistently to compete is in the scale of the films. Hits tend to be clustered in High Budget categories; the British are often constrained to locating product in Medium and Low Budget niches

(v) Nobody knows which films will succeed, but a few will be major hits. It is essential that there is a 'critical mass' of production. Without this, the British industry cannot compete, even in its home market, with Hollywood.

(vi) Sunk costs are high at each brand location. When the 'blockbusters' have been located, they can be remade as Sequels.

(vii) The highest relative frequency of success in the nineteen eighties was among sequels. The British enjoyed ten such hits in the home market during the eighties. Of these, six were James Bond films. Two were Superman sequels (in reality, American films made in the UK).

(viii) The two other sequel successes were 'Monty Python' films. The Star System as an effective medium of product differentiation is important in the contemporary film business: some 'Python' related British films ['Time Bandits' (1981), 'Clockwise' (1986), 'A Fish Called Wanda' (1988) and 'Nuns On the Run' (1990)], but not all, were money makers on both sides of the Atlantic.

(ix) Consistently over the post-war period, the British film industry has tended to base films on original screenplays which are not set in the recent past. It has done this to a greater

extent than it has adapted pre-existing sources or betrayed a tendency for nostalgia by setting films in the recent past. The evidence does not support the view that the British have had an undue propensity during this period to locate their product variant in 'literary' or 'nostalgic' areas of the product differentiation landscape.

(x) Any alleged tendency to a literary-nostalgic product in the nineteen eighties and early nineties cannot explain the decline of the industry: continuous post-war decline took place without this characteristic.

(xi) A nostalgic orientation is not inappropriate for the cinema. Hollywood has enjoyed an intermittent nostalgia boom since 'American Graffiti' in 1973. Major commercial successes have ensued ['Back to the Future' Parts 1, 2 and 3 (1985-90); 'Peggy Sue Got Married' (1986); 'Dead Poets' Society' (1989)]

(xii) A literary-nostalgic orientation is not inappropriate for the cinema: the greatest British film, 'The Third Man' (1949), was in this genre; and the recent films of E. M. Forster's 'A Passage to India' (1984), 'A Room With a View' (1986), and 'Howards End' (1992) have all been British commercial (and artistic) successes.

It is time for what remains of the British Film Industry to make 'The Longest Journey'!

Appendix.

Table 35.  
British Long Films by Genre, 1927 to 1948. (%)

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Adventure	16.7	9.3	4.6	0	0	2.5	2.5	3.4	6.7	2.5	10.3
Animal	0	0	0	0	0	0	0	0	0	0	0
Children	0	0	0	0	0	0	0	0	0	0	0
Comedy	6.7	18.5	4.6	29.8	31.3	32.9	40.0	21.8	29.2	27.1	27.1
C'pilation	0	0	0	0	0	0	0	0	0	0	0
Crime	13.3	18.5	39.5	25.5	28.4	20.2	10.0	13.8	13.5	16.1	16.8
Drama	13.3	16.7	27.9	4.3	10.4	11.4	3.8	9.2	7.9	9.3	5.6
Fantasy	3.3	0	2.3	0	0	0	2.5	1.2	3.4	3.4	0
History	3.3	3.7	0	0	1.5	0	1.2	3.4	5.6	4.2	2.8
Horror	0	0	0	0	0	0	1.2	0	0	0	0
Musical	0	0	2.3	21.3	9.0	17.7	22.5	35.6	23.6	29.7	26.2
Nudist	0	0	0	0	0	0	0	0	0	0	0
Religion	0	0	0	0	0	0	0	0	0	0	0
Revue	0	0	2.3	2.1	0	0	0	0	1.1	2.5	0
Romance	10.0	18.5	14.0	4.3	16.4	14.0	11.2	9.2	4.5	2.5	3.7
Sport	3.3	1.8	0	4.3	1.5	0	2.5	1.2	2.2	0.8	1.9
War	30.0	13.0	2.3	8.5	1.5	1.3	2.5	1.2	2.2	1.7	5.6
Western	0	0	0	0	0	0	0	0	0	0	0

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Adventure	2.3	2.9	0	2.2	0	0	0	0	5.4	5.9	2.9
Animal	0	0	0	0	0	0	0	0	0	0	0
Children	0	0	0	0	0	0	0	0	0	2.0	0
Comedy	44.3	35.7	36.6	39.1	34.1	31.1	29.4	13.2	13.5	11.7	14.3
C'pilation	0	0	0	0	0	0	0	0	0	0	0
Crime	20.4	32.9	29.3	15.2	9.1	11.1	11.8	15.8	18.9	33.3	40.0
Drama	9.1	7.1	9.8	13.0	2.3	8.9	14.7	18.4	10.8	27.4	17.1
Fantasy	0	0	2.4	2.2	2.3	0	8.8	7.9	2.7	2.0	5.7
History	2.3	0	0	6.5	9.1	0	0	2.6	2.7	3.9	5.7
Horror	0	1.4	0	0	0	0	0	0	0	0	0
Musical	18.2	4.3	9.8	6.5	6.8	11.1	17.6	15.8	21.3	3.9	2.9
Nudist	0	0	0	0	0	0	0	0	0	0	0
Religion	0	0	0	0	0	0	0	0	0	0	0
Revue	0	2.9	0	0	0	0	0	0	0	0	0
Romance	2.8	2.9	0	2.2	0	6.7	11.8	15.8	13.5	5.9	5.7
Sex	0	0	0	0	0	0	0	0	0	0	0
Sport	0	2.9	0	0	0	0	0	0	0	2.0	2.9
War	1.1	7.1	12.2	13.0	36.4	31.1	5.9	10.5	10.8	2.0	2.9
Western	0	0	0	0	0	0	0	0	0	0	0

Table 35 continued.

	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Adventure	3.3	10.7	7.8	6.3	4.9	11.8	4.1	8.8	10.8	10.1	9.0
Animal	0	0	0	0	0	0	0	0	0	0	0
Children	0	0	0	0	0	0	0	0	0	0	0
Comedy	29.4	17.3	32.8	30.4	24.4	27.1	38.4	28.8	21.5	21.4	33.3
C'pilation	0	0	0	0	0	0	0	0	0	0	0
Crime	30.4	36.0	31.2	32.9	39.0	28.2	28.8	32.5	31.2	19.1	25.6
Drama	8.7	18.7	12.5	15.2	7.3	10.6	9.6	7.5	12.9	9.0	9.0
Fantasy	4.4	1.3	4.7	1.3	4.9	4.7	0	6.2	1.1	3.4	1.3
History	2.2	1.3	3.1	0	2.4	2.4	1.4	1.2	1.1	2.2	0
Horror	0	0	0	0	0	0	1.4	1.2	5.4	7.9	5.1
Musical	1.1	2.7	3.1	2.5	4.9	1.2	4.1	5.0	5.4	4.5	7.7
Nudist	0	0	0	0	0	0	0	0	0	0	1.3
Religion	0	0	1.6	1.3	0	0	1.4	0	0	0	0
Revue	0	0	0	0	0	0	0	0	0	0	0
Romance	16.3	6.7	1.6	5.1	1.2	5.9	4.1	1.3	2.2	5.6	1.3
Sex	0	0	0	0	0	0	0	0	0	0	0
Sport	0	0	0	0	3.7	3.5	0	1.2	0	0	0
War	4.4	5.3	1.6	5.1	7.3	4.7	6.8	6.2	8.6	16.8	6.4
Western	0	0	0	0	0	0	0	0	0	0	0

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Adventure	3.7	9.0	11.0	5.5	11.1	6.9	2.9	8.8	2.7	2.4	0.9
Animal	0	0	0	0	0	0	0	0	0	0	0
Children	0	0	0	0	0	0	0	0	0	0	1.9
Comedy	33.3	35.9	30.8	26.4	15.9	19.2	30.9	17.5	16.2	14.3	15.9
C'pilation	0	0	0	0	0	1.4	0	0	0	0	0
Crime	24.7	24.4	17.6	22.0	27.0	24.7	23.5	20.0	18.9	17.9	19.6
Drama	13.6	10.3	18.7	20.9	7.9	11.0	8.8	13.8	21.6	19.0	18.7
Fantasy	2.5	2.6	3.3	6.6	4.8	6.9	8.8	11.2	10.8	8.3	3.7
History	3.7	0	2.2	3.3	1.6	4.1	2.9	1.2	6.8	4.8	7.5
Horror	6.2	5.1	4.4	1.1	11.1	8.2	10.3	11.2	5.4	4.8	13.1
Musical	2.5	1.3	5.5	8.8	7.9	9.6	5.9	5.0	6.8	3.6	2.8
Nudist	1.2	0	0	0	0	0	0	0	0	1.2	0
Religion	0	0	0	0	0	0	1.5	1.2	0	1.2	0
Revue	0	0	0	0	0	0	0	0	0	0	0
Romance	2.5	3.8	1.1	2.2	4.8	2.7	1.5	5.0	2.7	8.3	8.4
Sex	0	0	0	0	0	0	0	0	0	0	0.9
Sport	0	1.3	0	0	0	0	0	0	0	1.2	0.9
War	6.2	5.1	5.5	3.3	7.9	5.5	2.9	5.0	6.8	9.5	5.6
Western	0	1.3	0	0	0	0	0	0	1.4	0	0

Table 35 continued.

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Adventure	3.9	2.2	2.4	1.6	6.2	3.4	8.9	2.1	0	5.4	2.9
Animal	2.0	0	1.2	0	0	3.4	2.2	2.1	2.0	0	0
Children	0	0	1.2	1.6	0	0	0	0	0	0	0
Comedy	25.5	15.0	24.4	14.8	15.6	13.8	13.3	10.4	5.9	13.5	2.9
C'pilation	0	0	0	0	1.6	0	0	2.1	0	0	0
Crime	17.6	20.4	18.3	19.7	15.6	12.1	15.6	29.2	21.6	13.5	17.6
Drama	11.8	16.1	8.5	4.9	17.2	13.8	13.3	2.1	9.8	8.1	11.8
Fantasy	2.0	4.3	6.1	4.9	1.6	3.4	11.1	12.5	15.7	10.8	20.6
History	2.0	6.4	2.4	1.6	0	6.9	2.2	2.1	0	5.4	0
Horror	11.8	16.1	11.0	27.9	9.4	12.1	0	12.5	5.9	5.4	17.6
Musical	5.9	4.3	8.5	4.9	14.1	6.9	4.4	2.1	7.8	10.8	8.8
Nudist	0	0	0	0	0	0	0	0	0	0	0
Religion	0	0	1.2	0	0	0	0	0	0	0	0
Revue	0	0	0	0	0	0	0	0	0	5.4	0
Romance	0	1.1	2.4	1.6	1.6	0	0	0	3.9	5.4	5.9
Sex	9.8	10.8	9.8	11.5	15.6	20.7	17.8	14.6	7.8	8.1	5.9
Sport	0	0	0	0	0	0	2.2	2.1	2.0	2.7	2.9
War	2.0	1.1	1.2	0	1.6	3.4	8.9	6.2	15.7	5.4	2.9
Western	5.9	2.2	1.2	4.9	0	0	0	0	2.0	0	0

	1982	1983	1984	1985	1986	1987	1988	1989
Adventure	0	0	2.4	2.2	2.8	4.3	3.2	5.8
Animal	0	0	0	0	0	0	0	0
Children	0	0	0	0	0	0	3.2	5.8
Comedy	15.4	22.9	23.8	15.6	8.3	17.4	9.7	13.5
C'pilation	0	0	0	0	0	0	0	0
Crime	30.8	17.1	9.5	20.0	2.8	13.0	12.9	17.3
Drama	19.2	22.9	21.4	24.4	30.6	21.7	29.0	21.2
Fantasy	7.7	8.6	14.3	11.1	16.7	6.5	16.1	11.5
History	7.7	0	4.8	6.7	16.7	6.5	9.7	7.7
Horror	0	2.9	2.4	6.7	5.6	4.3	0	3.8
Musical	7.7	2.9	2.4	0	2.8	4.3	6.4	3.8
Nudist	0	0	0	0	0	0	0	0
Religion	0	0	0	0	0	0	0	0
Revue	3.8	2.9	0	0	0	2.2	0	0
Romance	3.8	2.9	4.8	6.7	8.3	0	6.4	1.9
Sex	3.8	5.7	2.4	0	0	6.5	0	1.9
Sport	0	2.9	7.1	2.2	0	2.2	0	0
War	0	8.6	4.8	4.4	5.6	10.9	3.2	5.8
Western	0	0	0	0	0	0	0	0

pre-1986: adapted from Gifford (1986).

from 1986: adapted from 'The Monthly Film Bulletin' of the British Film Institute.

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