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MOVING IMAGES

MIDAS Initiative Report into the
Film and Broadcast Industry in Ireland

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1.0 Introduction

Film, video and broadcast television are immensely powerful media at the heart of Ireland's creative industries.

Films combine artistic creativity and technical innovation to entertain, inspire, challenge and inform. Films help to shape the way we see and understand the world, how we see ourselves, and how the world sees us. They promote ideas and understanding in a way that no other medium can or does.

The audience for film, in virtually every country in the world, continues to grow - at the cinema, on television, and especially on DVD, the fastest-growing consumer electronics product of all time. Audiences are broadening as the general population ages and nearly a quarter of the total population visits the cinema once a month or more.

New technologies are changing the way we create, watch and pay for film and extreme global economic competition is redefining the importance of the creative industries to our national wealth and well-being.

Film and video are key drivers of these creative industries.

Quite where the film and television industries in Ireland are placed and how they are equipped to compete in this changing environment is the subject of this report, which will examine in greater depth the technological, economic and geographical issues affecting this sector of the digital content industries.

2.0 Markets

2.1 The Global Market

The film and television broadcast industries are undoubtedly key economic drivers of the creative industries with total global revenues estimated to exceed \$450 billion by 2005. (Source: *Screen Digest*) The audience for film in virtually every country in the world continues to grow - at the cinema, on television and DVD.

Although performance dropped slightly in 2003, film production is continuing to show strong growth worldwide. (Source: *UKFC*) 2003 was, however, a boom year for UK film production; 44 features were made with a total production value of £269 million, 85% of which were made in collaboration with US, European, Japanese or Australian partners. Film is worth £5 billion a year to the UK economy, employing nearly 60,000 people.

(Source: *UKFC*)

But, although cinema admissions are up by nearly 70% over the last 10 years, UK productions make up only 3% of the total number of films released to UK audiences. On average these UK films cost around £3.5 million to make but take only £750,000 in receipts, clearly no basis for a sustainable industry.

(Source: *BBC*)

Outside the US and UK, other particularly important centres for film-making include Canada and Australia. Canada enjoys annual film-related incomes of over €3 billion, employing over 100,000 people. Although over 70% of this activity comes from inward investment, largely as a result of Canada's tax incentives, specific policy objectives to promote indigenous activity have resulted in the production of over 50 indigenous films per year and a subsequent increased box office success for these films globally.

(Source: *SPI*)

Australia has reputedly produced 5 of the top 50 most successful films ever. Despite relatively small beginnings in the 1970s, the government-assisted film and television industry has consistently had international success, employing over 15,000 people and culminating in the development of major studio facilities in the country by Fox and Warner Bros that are now able to attract a significant share of the Hollywood mega-budget projects.

New Zealand too is recently benefiting from the success of its locally-produced Lord of the Rings trilogy with a Peter Jackson-owned facility in Wellington currently employing over 350, mostly local, people. Although currently producing the forthcoming King Kong movie, it is perhaps less clear what future New Zealand will have outside of Jackson's personal career.

The film industry has a very clearly defined business model hierarchy, as follows:

1. financing and pre-production
2. production
3. release to cinemas/theatres
4. video and DVD
5. television
 - pay per view
 - premium channels
 - network TV
 - syndicated TV

(Source: *ABN Amro*)

Following the lengthy and costly production process, the theatrical release and performance of a film is seen as being crucial to the whole life of the film as it is this that has the greatest impact on how the film performs in all of the subsequent ancillary markets. Video and DVD are, however, the most profitable of the markets and are providing new opportunities for films to be released directly to video and bypassing the theatres altogether. This may provide new routes to market for short films, experimental or arthouse films and works by new producers generally, although these films would need to replace the marketing activity associated with the cinema release.

2.0 Markets cont.

This strategy is not yet fully mature, with competitions and festivals remaining the only market outlet for lower budget film of any genre. While not providing any possibility of commercial sustainability, the festival circuit often provides the only opportunity for market entry, acting as it does as a beauty parade and talent-spotting facility for new producers hoping to get a shot at the main game.

Overall, the international film industry is growing at a pace second only to computer and mobile games production. Like those other industries however, film and television have to fight against increasing production costs, downward pressure on retail prices and the effects on established indigenous markets from globalisation.

Digital acquisition and post-production technologies too are providing existing film-makers with new cost-effective methods as well as providing new and aspiring film-makers with the means of creating low budget, high quality productions. Digital technologies allow smaller crews to create quality work, at lower (yet appropriate) costs, on a greater number of projects, more often, and thereby improve the chances of long-term sustainability.

The original creative impulse of the filmmaker must be combined with in-depth knowledge, professional experience and strong craft skills to constitute the core competence of the industry. (Source: *Film Industry Strategic Review Group*) It has, however, been suggested that the UK - long famed for its domestic film industry expertise - has become negligent in this regard and is experiencing a rapid ageing of its most experienced and qualified personnel.

(Source: UKFC)

Business skills too are vitally important and are generally felt to be lacking in most of the independent companies. Small innovative film companies are critical to the success of the industry and these companies must be able to build sufficient scale, capitalisation, management expertise and editorial discipline, to be able to sustain their strategic focus to compete in the international market.

(Source: FISRG, Kilkenny Report)

Successful box office films can often be particularly successful in the post-theatre home video and DVD markets due to their relevance to particular niche audiences, especially children and families. Associated revenues from ancillary activities, e.g. games, toys, merchandising, soundtracks, can often far outweigh the initial box office of the film or television programme and this is often the rationale behind a broadcaster's or distributor's initial commissioning of a film or television programme.

These ancillary revenues are increasingly a fundamental part of the projected balance sheet for the film and the relevant intellectual property (IP) issues are usually dealt with at the initial licensing stage of the project. Interestingly however, independent producers are less likely to think about such licensing issues until after securing a media deal.

Although cinema success is the benchmark for the main 'blockbuster' films, many producers are beginning to investigate the lower cost direct-to-DVD market as a channel for lower budget titles. The expansion of multi-channel digital television has created opportunities for the development of new film-specific channels, or channels targeted at niche audiences, e.g. FilmFour, Sky Box Office. These in turn require new sources of programming material, which stimulates development and production accordingly.

Key to the future success of the film industry will be the methods by which the audience is able to access, pay for and enjoy the content. In response to, or perhaps a key driver of, the surge in domestic uptake of broadband Internet connectivity, new distribution channels for film content are beginning to appear. Both atomfilms.com and ifilm.com are particularly successful examples of web-based distribution and exhibition companies.

However, as with both the music and games industries, these digital production and distribution technologies are enabling increased piracy and bootlegging of film content. The protection of the vital IP remains fundamental to the sustainability of the film industry and yet the very technologies that enable independent distribution threaten the existence of the traditional business models that provided economic sustainability.

2.0 Markets cont.

Currently one of the most vibrant markets is that of mobile telephony which is at last beginning to see real consumer interest in 3G broadband capability. Whether as the medium for a piece of art, entertainment or commercial advertising, film will ultimately have the potential to capitalise on this new distribution channel in much the same way as music has already begun to, although whether film can successfully adapt to the smaller screen sizes of convenient hand-held devices is unclear. Success will also depend on the ongoing development in fixed-line and mobile data transfer speeds so that entire films can be delivered as instantly as music, basic games and simple animation content are currently.

How the market will evolve and how revenues will be shared between producers and distributors is as yet unclear. It is likely that an opportunity will exist for greater numbers of producers to access a greater number of micro payments from a more fragmented (but larger overall) global audience. However, it is certain that the current industry cartels will continue to try to maintain and protect their existing market dominance by acquiring and perhaps merging with the new technology providers as required.

Another massive technological development in the near future will be the roll-out of high definition (HD) television and with it the simultaneous release of the latest digital entertainment hardware, including consoles such as the PlayStation3, Xbox 360 etc. that have been designed to fully utilise the technology. These content players will also be equipped for the forthcoming next-generation DVD technologies being developed by a consortium led by Toshiba and a rival in the Sony-designed 'Blu-Ray' format. It is likely, however, that ultimately, new DVD players will be compatible with both formats as roll-out commences in 2006.

Already, film production equipment and post production software are equipped to allow development for the new standards and, as the market uptake becomes ubiquitous, so too will the requirement for development skills. Budgets in the film industry will therefore have to increase accordingly.

2.1.1 Television Broadcast

In many ways, broadcast television remains the most accessible market sector for the film content industries. In the UK television accounts for £10.1 billion revenue, having increased by 8.6% since 2003. The total value of the audio-visual industries to the UK economy is 2.4% of GDP, even though only 1% of the total workforce is employed in the industries. This value is set to increase exponentially.

(Source: OFCOM, The Communications Market, 2005)

Across the UK the TV industry has a total workforce of around 30,000 employees and 46,000 freelancers. Approximately 59% of the industry is centred in London and the south east of England while Northern Ireland accounts for only 1.5% of total employment in the sector. Most of the activity in Northern Ireland is based in Belfast with around 1,700 full time employees and 400 freelancers. Around 75% of the feature film workforce are also regularly employed by the television industry.

(Source: Skillset, Feature Film Production Workforce Survey 2004)

In 2000 the average gross value added (GVA) for all jobs was £27,400 for services and £40,200 for production and construction. Television and radio jobs provide an average GVA of £66,900 (over twice the average) and film and video distribution have the highest GVA of any of the service industries at nearly £200,000.

(Source: Skillset)

Commercial revenues account for £7.7 billion, an annual increase of 11%. This is split between advertising (£3.48 billion - up 7%) and subscriptions (£3.5 billion) although advertising on Sky accounts for only 8% of the broadcaster's revenues. Sixty-two per cent of UK homes have access to digital television providing over 350 channels to UK audiences. British TV broadcasters spent £4.8 billion on programming in 2004.

(Source: OFCOM, The Communications Market, 2005)

The television industry is, however, facing an unparalleled period of change. The long-standing business model for broadcast television - the network model - will, in developed countries, steadily be replaced by a complex and diverse media market with even greater opportunities.

2.0 Markets cont.

Rapid proliferation of channels and media formats has made it increasingly difficult to reach the masses through a single broadcast, undermining the power of traditional networks and reducing their value to advertisers. Yet the underlying driver of this disaggregation is the public's insatiable appetite for content and choice, meaning media companies will have more opportunities in the future - not less. New devices and media will flourish, along with new forms of advertising, including embedded advertisements in video games, software, web browsers and even mobile phones.

(Source: Deloitte, TMT Trends 2005)

Television is the content sector offering possibly the greatest opportunities for growth in Northern Ireland. The BBC and ITV companies account for 50% of all programme commissions and around 40% of production. Recent changes to commissioning rules have the potential to deliver two or three times current production output over the next three to five years.

Led by OFCOM's new, more stringent production targets for commercial public service broadcasters, the BBC has announced that it wishes to source 17% of network production from Scotland, Wales and Northern Ireland. The BBC, UTV and the independent production sector (comprising approximately 50 companies) are the most significant employers in the audio-visual industries in Northern Ireland.

(Source: NIFTC Production Guide 2005)

Although, traditionally, many more people want to enter the industry than there are jobs (leading to long hours, low wages etc. for new entrants) there is evidence of a gap between the skills required by employers and the skills available from the workforce. Although the tendency is to recruit freelancers who are expected to come to the job with all the necessary skills in place, 94% of freelancers experience barriers to such skills training provision and 79% of these have never received any structured career advice or guidance.

(Source: Skillset, Workforce Survey 2003)

Particular skills shortages are said to include:

- project management
- health and safety management
- practical team working skills
- communication skills
- business strategy:
 - innovation
 - deal structuring
 - investor relationships
 - cross-media ownership
 - intellectual property management

Additionally there will be significant emphasis on the development of the following roles required by the industry:

- producer
- business development manager
- market researcher
- scheduler
- commissioner

There will also continue to be a demand for the traditional specialist craft and technical occupations although these are, of course, constantly developing in parallel with technological developments. These developments include digital production and distribution, high definition and interactive television.

There is a concern that universities, further and higher education colleges and so on, are not adequately preparing graduates for work or matching skills with occupational standards and it is clear that genuine industry input into the design and delivery of learning and training is required for the future.

(Source: Skillset)

2.0 Markets cont.

Future drivers for growth in the industry include:

- re-interpretation of public service broadcasting
- digitisation of production and distribution, new technologies giving power to viewers instead of broadcasters
- multi-channel and audience fragmentation, including new digital channels going free to air, reducing requirement of subscription-based digital television
- broadband TV (IPTV)
- rights redistribution to production companies
- mergers and acquisitions of independent producers
- globalisation of markets

In both Northern Ireland and the Republic of Ireland there are specific opportunities in the continued development of Irish language production and broadcast.

(Source: OFCOM, The Communications Market, 2005)

2.1.2 Financing Film Production

Funding for film development remains the single largest barrier to production. Increasingly the costs of even lower budget works far exceed their earning potential in both domestic and international markets combined. Without market profitability the prospects of financial investment, especially for new works by unknown producers, become ever more limited.

The usual sources of finance for film-making include:

- distributor advances (requires pre-existing relationship with the distributor)
- domestic equity
- foreign equity
- lottery/cultural subsidy
- advances against rights
- pre-sales
- gap-finance from banks
- co-production
- deferrals
- sale and leaseback

The most important source of subsidy worldwide is undoubtedly tax incentives. Most countries now have some form of government-approved facility (with the notable exception of the US) including Section 48 in the UK and Section 481 in Ireland. These programmes can attract domestic and inward investment to a country's film-making by essentially lowering the costs of production in that country and boosting the prospects of return on investment.

However, as most countries now have such a scheme, other cost factors - namely labour and material costs - are increasingly influencing the choice of location, evidenced recently by the rise of the Eastern European industries at the expense of the UK and the Republic of Ireland, which had previously been so successful in this regard.

Many countries have introduced specific financial incentives to attract film projects and the UK has introduced a new tax credit, effective post July 2005. This will actually increase the level of incentive with the threshold of expenditure rising to £20 million and applying to 100% of the production company's budget.

(Source: BBC)

On mainland Europe there is a growing trend to make films at significantly lower costs using digital technologies, fewer personnel and by deferring salaries, to reflect potential profit share. The Relph Report (2002) suggests that it should be possible to produce an internationally acceptable feature film for around £2 million, massively reducing the requirement for outside investment. This should be compared, however, to the fact that 50% of the UK-made features in 2003 had budgets of over £30 million.

(Source: UKFC)

There are three main financial considerations applicable to the film industry:

1. initial financing of the production and acquisition of rights;
2. marketing and distribution costs - those associated with the exploitation of the content; and
3. costs associated with an outright disposal.

2.0 Markets cont.

The second and third requirements are effectively cashflow considerations and will generally depend on anticipated returns.

Major sources of finance generally include:

1. licence fees
2. co-production
3. sale of intellectual property rights
4. distributors
5. media partnerships
6. corporate investment and tax incentives
7. institutional sources of finance

Licence Fees

Domestic broadcasters typically pay in the region of 10% towards the production budget, however, some commercial broadcasters have been known to stretch this to 30% for certain productions. Many European broadcasters, especially German and Scandinavian, pay higher licence fees towards production budgets.

Co-production

Co-production for both film and television financing is widespread, and in fact is usually necessary for independent theatrical film financing. With television's more domestic focus, co-production can be a useful tool that gives producers the opportunity to tap international markets and capital. The BBC, for example, has partnered for many years with several US public broadcasting stations and with cable channels such as HBO, Arts & Entertainment or Discovery and is also part of the EBU, a European broadcasting initiative, which amongst other things, assists in the creation of film co-production series.

The main reasons for developing co-production agreements include:

- Production costs are too high to be covered by any one organisation. Even if a domestic broadcaster is enthusiastic about a programme, it is often the case that the broadcaster cannot cover the entire cost of its production.

- Co-production utilises production budgets rather than acquisition; this means the programme can earn more money in distribution.
- Various national and regional programmes, and tax breaks, encourage production through financial incentives. Production subsidiaries, co-production, and government support programmes also benefit from the involvement of private financial institutions.

Sale of Intellectual Property Rights

Intellectual property, often known as IP, allows people to own their creativity and innovation in the same way that they can own physical property. The owner of IP can control and be rewarded for its use, encouraging further innovation and creativity in the long-term.

It is therefore imperative that any film company wishing to develop into a stable, long-term business must be aware of the potential of their own, plus other's IP rights and assets. In fact, a film company is perhaps worth little or nothing long-term without the development and control of its IP.

Distributors

Reliance on distributors for both production finance and access to broadcast networks has increased significantly in the recent past. This is largely due to the decrease in licence fees from the main broadcasters and the parallel rise in the many specialist channels. As the distribution market fragments, however, in response to the audiences' changing consumption patterns and preferences - enabled by the provision of new technologies - there may be more channels available that require content. However, with these smaller niche audiences, there is generally less advertising revenue available to fund productions. It is therefore necessary for producers to sell their projects to a wide number of territories and networks to realise the maximum return.

The scale of a distributor's investment obviously depends on the type of production. Worldwide distributors typically provide a pre-production guarantee, which may cover around 25% of a budget and are remunerated by a commission on international sales of 30-35%. They then collect minimum guarantees from local distributors in return for territorial rights.

2.0 Markets cont.

An independent producer that makes one or two series a year will find it difficult to attract the attention of the major broadcasters and networks. Valuable time and resources could also be lost in identifying and approaching the right buyers. A distributor however, can create a point of sale with a large catalogue of rights (which may have been acquired from various sources) and by using their extensive network of contacts.

Media Partnerships

One potential solution to the problem of distribution for independent producers has been a media partnership or joint venture that shares the risk associated with any film project that has not got a major studio name attached to it. Media partnerships or formal joint ventures in the film industry are increasingly seen as an effective way of spreading the inherent risk in film productions

Each entity has its own speciality and each speciality concentrates on maximising the exploitation of the overall project by focusing on its own experience and knowledge of the sector. This arrangement both reduces the financial risk involved with large-scale projects and also widens the opportunity to attract funding. In addition, failure in one area would not necessarily prohibit the success of the project itself.

A typical media partnership may consist of:

- production company
- distributor
- merchandiser
- book publisher
- record company
- music publisher
- Internet service provider
- mobile telephone network operator
- content aggregator

Corporate Investment and Tax Incentives

Corporate investment in film has been increasing due to both the perceptions of market profitability and the availability of particular tax reliefs to give

incentives to corporate investors contemplating the financial backing of film productions. While perhaps not of great use to independent producers, who often do not have sufficient other taxable profits against which a tax write-off incentive can be set, it can be very useful to high earning individuals.

Particular types of incentives for investment include:

- sale and leaseback
- deficit finance schemes
- contracted debt schemes
- industry-specific tax incentives (e.g. Section 481)

Institutional Sources of Finance

There are numerous public institutions offering schemes to the film, TV and film industries sectors, including:

- The Film Council
- The Film Industry Forum
- The British Film Commission
- The Northern Ireland Film and Television Commission
- The Irish Film Board (Bord Scannán na hÉireann)
- European Union

2.1.3 Distribution

Distribution is a major barrier to economically sustainable film production. Without distribution to the markets there can be no possibility of financial success and, increasingly, without prior confirmation of distribution there is little chance of obtaining the necessary production finance.

Distribution is the exciting, dynamic, competitive business of launching and sustaining music, software, films etc. The digital content industries may be product-driven but the distributor's task is to connect the product with the public, to draw the widest possible audience to each individual title and to realise the full potential of the developer's work. Much of the industry's economic focus is centred on the distributors of films to the cinema and home video markets and performance in the

2.0 Markets cont.

distribution sector remains highly polarised, with the top eight companies accounting for over 50% of all releases worldwide and 95% of box office gross.

(Source: UKFC)

These companies are:

	Market Share
▪ Buena Vista International	(26.3%)
▪ Universal	(22.5%)
▪ Entertainment	(14.6%)
▪ Warner	(10.5%)
▪ Columbia TriStar	(9.6%)
▪ Fox	(8.8%)
▪ Pathé	(2.0%)
▪ Momentum	(1.3%)

(Source: Nielsen)

This distribution market is, once again, dominated by US companies and films of US origin; all but one of the top 20 films globally, had US involvement, and 15 were actually solo US productions. Television too shows a disproportionately high reliance on US programming with only 33 of the 1,125 films shown on UK terrestrial television being of UK origin.

(Source: BARB)

The film industry worldwide is clearly being affected by an overall reluctance on the part of distributors and broadcasters to commission new work as well as by general economic factors including the recent significant decline in marketing and advertising revenues. Although digital television is creating new niche-specific channels, it has to do so by dividing the existing advertising, licensing and subscription revenues between a greater number of operators rather than, in the main, developing entirely new and additional sources of revenue with which to finance production.

Clearly there are too few distributors, publishers or aggregators to be able to satisfy the need of all of the actual or potential developers, which is to competitively bring their works to market - a market that is already saturated with too much product and where only a tiny proportion can

ever be sustainable. The local digital content production industries appear to have to either compete for this insufficient and diminishing resource or hope that a new form of commercial publishing and distribution support mechanism can be created to serve their particular interests in the market, in competition with the established giants of the industry.

2.2 The Market in Ireland

2.2.1 Market Overview

Ireland has a vibrant and strong cultural heritage, admired throughout the world. Global success in literature and music has promoted a reputation for story telling that is assumed will translate easily into the development of successful film production. This would appear to be borne out by an Irish national film industry that is currently worth €304 million (Source: Audiovisual Federation), growing at an average annual rate of 18%, and contributing €107 million towards annual GDP. (Source: SPI) Film production is labour intensive and currently over 4,300 people are directly employed in the industry.

(Source: SPI)

This success has been possible by a twin-track strategy of creating content for local and international audiences and by establishing Ireland as a location of choice for inward investment. It is hoped that preliminary estimates for the sector are realised, leading to €500 million revenues and employment of 11,000 people by 2010.

(Source: SPI)

Following a period of intense activity in the 1990s Ireland now has over 4,000 skilled people employed in the industry. This is sufficient to fully staff more than five international productions concurrently. Additionally, Screen Training Ireland has trained over 2,000 people since 1997 and a further 1,000 students are currently enrolled in film-specific third level colleges.

Every major Hollywood studio has produced or co-produced at least one film in Ireland and an average of 14 indigenous Irish feature films are

2.0 Markets cont.

being made annually. Many of these have attracted international acclaim resulting in commercial success and the development of a valuable credibility in the global market.

Much of the industry's future plans and estimates are based on the past success of Ireland as one of Hollywood's preferred overseas locations for film-making. Ireland is entitled to hold this optimistic view based on past records. But other countries, such as Romania and the Czech Republic, are already posing significant threats to Ireland's privileged position because of the market's dependence on lowest possible costs.

Film and television production can actually create the opportunity for new residual value in successful locations, e.g. the success of *Avoca* in the wake of *Ballykissangel*. Of the total €107 million film-based revenue, film-related tourism actually accounts for around 55%. Indeed 8% of international tourists cite films about or set in Ireland as a key factor in their decision to visit the country. (Source: *Bord Failte*) In addition to the direct employment figures above, film and television help to sustain over 3,000 tourist-related jobs as a direct consequence, including accommodation, travel, catering and location fees.

It should be noted, however, that the industry receives over €136 million in annual foreign investment (Source: *Audiovisual Federation*), that is absolutely crucial to the ultimate profitability of the sector. It is hoped that the Irish film industry can become a centre for European inward investment, just as the pharmaceutical sector here has. However, we need to remember that every other European nation is hoping for and working towards exactly the same thing!

Ireland's ability to attract international inward investment and projects is undoubtedly the result of the successful Section 481 tax incentives and it has been said that the elimination of these measures would have almost immediately signalled the loss of 80% of revenue and an equal amount of employment. (Source: *SPI*) Section 481 has been extended until 2008, having originally been scheduled to have been phased out by the end of 2004 and is generally accepted to be crucial to the continued economic viability of the industry.

Despite Ireland's early lead in this area, most film-producing countries worldwide have subsequently adopted tax-based funding incentives and are now able to remove this competitive mechanism from Ireland's armoury. As has already been mentioned, the UK has actually created an entirely new tax credit measure to increase its attractiveness as a location for film-making.

There are difficulties too in providing sufficient opportunities for new indigenous films to be seen at all. Outside of the television broadcasters' commitment to locally-produced programming, which although improving is still limited, resources for the screening and performance of Irish films (particularly short or experimental ones) don't yet match the levels of output. The commitment of national television broadcasters has played a fundamental role in the development of future film producers.

Following licence fee changes in 2003, the RTE Independent Production Unit - as well as TV3 and TG4 - are increasingly supporting the development of new, lower budget works by new producers, providing a solid route into successful, internationally recognised film activity. This is an area where it is felt that the same commitment may not be being mirrored elsewhere, e.g. the UK (Source: *UKFC*) and should lead to Irish producers gaining long-term commercial advantage by virtue of this early support and experience.

Irish film festivals, including Dublin, Cork, Galway, Belfast and Derry are essential features of the industry but some kind of indigenous distribution mechanism needs to be established to bring more of the local work to the attention of more of the home audience, leading perhaps to opportunities in the global marketplace.

2.2.2 Capability Analysis

Skills

It is clear from even the limited international successes of the past that the film production workforce in Ireland is skilled in the development of content to an acceptable, market ready standard.

2.0 Markets cont.

There are already a number of specialised university courses and basic film skills are being taught widely throughout the whole of Ireland at a further and higher education level. Market entry is relatively inexpensive and the basic interests and early activities within the medium are being widely developed at an individual level.

Specific business-related skills e.g. project management, finance management and procurement, sales and marketing, are said to be in short supply throughout the creative industries as a whole and the recent Enterprise Strategy Group report, 'Ahead of the Curve', has recommended that the sector needs to recruit over 1,000 additional sales and marketing employees with which to stimulate the required competitive market advantages.

Production

Again, as with the current skills levels, there does not seem to be a particular problem with the availability of industry-class production capacity. As computer-based digital production techniques increasingly become the norm, the hardware and software required for the production of film content is freely available and readily affordable. Facilities for high-end box office-type production, including Windmill Lane, Ardmore Studios, and the Bright Room, are starting to emerge.

Pre-distribution facilities for some products, e.g. telecine, may still be relatively scarce in Ireland but, while these are readily available elsewhere in the British Isles, Europe and the US, ongoing distribution changes towards digital delivery are reducing the importance of these older technologies.

Finance

As has been said earlier, finance, for both the initial production process including tooling, training, recruitment and so on, and commercial exploitation, such as manufacture, distribution, promotion and marketing, is in short supply.

Companies in Ireland traditionally make do with relatively low levels of start-up capital, which typically includes their own personal money and informal investment from friends and family. Bank lending is seen as essential but difficult to obtain

as the traditional institutions shy away from the high risks attached to the industry. The venture capital and business angels sectors, while much more established in the Republic of Ireland than in the North, are still relatively immature compared to other competing markets and are not, in general, being fully utilised.

(Source: InterTrade Ireland)

Ireland has enjoyed significant investment in the past from Europe, providing an ongoing commitment to a competitive tax regime to assist the promotion of enterprise and to drive business growth. But imminent changes in EU member state limits will place new restrictions on state aid from enterprise from 2006 onwards making such intervention more difficult and much less certain.

Clearly a new integrated system of access to both the public purse and, more importantly, private investment markets will be needed with which to prime the development of a sustainable, competitive economic environment.

Distribution and Promotion

As above, the distribution of digital content continues to rest in the hands of a very select group of global giants, all of whom are essentially US owned and based. Whether in respect of the delivery of international content to the Irish market at the expense of indigenous product, or the promotion of Irish-originated content to the international markets, the amount of content available to the world's consumers far outweighs the current market capacity for consumption.

Common to most international, non-US, suppliers is the question of how to improve competitive potential. Should Ireland try to develop an alternative distribution and promotional infrastructure with which to try to win back an appropriate market share, or should we just try harder to compete for the attentions of the current dominating distributors and publishers?

Difficult as the second option might be, the first option is more likely to prove prohibitively expensive, a touch naïve and, almost certainly, doomed to failure.

2.0 Markets cont.

New tastes for digital delivery via broadband Internet, 3G telephony, DVD etc., might provide an interesting potential for market growth in this area. However, these technologies are still relatively immature and the accompanying business models uncertain.

Intellectual Property Rights

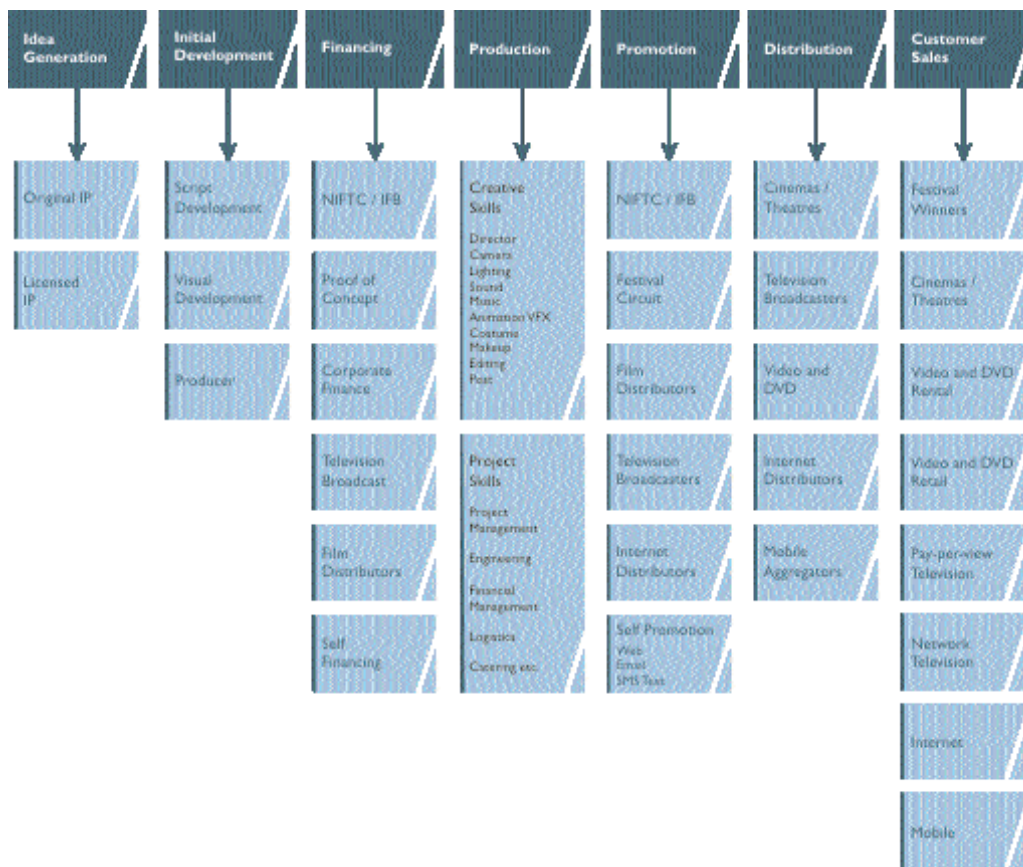
Original IP development is essential as a sustainable source of income and wealth but almost all of the value of the Irish film industry is currently created from contractual work-for-hire or from corporate communications services production that creates little or no residual value for either the producer or the economy as a whole.

In common with all sectors of the digital content industries in Ireland, there is currently not nearly enough development of original or owned IP within film. Ireland is historically considered to be a land of poets and storytellers but we do not appear to be channelling enough of this natural national talent into the creation of sustainably exploitable content development.

While it is very definitely more difficult to attract the levels of finance required to develop an entirely new story, treatment or product, this is the one area that, if tackled, will provide potential for long-term market growth and economic wealth for the industry.

3.0 Key Market Dynamics

3.1 Film & Broadcast Industries' Value Chain



3.1.1 Idea Generation

The first element within the industry value chain relates to the origination and generation of the basic project idea. This will typically follow one of two routes, original IP and licensed IP.

Original Intellectual Property

Original IP is essentially the development of a brand new creative idea or storyline, including plot and characterisation which can be communicated via the medium of film. Intellectual property allows people to own their creativity and innovation in the same way that they can own physical property.

Copyrighting the IP gives the content creators the rights enabling them to control the use and economic benefits of their material. It is therefore imperative that any film company wishing to develop into a stable, long-term business must be aware of the potential of developing its own IP rights and assets.

Licensed IP

In the absence of original IP there are no set rules as to where an ideal property can be found, the key is the ability to recognise a great idea, from books, comics, history etc., and know how to sell it to the appropriate buyer. With an established storyline and fully developed characters, a producer has almost all the main ingredients

3.0 Key Market Dynamics cont.

necessary to create the film. However, it is increasingly rare to find a famous title that has not already been optioned and it is imperative therefore to find good stories that are either newly published or that are already in the public domain.

3.1.2 Development and Pre-production

Script Development

Prior to the commencement of any actual production the original writer's basic storyline and characterisation should be developed into a coherent script. This will potentially involve the hiring of specialist scriptwriters to revise and enhance the story as well as redraft character dialogue where necessary.

Visual Development

Visual development too will be required at this early stage to establish the key designs for the film including sets, backgrounds and locations.

Producer

Producers manage the entire production and bring together all the elements to make a film project work, such as finance, cast and crew. Some producers are more creative and hands-on developing the initial concepts and commissioning writers and directors. Others come from a more business-oriented background, such as finance or law. Many projects see two or more producers working together, who bring these different skills to the production. The producer needs to keep track of all finances involved during production and manage the overall project schedule through communications and administrative support.

The term 'executive producer' is a very fluid one, sometimes being a simple credit for being one of the financiers or a 'respect' title for having done something substantial. However, in larger film projects, executive producers are generally responsible for the overall project including long-range planning, marketing and budget concerns.

3.1.3 Financing Development

Project funding is the primary concern of all production houses. Often a balance has to be reached between immediate finance requirements and retention of rights that will ultimately yield a return over a longer period of time.

There are three main considerations for the film industry:

1. initial financing of the production and acquisition of rights;
2. marketing and distribution costs - those associated with the exploitation of the content; and
3. costs associated with an outright disposal.

NIFTC and IFB

The Northern Ireland Film & Television Commission and the Irish Film Board (Bord Scannán na hÉireann) between them provide the main source of financing for film project development on the island of Ireland.

The Irish Film Board (Bord Scannán na hÉireann) provides loans and equity investment to independent Irish filmmakers to assist in the development and production of Irish films. The Board also acts in co-operation with other Irish semi-state agencies to improve the marketing, sales and distribution of Irish films and to promote training and development in all areas of filmmaking.

The NIFTC is an integrated agency for the development of the film industry and film culture in Northern Ireland. It provides film and television producers from anywhere in the world with assistance and information they may need when producing in Northern Ireland. They offer loans and grants for a wide range of areas including development, production and distribution.

Proof of Concept

In Northern Ireland, Dream Ireland Ltd manages 'Dreamlab Invest', a proof of concept fund that provides early stage financial assistance for film producers to enable the development of their project ideas to a stage where they are suitable for submission to the NIFTC and IFB for development funding.

3.0 Key Market Dynamics cont.

This is currently the only activity of its type in Ireland although similar facilities exist in Great Britain.

Corporate Financing

Corporate investment in film production is an increasingly common and necessary source of funds around the world. Sources of finance include the institutional banks and commercial venture capital companies as well as private business angels.

Investment in film is made attractive due to the continued commitment by both the Irish and British governments to provide industry-based tax relief schemes, namely Section 481 in Ireland (recently extended to 2008) and a new scheme, launched in July 2005, to replace Section 48 in the UK.

Although an established mechanism worldwide, corporate financing for film is still largely uncommon throughout Ireland due to the banks' perceived mistrust of the digital content industries generally and a relatively immature venture capital culture nationally.

Television Broadcasters

Having a film or television programme commissioned by a broadcaster is seen by many as the most financially secure method of project realisation. Opportunities for locally-produced programming by the BBC, UTV, RTE and TG4, are scarce and resources for the screening and performance of Irish films (particularly short or experimental ones) do not yet match the levels of output.

Co-production for both film and television financing is widespread, and in fact is usually necessary for independent theatrical film financing. With television's more domestic focus, co-production can be a useful tool that gives producers the opportunity to tap international markets and capital.

Film Distributors

Reliance on distributors for both production finance and access to broadcast networks has increased significantly in the recent past. Worldwide distributors typically provide a pre-production guarantee, which may cover around 25% of a budget and are remunerated by a

commission on international sales of 30-35%. They then collect minimum guarantees from local distributors in return for territorial rights.

An independent producer that makes one or two films a year will find it difficult to attract the attention of the major distributors in a sector that remains highly polarised, with the top eight companies accounting for over 50% of all releases worldwide and 95% of box office gross.

(Source: UKFC)

Self-financing

As access and availability of finance is a key issue for filmmakers, and indeed all entrepreneurs on the island of Ireland, most producers expect to invest relatively small absolute amounts of their own personal capital into their new business and fund the deficit from banks and financial institutions, government sources, and informal investment from 'family, friends and fools'.

(Source: The Global Enterprise Monitor, 2003)

Self-financing is likely to be only suitable for low-budget short film productions and animated shorts produced on desktop computer systems, although, again there is specific support for these activities readily available from both the NIFTC and the IFB.

3.1.4 Production

The film production process can actually be categorised into two headings: Creative Skills and Project Skills.

Creative Skills

These are the areas of activity concerned with actually creating the film or programme content and include:

- direction - the director is the primary storyteller on a project; it is his or her vision that is the guiding force and he is also responsible for supervising all the work that ends up in the film
- camera
- lighting
- sound

3.0 Key Market Dynamics cont.

- music
- animation and special effects
- costume
- makeup
- editing
- post production

Project Skills

These activities are necessary to facilitate the creative skills, providing the required support and assistance:

- project management
- engineering
- financial management
- logistics
- catering and accommodation

Although most consideration of the film and broadcast industries tends to focus on the needs and capabilities of the creative personnel, project and financial management skills in particular are said to be in short supply within the sector.

3.1.5 Promotion

The role of promotion within the film industry is to identify the targeted customer segments and communicate the availability of the film and programme content to those prospective customers for potential purchase. Film promotion is, like any other consumer-related marketing communication, enormously expensive and will include a range of media including:

- television
- radio
- print
- direct and interactive marketing
- promotional merchandising
- public relations
- personal selling

NIFTC and IFB

The Northern Ireland Film & Television Commission and the Irish Film Board (Bord Scannán na hÉireann) again provide the main source of financing and promotional activity to improve the potential for marketing, sales and distribution of Irish films internationally.

The Festival Circuit

One of the few promotional opportunities for new and inexperienced film makers is the international film festival circuit. By strategically positioning a film in the global marketplace, film festivals can help to secure commercial interest in the project, gain critical recognition and provide future project opportunities for producers.

The main Irish film festivals include Dublin, Cork, Galway, Belfast and Derry and are now established and essential features of the domestic industry.

Film Distributors

Distribution companies, as above, will obviously provide the lead role in the marketing and promotion of films that they have helped to produce financially.

There may be opportunities to attract the interest and support of a major distributor for an independently produced film although this is difficult for many smaller companies.

Television Broadcasters

Again, having commissioned content from a production company, TV broadcasters will actively promote the film or programme, not only to their own domestic audience but also to broadcasting partners in other territories worldwide.

Internet Distributors

In recent years the Internet has provided opportunities for short films to reach potentially huge audiences. There are now a number of well-established entertainment sites, e.g. atomfilms.com, ifilm.com, that stream or provide downloads of short films and help promote the film and the filmmaker to a much wider market.

3.0 Key Market Dynamics cont.

Self Promotion

While it is unlikely that the individual producer or small independent production company will be able to use traditional marketing channels, new interactive digital media solutions are appearing that give a low-cost opportunity for promotion. Viral e-mail or SMS text campaigns might be used to drive potential customers to the producer's own web site. The web site could make short examples or whole films available for download or streaming. This has been made increasingly possible by mass market uptake of broadband DSL and cable Internet connectivity worldwide.

The web site can also be used to capture customer preference details allowing the promoter to instigate and develop mutually valuable relationships with the customer over a long period of time. This can turn loyal customers into marketing advocates and sources of new, referral business.

Mobile technologies too hold the promise of being able to add to the guerrilla marketer's tool box, as 3G and other emerging technologies mature and become more commonplace.

3.1.6 Distribution

Distribution is concerned with the delivery of the film and programme content to the customer. It considers how the customer wants to receive it, what the preferred medium is, as well as what is the right time and the right price. This is perhaps the most important element in the value chain after the original production process as, without distribution, the customer cannot have the opportunity to see the film and pay for the privilege.

Cinemas and Theatres

Cinema audiences have been on the increase worldwide in recent years and, with the cinema's exclusive 'window of exhibition', theatre release is still the most crucial factor affecting overall profitability of all film projects.

There are, however, few opportunities for theatre release for those feature films that are not supported financially by the major distribution companies and virtually none for shorts, except for the small, niche exhibitors' clubs. In order to

enhance audience understanding and enjoyment of non-blockbuster films and to develop audiences for indigenous and specialised films long-term, greater support could be given to the distribution and promotion of these films to selected theatres.

Television Broadcasters

Like cinema, television is one of the most popular and important media for showing film content - accounting for 28% of all industry revenues. (Source: ABN Amro) Unless, however, the programme has been commissioned by, or developed with, the assistance of the broadcast or one of its partners, it is unlikely to receive airtime.

Ireland already benefits from the proactive participation of RTE, TV3 and TG4 in the development of new, indigenous content but it is clear that more schedule time needs to be found for animated film - short or feature - to stimulate a sustainable sector.

Video and DVD

The thriving home video market is worth approximately three times the theatrical market and, thanks mainly to DVD, which is the fastest-growing consumer electronics product of all time, it continues to enjoy vigorous growth. Most films that perform well theatrically go on to do well on video, as the audiences are complementary. By the same token, films that have not enjoyed a successful cinema release are less likely to be particularly profitable in these ancillary markets.

There are increasing opportunities for independent film distribution on the DVD format as evidenced by the recent successes of the 'Cinema 16' collections of shorts as well as Brown Bag Films' Give Up Your Aul Sins release.

Internet Distributors

The online possibilities for film are rapidly developing, increasing hand in hand with the take-up of broadband Internet connections worldwide. Companies such as Atom Films (now part of the Macromedia Shockwave group) act as multi-platform distributors often acquiring film content for free online delivery prior to release to television or DVD.

3.0 Key Market Dynamics cont.

These new web sites vary in the types of contracts they offer; some online exhibitors will screen a film free of charge, others will charge a fee (perhaps to cover encoding, formats conversion etc.) or even pay a small royalty fee to show the film. As the web continues to be virtually the only advertising medium growing in value, it is common that the viewer will be shown a commercial advertisement prior to the selected film.

Mobile Aggregators

As a consequence of the development of broadband and 3G mobile telephony, mobile television is believed to be a potential future distribution platform for film and programme content worldwide. Mobile digital television allows users to make use of broadcast, broadband, wireless and local area networks, which must find new 3G-ready content revenue streams with which to earn a return on their earlier investments, allowing relatively cost-effective rollout and widespread adoption. There is therefore a major market opportunity for a relatively new category of player, the wireless content publisher or 'aggregator'. These are vendors who will identify, obtain, reformat (if needed), and stream content to wireless users working closely with specific operators. Due to cost and capacity issues, mobile operators are offering games, streaming music and short video clips initially. Cartoons and synthesized music will play a big role at first, as they do not require as much data as digitised music and video, but content aggregators can shape the market by choosing (or contracting for) the right content for mobile users as the customer base, and their preferred technology, develops.

3.1.7 Customer Sales

The ultimate expression of sustainable economic viability for a film project is, of course, whether or not the market's customers will pay to watch the film in sufficient numbers so as to repay the costs of production and provide an element of profitability with which to fund future creative activity. Without this activity, film simply remains an art form to be created at the artists' own expense or to be supported by the public sector.

There are a number of mechanisms that can provide potential revenue streams as follows:

Festival Winners

Winning an award at a film festival not only raises greater interest in the film and its producers in the eyes of potential distribution and development partners, but can also provide a source of income from cash prizes.

The actual value of the prizes is unlikely to result in real earning potential but can help to offset the costs of production for some low-budget short films from independent producers.

Cinemas and Theatres

As above, it is unlikely that the cinema-going audience will have an opportunity to pay to see a film unless it is already heavily backed and supported by the major international distributors.

The initial release to theatres does, however, tend to account for 26% of all total revenues for the film industry and enjoys an exclusive release window of between two weeks and four months depending on the audience's appetite for the title.

(Source: ABN Amro)

Video and DVD

Typically, following any theatrical distribution, a film will be released on video or, increasingly, DVD. Initially, home video rental has a protected window of approximately six weeks, after which personal sales are allowed. The video and DVD markets account for an average of 46% of total revenue earned.

(Source: ABN Amro)

However, shelf space for products in the high street retailers is extremely limited and preference will always be given to known, successful titles and other releases from major international distributors, making it difficult, again, for independent producers to participate in the market. Establishing an online store to promote and enable individual purchasing of a film, prior to digital or postal distribution, is the only viable alternative for most small companies.

3.0 Key Market Dynamics cont.

Television

Unless specifically commissioned by a television broadcaster, in which case the film's first and perhaps only release is via TV, a film will be made available for transmission after around six months of video exclusivity, accounting for the remaining 28% of all revenues.

(Source: ABN Amro)

The television market has its own hierarchy:

1. pay per view (2-6 weeks)
2. premium channels (18 months)
3. network TV (12-18 months)
4. syndicated TV

Internet and Mobile

Although it is clear that broadband Internet access and 3G mobile telephony will provide additional opportunities for the customer to enjoy and pay for film content, these media are not yet mature enough to be able to demonstrate a sustainable business model.

Currently short film and animation content is available for streamed or downloaded viewing via a number of sites including atomfilms.com and ifilm.com but in most cases these are made available to the user for free. The only current revenue stream would appear to be that of short advertisements that are displayed in advance of the actual film. It is not yet clear whether this is providing sufficient profitability for the site operators.

The actual commercial value of an online short film is currently questionable but other web companies, e.g. moviemail.com, are appearing, offering exclusive net-based sales and marketing of low-budget, short and arthouse films on DVD.

The potential opportunities for telephone bill-based micro payments do indicate a possible mechanism for customer purchasing, and the current market for music and ringtone downloads does indicate that the market is at least willing to access preferred content in this way. The bandwidth available to the mobile industries and the handset display capabilities will, however, need to increase significantly before film content can be distributed to these new audiences with the same degree of convenience and quality.

4.0 Market Analysis

The film industry is widely held to be one of the most exciting growth markets around the world. The cost of production methods and tools are decreasing annually due to technological innovation and market competition between manufacturers, and film-based products can be easily and inexpensively transported and distributed to potential markets around the world.

However, the domestic and international markets for film content are already experiencing extreme competition from oversupply. Domestically, saturated markets, higher quality thresholds and the entrance of new suppliers are reducing the opportunities for our indigenous producers. Traditional markets are fragmenting into smaller, lower value niches that must react to the needs of changing trends, fashions, methods of distribution and business models.

Internationally, competition from larger, more powerful companies overseas benefiting from economies of scale as well as the new, emerging low-cost suppliers are reducing opportunities for new product development and work-for-hire contracts alike. Ireland's labour costs are now significantly higher than those of Eastern Europe, Asia and the Pacific Rim countries and, in the absence of cheap labour, there do not seem to be many specific value benefits with which to win new production business. Without the economic growth from increased market share and profitability it will be increasingly difficult to retain our best talent when faced with competition from those overseas employers.

Film companies in Ireland do, however, demonstrate excellent production skills. Education and training is of an excellent standard and access to production tools and facilities is readily available. The industry mostly consists of relatively small, compact, specialised businesses and individuals, reactive to changing market conditions and hungry for success. Ireland still enjoys relatively low human resources costs compared to some countries, e.g. the US.

However, our film production companies are often too small, young, inexperienced and financially naïve, with insufficient financial resources to be able to compete internationally. The distribution, publishing and promotional infrastructures for indigenous film content are undeveloped and ineffective and there is insufficient development of original IP from within the industry with which to demonstrate any unique and attractive creativity.

Ireland benefits from being a naturally English-speaking nation, the first language of the international film industry. We enjoy a particularly good standard of living and work/life balance, coming top in the Economist Intelligence Unit 'International Quality of Life' index, 2005. Not surprisingly therefore, Ireland is a popular and successful film location due in part to an attractive and supportive tax regime (Section 481) and has enjoyed an historically successful place within the EU allowing access to a range of economic development initiatives. There are excellent communications and transport infrastructures and a clear national and cultural identity that could be exploited to develop a strong brand image for the industry.

Ireland's location, on the edge of Europe, means that it is often removed somewhat from the cultural activities of the continent and the rest of the world and there can be difficulty developing and maintaining service-based relationships with international customers. There may be a culture of historic over-reliance on state sponsored financial aid. Private and commercial mechanisms for financial investment in the industry are immature, largely misunderstood and inactive.

Film companies in Ireland do not, in general, have adequate business management, finance or sales and marketing skills. Neither is there currently sufficient training and accreditation in business skills as specifically relevant to the film industry. There does not seem to be sufficient awareness of the value of strategic planning backed by market intelligence.

Other industry sectors and businesses in Ireland, though, have been extremely successful in overcoming these barriers in the past, both domestically and internationally, and could share their experience and knowledge. There is ample availability of market intelligence information with which to inform development strategies, and excellent administrative and strategic assistance countrywide that can be made available to the film industry.

5.0 Opportunities for Growth

5.1 Target Markets

Clearly one of the most obvious methods of increasing commercial opportunity is to identify the range of skills, services or products currently in demand and to become valuable to those markets. It is almost impossible to do this successfully however, unless the film industry becomes sufficiently aware of the issues affecting the market. This is essential to informing a successful strategic plan.

Both internationally and domestically, supply exceeds demand even in this high-growth sector, and sustainable advantages will need to be identified and implemented to provide any chance of profitable competition. The film industry in Ireland is simply too expensive to win traditional work-for-hire contracts and there is insufficient development of new IP-based projects with which to replace the existing service-based activity.

Film is a labour intensive industry and good people are always in demand. Skills training and experience are valuable assets and any opportunity to improve either should be firmly grasped. We know that our human resources are generally competitive in terms of production skills and that our educational systems are extremely good but we know also that there is a lack of the accompanying business management disciplines needed to win and manage the business for our production specialists.

An urgent requirement therefore will have to be the recruitment and training of specialist business management, project management and sales professionals to undertake the necessary marketing research activity and the resultant strategic planning needed to identify future market opportunities and shape the production activities accordingly.

Without wishing to pre-empt the required marketing research, we can say with certainty that new target markets are likely to be found by

identifying the various factors that differentiate parts of the overall market, examining the individual needs within those customer segments, creating a product to satisfy those needs and communicating the availability of the solution to our newfound customers. These demographic differentiators are going include:

- geography
- culture
- language
- age group
- gender
- wealth
- access to technology
- required purpose (e.g. entertainment, industrial, medical, scientific)

Understanding these market segments and uncovering the needs within will provide strong route maps to profitable market opportunities. Consideration of different countries' cultural and language requirements, for instance, may provide interesting niche opportunities for internationalisation and translation of existing content. Examination of differing technology standards may provide opportunities for repackaging and deployment for different platforms.

Europe is, perhaps, the largest single market for film in the world. As a bone fide member of the Europe Union - more so even than the UK - Ireland needs to develop stronger links with the other partner countries in respect of distribution, marketing channels and financing. Greater success in Europe of indigenous Irish films and Ireland-based co-productions will undoubtedly lead, in turn, to even greater market interest from the US and Asia.

It is this process of marketing research and needs analysis, to identify the new targeted market opportunities that, if implemented, will provide a realistically achievable source of new business opportunity in the face of overwhelming competition for traditional sources of work.

5.0 Opportunities for Growth cont.

5.2 New Product Development

It is entirely likely that a formal marketing research project will reveal that the current activities of most of the film industry in Ireland do not quite match the needs of the market, and so the industry is unlikely to be able to take advantage of the opportunities available. In existing markets however, the film industry in Ireland will have to devote more energy and attention to the development of original IP.As discussed previously, IP is the only realistic long-term asset that is available to a content producer and is an area that traditionally has been overlooked.

One of the most important attributes of film as a medium is that it promotes cultural diversity and a sense of self-determination. Over the past decade, most indigenous Irish films have covered an extremely broad range of issues and genres that help to promote this diversity and national identity. While it is important that, to be economically sustainable, films need to appeal to a global audience, it is equally important that the story should reflect the culture and identity of its origin, if only to retain interest and credibility.

Ireland now boasts a number of highly skilled and, increasingly, commercially successful writers who have achieved international recognition and are therefore now in a position to develop and influence world film production. First-class scripts are a critical priority for a commercially dynamic Irish film and television industry, being at the core of the wider process. Producers, funding agencies and broadcasters should therefore be enabled to concentrate more on script and project development. (FISRG)

In an age where costs are spiralling upwards and finances are becoming more scarce it is vital to try to concentrate on the originality and creativity of the project. Films like Blair Witch Project and, more recently, Open Water, demonstrate that hugely successful films can be made on a shoestring budget - if the creative premise is good enough!

Financing the development of new IP is, of course, currently difficult but not impossible. Support from a large, but currently dormant, investment and venture capital sector is readily available but

will require an element of education from both sides as to each other's needs. Investors will need to feel secure in their participation and the involvement of formal research and development, marketing planning analysis, realistic business projections and proven business acumen are all essential to this. However, all of these seem to be, currently, complete strangers to the film industry!

New technologies too will obviously provide opportunities for new products and solutions. Developments in distribution and playback mechanisms, e.g. broadband Internet, 3G mobile telephony, high definition broadcasting and next-generation DVD, will require new or repackaged content development. The convergence of film, computing, and digital media is a significant opportunity for the Irish industry, illustrated perhaps by the successes globally of Oscar-nominee Ruairi Robinson (Fifty Percent Grey) and the involvement of Dublin-based games film software developers Havoc in The Matrix Reloaded.

More recent technological developments include Internet-based commerce, e.g. eBay, digital personal video recorders, e.g. Sky+, mobile multimedia content delivery, e.g. 3G, and, especially NTT DoCoMo in Japan, and the latest handheld gaming consoles, especially Sony's PSP. All of these are changing or set to change not only the way customers access content but, more crucially, how they arrange their lives as a consequence of the new ways in which they can access content.

It is clear that the film industries of Canada, Australia and New Zealand are currently enjoying a higher than might otherwise be expected, share of big-budget Hollywood film productions because those countries have studio facilities that are owned by major US distributors. If Ireland can attract a similar facility then it should be equally possible to attract more work. It is important also that our indigenous studios, such as Ardmore, and digital post-production facilities, are maintained and staffed to international standards to facilitate not only a share of the international work, but the development of new low-budget films by Irish producers.

5.0 Opportunities for Growth cont.

5.3 Value

The simple fact is that wage levels and associated labour costs in Ireland are now too high to allow the industry to successfully compete for work-for-hire business from international markets.

Costs in Eastern Europe, Asia, and the Pacific Rim are much less expensive and, increasingly, the industry has witnessed mass off-shoring of the production processes of the US and Europe to these other markets. Even if over time wage levels in these new producer countries start to creep upwards there seems to be no end of younger, hungrier economies prepared to grab a slice of the action by reducing costs still further.

This current globalisation of world commerce seems unlikely to be voluntarily halted by the largest international corporations. They will continue to try to minimise the costs of production for as long as there are low-cost labour markets to exploit, in order to maximise their profitability, and for as long as their customers keep buying the product.

As long as this model continues to dominate, it will be impossible for Ireland to compete on the basis of price. The domestic industry should look, therefore, at other potential sources of competitive advantage. The most likely method will be to identify areas of added value that, in addition to the raw film product, become an attractive ancillary product feature with which to develop a sustainable competitive advantage.

Once again the best possible and most obvious way to achieve this might be to simply ask the customers what they want that they're not getting, and simply try to supply the solution at a price that's acceptable yet sustainably profitable. In other words, adding unique value propositions to the overall offering with which to provide customer satisfaction. It may be possible, however, to look at our industry strengths and, by identifying those that are unique to Ireland, highlight some areas that are more likely to succeed. These include:

- Past business success in Ireland - it may sound too obvious but surely film can learn from other industry sectors (software

development, pharmaceuticals etc.), how they have been able to remain competitive in the face of low-cost competition. Those lessons should be readily transferable.

- The small, compact, specialised nature of our indigenous film companies, which are more reactive to changing market conditions, might be able to target short-term solutions research and development work where normal economies of scale do not apply.
- Ireland's standard of living and work/life balance, as stated in the Economist Intelligence Unit 'International Quality of Life' index, 2005, is an enormous opportunity for the creative industries and for the country as a whole. The index compares Ireland's status as the best country in the world to live and work with that of our most important potential customer markets; the US (13th place), Japan (17th place) and the UK (29th place).

The most influential companies and structures are already established and their market domination is assured but there is an undoubted opportunity to attract at least some of the operational bases to Ireland, by highlighting that we have a quality of life that money simply can't buy elsewhere.

Despite fierce competition within the global film industry, there is a natural and traditional warmth towards Ireland internationally and more effort should be made to understand the essential importance of sustainable customer relationships and to try to develop these accordingly. When seeking a value-added basis for sustainable competition, increasingly businesses are accepting that relationships, trust, co-operation and loyalty are far more attractive and mutually valuable than simple price-based transactions.

5.4 Distribution and New Business Models

To compete more effectively for a greater share of the box office and accompanying revenue streams there is a need for a distribution-led approach to film-making. It is a continuing factor that, except for the US, most films are made in a

5.0 Opportunities for Growth cont.

kind of commercial vacuum, completely disconnected from distribution. (Source: UKFC) The basic truth is, however, that the film industry is - like any other - a distribution-led business; it is about pull, not push. In the US the same model has been used for over 80 years; the money spent on production is earned back in distribution, with the surplus used to fund the next project.

Without publishing, distribution, promotion etc., the content produced by the film industry cannot be offered to customers for possible purchase. Without any possibility of purchase there can be no hope of profitability and without profitability there can be no sustainability. The marketing mission must be to collect and disseminate market intelligence, form networks with distribution linkages and promote Irish film as a generic product throughout the global market. (FISRG) International distribution is where most revenue comes from and without an indigenous distribution facility these revenues will not come to Ireland.

Cinema and Television

There are very few opportunities for the theatrical release of non feature-length films although it is possible for a very few to be screened along with the main release. To succeed, there is likely to be a pre-existing relationship with the feature's producers or distributors and the film short will have a clear thematic connection with the feature it is theatrically attached to. There are a number of distributors in the UK that specialise in short films, e.g. Short Film Bureau, and at least two active film distribution companies in Ireland, Monster Distributes and Sullivan Entertainment, but it is not clear what level of availability is open to new indigenous film makers.

Broadcasters looking to acquire short films will generally source them from distributors or at festivals. It is possible also to approach broadcasters and distributors directly but it must be remembered that the number of films competing for airtime far outweighs the actual opportunities. Ireland already benefits from the proactive participation of RTE, TV3 and TG4 in the development of new, indigenous content but it is clear that more schedule time needs to be found for film - short or feature - to stimulate a sustainable sector.

Unlike terrestrial television, which has only limited capacity for low-budget and short films, pay television channels (Canal Plus, ZDF, HBO etc.) provide more opportunities for the commercial realisation of film, albeit at relatively low fees.

Film Festivals

One of the few opportunities for new and inexperienced film makers is the international film festival circuit and one of the key elements of success is increased awareness of these international marketing opportunities. Strategically positioning a film in the global marketplace can help to secure commercial interest in the project, gain critical recognition and provide future project opportunities.

Festivals can attract many visitors including international distributors, festival programmers and the media, and can easily create a buzz around standout films. It might be advantageous to target specific festivals such as those that are more likely to cater for the film genre, e.g. Annecy, or are more likely to support independent works.

The shelf life of an individual film around the festival circuit can be as long as 24 months and, although some festivals require submissions to be premieres, it is possible to submit the film to multiple festivals to try to capitalise on the marketing opportunities of the circuit.

While there is not yet a large commercial market for the short film, the festival circuit provides opportunities to influence buyers of content for television, in-flight entertainment, DVD distributors and so on.

DVD Shorts

At a time when the costs associated with feature production are almost certainly prohibitive to new film makers, short film and live action films can be produced at the director's own expense or with the assistance of the Film Board and NIFTC. The proactive marketing of the compilation DVD medium should provide a unique opportunity for these films to reach the mass consumer markets and create a vehicle for financial sustainability for the first time.

5.0 Opportunities for Growth cont.

Increasingly, film producers are experiencing new market opportunities through the exploitation of home video and, in particular, DVD. Most theatrical distributors have their own video labels to follow through on cinema releases and this sector of the industry is proving an ever-more lucrative part of the product's life cycle.

Among the most intriguing and critically acclaimed DVDs of the last couple of years have been the two 'Cinema 16' releases. Collections of short films by established and emerging directors, the DVDs provide an opportunity to explore these little-known films in one handy home-entertainment package. In many ways the marriage of short films and the DVD is obvious but these releases are among the first to prove that the combination can be genuinely commercially successful.

Key to the success of a direct-to-DVD market will be the participation of distribution companies with specialist experience of the retail markets and a number of these, such as Tartan Films and Vital Distribution, are beginning to emerge. As yet, however, there seems to be little Irish participation in the market, save for a few sporadic releases by individuals connected with the Irish Film Board.

One such release was the Oscar-nominated *Give Up Your Aul Sins* produced by Brown Bag Films in Dublin. Having already received critical acclaim at festivals and significant interest from the film-based Internet sites (discussed below) the response to the obvious market potential was to release the piece as part of a collection of short films on DVD. This venture has demonstrated the commercial viability of DVD as a distribution medium for independent projects adding genuine financial value to the undoubted quality of the work.

Additionally, giving away limited copies of films on DVD can be a successful way of developing a key early adopter segment of the market, promoting the work for commercial distribution if initially well received. This option may however restrict potential festival competition entry.

The Internet

In recent years the Internet has provided opportunities for short film films to reach

potentially huge audiences. There are now a number of well-established entertainment sites, atomfilms.com, ifilm.com, that stream or provide downloads of short films.

When Atom Films first started, only very few of the huge range of short films were being seen, and by a limited audience, either at festivals or on late night television. The films were being made only as a kind of expensive business card for up and coming directors hoping to get into the feature film market. Atom, however, recognised that these film shorts were great entertainment in their own right and have sought to bring these films to a truly worldwide audience and create a sustainable mass market.

These new web sites vary in the types of contracts they offer; some online exhibitors will screen a film free of charge, others will charge a fee (perhaps to cover encoding, formats conversion etc.) or even pay a small royalty fee to show the film. As the web continues to be virtually the only advertising medium growing in value in recent times, it is common that the viewer will be shown a commercial advertisement prior to the selected film. Whether there is sufficient profitability as yet from Internet-only distribution remains to be seen, with the prevailing appetite for free content still very much in evidence.

Mobile Delivery and Micro Payments

One of the factors that might help to define the commercial future of online distribution may come, ironically, from the development of the mobile telephony markets and, in particular, how the link between delivery of content to the handset and payment via the telephone billing process matures.

Certainly, as the market for ringtones, music, video clips and games starts to take off, customers are becoming used to seeing relatively small payments for content delivery appearing on their phone bills in addition to the normal line rental and call charges. These micro payments, while in themselves tiny compared to the costs of buying traditional media forms, provide an opportunity to derive profitability through sheer volume - the amounts charged appearing to be relatively insignificant to consumers' normal budgeting decisions.

5.0 Opportunities for Growth cont.

This process of telephone-based payment is proving to be so attractive to the markets that examples of ticket sales, grocery shopping and other functional applications are starting to appear in addition to the simple payment for delivery of media content. Although still very much in its infancy, the system is widely expected to become ubiquitous in the near future and will, no doubt, attract the interest of the established financial institutions as well as the traditional mobile network operators.

Mobile and Internet delivery of content does seem to provide an alternative, relatively low-cost channel for distribution and financial reward for digital film content in the future although, as always, the competition for the customers' attention will develop and become more intense. Currently, the existing brand leaders, such as Nokia, are able to largely dictate which products are best promoted while companies such as Virgin and Sony, who have interests in both the telephony and content development industries would seem to be ideally placed to exploit the opportunities.

Independent competition for the customer will prove to be as difficult and as expensive as ever and will rely, as always, on the integrated application of traditional advertising media (television, press etc.) to drive customers towards the otherwise easily and inexpensively distributable content. It's easy to build it but, if they don't know about it, they still won't come!

Cinema Education

In order to enhance audience understanding and enjoyment of non-blockbuster films and to develop audiences for indigenous and specialised films long-term, greater support should be given to distribution and promotion of these films to selected theatres.

Additionally, television broadcasters might be persuaded (or indeed compelled) to show more indigenous productions - including shorts and films - as a higher proportion of the overall programming.

Film Industry Cluster

In examining the current strengths, weaknesses, threats and opportunities facing the Irish film

industry - and accepting that the actual product quality is at least good enough for international success - it appears that many of the issues relate to the small-scale nature of the sector, a lack of influential relationships with the major international markets and current financial powerlessness to bring about the desired changes. A solution to this state of affairs might be to develop a greater sense of partnership within the industry and an appreciation that collaboration within a film sector cluster could enable the attainment of common goals.

Clusters can be defined as concentrations of competing, collaborating and interdependent companies and institutions which are connected by a system of market and non-market links. Clustering can bring a wide range of benefits to both business and the wider economy including the following:

- Companies can increase the expertise available to them if they locate amongst a cluster of other firms.
- They can also draw upon others with complementary skills to bid for large pieces of work which each of the individual firms would have been unable to complete.
- Advantage can be taken of economies of scale by further specialising production within each firm, by joint purchasing of common raw materials to attract bulk discounts or by joint marketing.
- Social and other informal links are important and can lead to the creation of new ideas and new businesses.
- Reputations spread quickly within the cluster, enabling finance providers to judge who the good entrepreneurs are, and business people to find who provides good support services.
- The cluster enables an infrastructure of professional, legal, financial and other specialist services to develop.

(Source: UK DTI)

Current research suggests that clusters of firms and skilled workers may be one of the key drivers of economic growth in localities, cities and

5.0 Opportunities for Growth cont.

regions, increasing knowledge and spreading best practice, thus improving competitiveness and creating growth. Firms are finding that they can better utilise their knowledge capital, and increase the expertise available to them, if they locate amongst a cluster of other firms.

Firms in clusters can gain advantages from increased economies of scale - for example drawing upon companies with complementary skills to bid for large pieces of work which each of the individual firms would have been unable to complete. Collaboration also allows advantages by further specialising production within each firm, by cost reduction from more efficient resource development, e.g. skills training etc., and - especially important to the digital creative industries in Ireland - a more powerful and effective joint marketing process.

Clusters facilitate other forms of collaboration or networking between firms. In part, this is because co-location and repeated contact helps build up a relationship of trust. Many of these networking arrangements are ways of spreading best practice and the results of research and development. It is a key requirement for facilitating the growth of a cluster that firms are encouraged to take advantage of collaboration and to demonstrate that by working together their performance and financial sustainability will improve.

5.5. Opportunities at a Glance

5.5.1 Idea Generation

The development of new, unique, valuable intellectual property is critical to the future of the industry. A formal research and development process is essential to the development of new, market-ready ideas.

Recent changes to the broadcasting charter in the UK mean that independent production companies are now able to retain an increased proportion of rights and royalties in respect of their own IP, creating added value and profitability.

5.5.2 Project Development Skills

There is a need for more development of scripts and visual treatments from initial IP. Specific 'producer' skills are in short supply within both film and television markets.

5.5.3 Finance Management Skills

Film producers and television broadcasters are reporting a scarcity of industry-specific financial management and accounting personnel, particularly in respect of complex production arrangements.

5.5.4 Production Skills

Production opportunities exist within creative, technical and craft disciplines and the supporting business occupations.

The technology revolution is impacting on all areas of digital production and distribution and particular opportunities exist in:

- high definition filming and editing;
- CGI animation and special effects;
- interactive television (iTV) content development;
- content repackaging for interactive DVD (including HD); and
- content development and repackaging for mobile (3G+) distribution.

Business skills in demand include:

- project management
- production management
- health and safety management
- sales and marketing

5.5.5 Distribution Technologies

New digital distribution technologies are creating demand for skilled engineering personnel in the following areas:

- satellite broadcasting
- digital terrestrial broadcasting
- IPTV
- 3G+ mobile telephony

5.0 Opportunities for Growth cont.

5.5.6 Television Broadcast

Television, unlike film perhaps, is currently anticipating a period of future growth, largely due to the effects of the public service broadcast charter applicable to Northern Ireland and the rest of the UK.

It is anticipated that content production requirements in Northern Ireland, Scotland and Wales will need to increase by between 100% and 200% to accommodate new regional targets and, although this may be somewhat offset by relocation of skilled personnel from London and the South East of England, there will undoubtedly be opportunities throughout Ireland.

5.5.7 Irish Language Content

There are increasing opportunities for the development of new Irish language content for both film and television distribution, evidenced by the specific development schemes operated by the NIFTC and IFB, the increasing popularity of TG4 and BBC NI's Irish Language Broadcast Fund.

5.5.8 New Markets

Developing markets based on opportunities from new technologies are appearing and maturing. As bandwidth and consumer uptake increases, the Internet and mobile telephony markets will become important customers for new content production although, as yet, there are few examples of successful business models.

Currently, the most realistic opportunity would appear to be the DVD sell-through market with growing evidence of consumer interest, critical acclaim and financial sustainability. The requirement for promotion and distribution, however, remains a significant factor.

5.5.9 Production Finance

While there are still only limited commercial financing opportunities in Ireland there are significant funds available from both the NIFTC and IFB for projects matching the published criteria.

6.0 Conclusion

This report has discussed the issues currently affecting the film content production industry in Ireland, has examined the issues affecting the potential for long-term economic sustainability and has offered suggestions for the development of sustainable advantage in an increasingly competitive global market.

Regardless of the artistic ambitions that may have led to individual market entry and the quality of the work currently available, the single greatest truth is that it is simply too expensive to create economically viable film in Ireland for traditional markets in the face of unrelenting competition from low-cost, high quality labour markets overseas.

Traditional distribution outlets are fragmenting, consumer preferences and willingness to pay for content are changing and Ireland does not have the capability to challenge head-on the domination of the corporate giants that essentially control the market opportunities.

Individually, companies do not have the financial resources to be able to seek out collaborative relationships with the main customer groups to develop preferred supplier status or long-term loyalty that might ignite confidence and provide stability.

There is insufficient development and exploitation of original intellectual property despite this being the most reliable way to break away from work-for-hire service provision towards actual long-term wealth creation, and despite a national history of unique creative flair. Even if there were a desire to attempt to produce original content, the existing financial structures that might provide the necessary investment in new product development are not sufficiently developed or utilised by the industry.

Finally, our ability to compete for new business opportunities or market share is severely restricted by the lack of a specialised and focussed distribution, publishing and sales mechanism and a lack of suitably qualified personnel within the industry itself.

However, what we have also seen is that by engaging in a formal marketing research exercise we can identify genuine new market need and begin to develop new products and services to meet the opportunities arising from new customers, technologies, social preferences and so on. By collaborating and operating more collectively, the film industry in Ireland can combine to achieve the strength and scale to be an attractive long-term partner and supplier to the global media markets.

Without a commercially viable low-cost film genre (similar in many respects to the Japanese industry) there will be little to indicate that Ireland is very much more than an international film industry location, with an indigenous cottage industry providing sufficient film-making training only to serve as local social therapy rather than a commercial entity that contributes economically.

As the acclaimed director David Lean has said: "Film production is the last of the travelling circuses." Ireland is by no means certain that the industry won't pitch its tent elsewhere.

7.0 Appendix

Statistical information and analysis used in the compilation of this report was accessed from the following sources:

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