



Independent Film Industry: Distribution Challenges and the Managed-Risk Solution

compliments of



INDIEVEST
Connecting film and capital

Producing independent films is an exciting but highly risky process for filmmakers and investors alike. IndieVest's managed-risk solution can solve or mitigate many of the challenges that typically face an independent production.



What is an independent film? Though *independent* is generally defined as “free from external control and restraint,” such freedom is virtually impossible to achieve in a medium as collaborative and expensive as filmmaking. Does independence denote methods of financing and production? Does it mean that a single, essentially autonomous artist is responsible for the movie’s content and style? Is the word a broad signifier of an independent vision that doesn’t toe the conventional Hollywood line? The short answer is “Any or all of the above.”

Generally speaking, an independent film is one that is financed and distributed outside of a major studio or that costs less than \$10 million to produce. Funding may come from an independent production company, private or angel investors, foreign presales, loans, personal savings, or a combination of these sources. Once production is complete, the film faces the additional challenge of finding a distributor.

In recent years, innovations in digital technology and desktop filmmaking software have helped level the financial playing field for independent filmmakers. One symbol of this new era was *Tarnation* (2003), which was a sensation when it was screened at the Cannes and Sundance film festivals. (Sundance is one of the most well-known and competitive marketplaces for independent films seeking distribution.) Using old snapshots and home movies as well as present-day footage recorded on his digital camera, filmmaker Jonathan Caouette edited his autobiographical film using iMovie software, spending a total of \$218 on his initial budget. Still, no matter how much or how little they’ve spent on making their films, producers and directors must run the obstacle course of finding a company to place the final product in theaters.

The State of Independence

Independent films provide a vital alternative to the tent-pole blockbusters that are the bread and butter of the major studios. “We have come to know independent films as the films that have had the greatest impact on audiences,” says Mark Burton, President of Production, IndieVest Pictures. “They resonate with viewers emotionally, as opposed to having merely the biggest explosions.”

Typically, an independent film is also the creative product of a singular vision. The focus tends to be on performance, dialogue and characterization, on strong narratives and spontaneous, intimate human interaction—qualities native to American independent movies as diverse as Steven Soderbergh’s *sex, lies, and videotape* (1989), Quentin Tarantino’s *Reservoir Dogs* (1992) and Kimberly Peirce’s Oscar-winning *Boys Don’t Cry* (1999). Many of the most famous independent films are the creators’ first features, which may speak to the energy and originality that comes a little easier to artists who are young and hungry. It also reflects financial realities, as first-time filmmakers have less access to conventional funding and distribution channels than their more established peers, forcing them to do more with less.

Patterns of Distribution Evolve

The universally acknowledged godfather of American independent film is the late writer-director John Cassavetes, whose first feature, *Shadows* (1959), overturned just about every reigning assumption about how a movie should be made. Cassavetes raised much of the tiny \$40,000 budget himself, appearing on the Jean Shepherd radio show to urge listeners to send two dollars for an “advance ticket.” The script drew from improvisations by the cast of mostly untried young students; the apartment Cassavetes shared with his wife and future star, Gena Rowlands, did triple duty as a home, a production office and a set. Once he’d finished this hugely influential labor of love, however, Cassavetes couldn’t find an American distributor for it; British Lion released the film in the States. He faced the same dilemma for his drama *A Woman Under the Influence* (1974), which he eventually self-distributed. The movie earned \$16 million (\$66.5 million in today’s inflation-adjusted dollars) and Oscar nominations for Rowlands and Cassavetes, but this victory was the exception, not the rule; the director’s other efforts didn’t fare as well.

Cassavetes died in 1989, the same year that the Sundance Film Festival hit its stride with an impressive lineup that included *sex, lies, and videotape*, which the independent studio Miramax purchased for distribution, seducing audiences with a racy promotional campaign. In 1994, the spunky lesbian romantic comedy *Go Fish* sparked a bidding war at Sundance—the first of its kind and a harbinger of things to come, as such skirmishes would become something of an annual tradition at the festival. Some of these battles were justified while others were miserable mistakes: Castle Rock won *The Spitfire Grill* (1996) for an alleged \$10 million, a large sum for an eventual flop, but the \$10 million that Fox Searchlight spent for the hotly coveted *Little Miss Sunshine* (2006) has paid handsome returns (to date, the film has made close to \$60 million at the U.S. box office).

Sundance and Miramax helped to facilitate an extraordinary blossoming of independent-minded filmmaking in the late 1980s and '90s. Miramax moved into production as well as distribution, and a year after Disney acquired the studio in 1993, Tarantino’s *Pulp Fiction* crossed the magic \$100 million barrier, a first for Miramax. The triumph of *Pulp Fiction* ensured that all of the major studios would, sooner or later, either acquire or establish a “specialty films unit” to make awards-caliber movies on efficient budgets. That roster now includes Sony Pictures Classics, Fox Searchlight, Paramount Vantage/Classics, Warner Independent Pictures, Picturehouse (a subsidiary of Time Warner) and Focus Features (part of Universal).

Independent films dominated the 2005 Academy Awards, garnering four of the five Best Picture nominations: *Brokeback Mountain* (Focus Features), *Capote* (Sony Pictures Classics), *Good Night, and Good Luck* (Warner Independent Pictures) and eventual winner *Crash* (Lions Gate). All had budgets in the single-digit millions, save for *Brokeback* at a mere \$14 million, and all approached literary, historical or politically

Risks and Challenges of Independent Film Distribution

charged subject matter with well-known stars working at a fraction of their usual going rate. The boutiques have also kept up a high profile at Sundance, with their purchases skewing toward fare with a youthful demographic: Notable sales of recent years have included *Garden State* (2004), *Napoleon Dynamite* (2004) and *Hustle & Flow* (2005).

In the current landscape, independent film producers face a number of challenges when it comes to securing theatrical distribution. The unavoidable reality is that a film can rarely secure a distributor—much less an opening date—before it is shot and edited. As a result, investors face a risky proposition in putting money toward a film that may never see the light of day. In fact, of the nearly 9,000 independent films completed each year, only 5 percent achieve some form of theatrical distribution.

Another problem is that independent producers have only a narrow range of distributors from which to choose. Beyond the half-dozen studio specialty divisions and a handful of independent studios—including Lions Gate, THINKFilm and IFC Films—all that remain are foreign sales and television outlets such as the Sundance Channel (which also has a home-entertainment wing). In the past year, HDNet Movies has experimented with a new “day and date” distribution method, by which it premieres its productions simultaneously in theaters, on DVD and on the HDNet channel. However, the jury is still out on the potential success of this model.

“It’s tight and it’s competitive, because there are a limited number of distribution firms and there is a limited amount of marketing money,” Burton says. “Even if you have some terrific talent, you may not be able to secure the distribution deal that you need. That’s one of the big risks when you go into a venture to produce a film, where you have millions of dollars on the line and you are hoping that the film is going to connect. Sometimes it does and you’re able to make that sale and make a profit, and that happens year after year. But a smaller and smaller number of films achieve that target every year as well.”

Because of the lack of distribution in most cases, an independent production either sinks or swims on the festival circuit. The little movie that lands at Sundance and sparks a bidding war—the classic indie-film fairy tale—is a scenario that comes true for a very small fraction of films. Only about one percent of the thousands of films submitted to Sundance each year are accepted, and only a small percentage of those chosen movies get picked up for distribution during the festival.

“It’s a very difficult bet to make,” Burton says of the Sundance gamble. “The independent world now has trends just as the more mainstream pictures do; people are chasing genre films and edgy youth comedies that are going to do very, very well. The problem is that a lot of very interesting and good films get shut out.”

The Managed-Risk Solution

IndieVest's managed-risk solution can mitigate many of the challenges inherent in independent film distribution. With start-to-finish financing, all the capital necessary to complete and deliver the film to distribution—as well as the print and advertising capital to promote the film in the U.S. theatrical market—is raised before the start of pre-production. This approach forestalls every independent director's greatest fear: the mid-production collapse of a film due to lack of money. Though independent filmmaking may bring to mind an improvisatory, do-it-yourself affair, a managed-risk solution ensures the involvement of experienced crews and marketing teams. Managing risk in an independent film venture also requires signing bankable screen talent and choosing storylines that present the greatest potential return on investment. Perhaps best of all, this approach guarantees domestic theatrical distribution.

"This is the same approach that the major studios use," Burton says of the managed-risk solution. "One of the exciting and terrific things about this business is that it's not like making shoelaces or cogs—there is an element of mystery in what works and what doesn't work."

When a potential project is under consideration, Burton explains, a number of essential questions need to be asked:

- Who is the audience for this film?
- Does the story have elements that will resonate with this specific audience?
- Will the filmmakers be able to tell the story in a unique way?
- Are the actors commercially viable, and can they bring the characters to life?

"We can then assess all of those elements and be able to say, 'This is going to work, the opportunity here is great, and we can really make something worthwhile, something that will be appreciated,'" Burton says.

IndieVest Solves the Distribution Challenge

IndieVest's managed-risk solution to independent film production and distribution takes many of the what-ifs out of the equation. IndieVest is committed to developing and producing projects that combine bankable talent, engaging storylines and multifaceted characters, making for a potentially more promising investment return. The guarantee of theatrical distribution helps alleviate investors' and filmmakers' concerns about a film's future prospects of making it to the marketplace, especially given that IndieVest has a distribution footing that is competitive with the studio specialty divisions (up to 1,500 theaters).

Burton served as executive producer on Deepa Mehta's *Water* (2005), a critically acclaimed historical drama set in 1930s India, which he cites as an example of a film that embraced a managed-risk solution to distribution and marketing.

"It was a very inexpensive campaign, and yet it was very effective," Burton explains.

"It was a review-driven movie; its distributor, Fox Searchlight, played it to the



critics and got a lot of free publicity for the movie. The money was spent in exploiting where the film was successful. For example, *Water* played very successfully in New York for about 14 weeks, so they had to support the ads in New York, which is not inexpensive. There was also a lot of grassroots marketing—they were advertising in everything from yoga magazines to expatriate Indian publications to women’s magazines.”

“There was a great deal of Internet marketing as well,” Burton continues. “They really went to the constituencies that they felt would come to see this movie; it was a very dynamic approach. As the Internet is playing a larger part in everyone’s lives, there is a real opportunity for taking very innovative approaches to marketing and distribution.”

**Years of
Industry
Experience**

The managed-risk model pins down many of the X factors in independent filmmaking—money, talent, number of theaters—to create a managed-risk opportunity. As Burton also suggests, however, IndieVest’s brand of managed risk also means that each project benefits from an intimate knowledge and a special touch that can only come from years of collective experience in filmmaking.

“From my team’s perspective, it’s about having a deeper understanding of different filmmakers and their visions and supporting them to realize those visions,” Burton says. “It’s one thing to be on the outside and look at a piece of paper with a story synopsis and actors who are interested in working on the film. It’s another to know these filmmakers and the body of their work, and to have a real sense of how this movie will fit with this filmmaker.”

**Making
a Lasting
Contribution**

Though films and the trappings of the industry have long held popular appeal, most individual investors have never had the opportunity to invest in a quality film. “One of the great things about filmmaking is that it has always been a populist art form,” Burton says. “Unlike a painting that hangs on the wall in a museum, films need to be shown to a lot of people to recoup the investment. But it is difficult for a great majority of people to invest in industry-quality deals, because, like many businesses, the film industry is relationship-based.”

Now that investors have the opportunity to invest in quality films that also employ a managed-risk solution, potential investor rewards can now reach well beyond just financial returns. “We’re always looking at the financial picture and at making films we believe have the best potential to succeed financially,” Burton says. “But we also want to make a lasting impression and contribute something that we feel is going to entertain people, resonate with them on multiple levels and continue to make them think.”



INDIEVEST
Connecting film and capital

IndieVest, Inc.
1416 North La Brea Avenue
Los Angeles, CA 90028

(877) 463-4383 | www.indievest.com

© 2006 IndieVest, Inc. All Rights Reserved.