How Hollywood Applies Industrial Strategies to Counter Market Uncertainty: The Issue of Financing and Exhibition

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1 Hollywood Today: Industrial Strategies to Reduce Risk

The academy award-winning screenwriter and novelist, William Goldman (1982), once summed up the Hollywood film industry thusly: "Not one person in the entire motion picture field knows for a certainty what's going to work. Every time out it's a guess—and, if you're lucky, an educated one" (p. 39). In a very succinct manner, Goldman summarized one of the major challenges that confront the film industry: it is a high-risk business. Much has changed in Hollywood since 1983, when Goldman made this observation, and many if not most of those changes have been in reaction to the risky nature of the film industry. In other words, most of the changes that have occurred over the last two decades have been designed to establish a level of certainty in the film market and to reduce risk.

However, economic uncertainty has prevailed primarily because film is not a scalable industry and production cannot be slowly ramped up to meet increasing demand. Instead, all costs of production, and most marketing costs, are sunk up front before a film is released to the market, and it is only upon its release that a film begins to see a major return on the investment. Therefore, when a film fails, and some do, there are few options to mitigate losses and no opportunities to lower the cost of production. In addition, many film studios and independent producers bank on the box office of a successful film to help finance future productions. When a big-budget film fails in a big way, there are broader repercussions.

Therefore, the major film studios in Hollywood, and the producers who work with them, have established certain industrial strategies and corresponding strategies that maximize the profit potential for those films that do succeed. According to Sigismondi (2012), "The core business of the Hollywood studios is to finance, produce, and distribute entertainment content ranging from feature-

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length motion pictures to TV programs, including animation and live action series" (p. 19). In this chapter, we intend to provide an outline of those strategies. Although the focus on Hollywood studio strategies may seem myopic, as we will note these studios are part of multinational conglomerates that have a global reach (Miller, 2007).

We should first begin by defining what we mean by major "Hollywood studios." These are studios that have the ability to distribute and market a film on a global level, and this ability is largely contingent on extensive networks and established relationships with film exhibitors, so that a film can appear in theaters across continents on the same date, and at the same time. In addition, these studios have marketing systems in place so that audiences across these continents are aware when films are playing. Not many companies have the needed infrastructure in place to distribute and promote films on such scale; therefore the major Hollywood studios are limited to a relatively short list, commonly referred to as the "Big Six": *Columbia*, *Disney*, *Fox*, *Universal*, *Paramount*, and *Warner* (Schatz, 2008). There are what are referred to as the "mini-majors" (e.g., *Lionsgate* and the *Weinstein Company*), and there are several independent production companies in Hollywood. But these smaller studios and production companies often depend on the major studios for distribution and marketing support. Consequently, the market share for these "majors" makes up the majority of global box office revenue.

In his analysis of the strategies for these major studios, De Vany (2004) observed that uncertainty in the film industry is the primary driver of business strategies, an observation that has been supported more recently by Chisholm, Fernández-Blanco, Ravid, and Wells (2015).[1] De Vany performed a statistical analysis of box office data deploying various economic models. He was able to observe specific efforts in the industry to establish certainty, including the heavy use of sequels and prequels as well as genre formulas. In other words, De Vany discovered that the Hollywood film industry responded to uncertainty with homogeneity, in an attempt to reproduce the success of films that find an audience. However, after careful statistical analysis, De Vany (2004) came to a conclusion similar to the one that Goldman drew from his experience in the industry: he was skeptical of any supposed formula for a successful film. De Vany's study, however, focused on data that is well over a decade old, and the film industry has undergone some significant changes since then, particularly with the introduction of new digital technologies.

Our purpose here is very specific: we want to determine the current state of film financing and exhibition as practiced by Hollywood studios and answer the following two research questions: (1) How does the film industry currently manage market uncertainty? and (2) Has the emergence of digital technology significantly changed those strategies?

[1]For the sake of brevity, here we only cite De Vany's *Hollywood Economics* book. His research on the Hollywood film industry is certainly more extensive, and we have included his other important publications in our references.

In this chapter, we argue that although digital technology has brought about changes, these changes have primarily been linked to established strategies in the film industry, particularly in relation to film franchises and genres. We reach this conclusion through a descriptive, yet critical analysis of the strategies of film financing and exhibition as they are discussed in both academic and trade literatures. Our review of the literature is meant to be representative, and not exhaustive, in part, because the number of studios is so few, their strategies are fairly standard, and the points within the literature become rather repetitive. Our analysis will be critical to the extent that we will argue that strategies of the industry are not so much to entertain and support creativity, as they are to establish certainty in the market. To this end, our analysis will align with those political economists who argue that market forces influence the production of content in the media industries (Hesmondhalgh, 2013; Miller, 2016; Mosco, 2009; Schatz, 2008).

In the next section, we will begin our analysis by outlining the strategies of preproduction, considering the development and financing that must be in place before a film can go into production. Then we will discuss those deals that are struck in the prerelease stage. Finally, we will sum up the strategies of film promotion and exhibition, considering the different release windows and revenue streams. To put it simply, we will begin discussing how money is raised to make a film and then discuss how a film makes money. In the conclusion, we will critique how the emergence of digital technologies has magnified these strategies so that Hollywood film production is now focused on specific types of film content.

2 Financing Strategies

Films are expensive and require a great deal of planning and a great deal of labor. Although the primary purpose of the commercial cinematic experience is to entertain audiences, and to that end hide the work that takes place behind the camera, films require work. Generally, this work can be divided into preproduction, production, postproduction, and exhibition. Preproduction is the stage in which financing is secured, talent is attached to a project, and shooting locations are obtained. Much of our analysis will focus on the strategies of raising film financing in the preproduction stage. Production occurs when the cameras begin rolling and end on the last day of shooting. Postproduction is devoted to laying in special effects, scoring and sound, and editing the final cut. The exhibition stage occurs when a film is released to theaters and then distributed to various secondary markets, including home video, streaming services, premium cable, and broadcast channels. Again, we will focus our analysis on the exhibition stage when we address revenue generation. Although these stages follow a temporal order, we should note that some strategies cross these stages, particularly those strategies involved in film financing and exhibition. For example, one of the primary means of raising money in the preproduction state is to presell exhibition rights.

2.1 Preproduction

Before cameras can begin rolling on a film production, financing must be in place, as well as some protections for those investing in the project. The majority of films are independently produced, in cooperation with a major studio. Therefore, one of the first options for a film producer to raise financing is to partner with a studio, and these partnerships can take several forms. One of the most common is for the independent producer to provide a developed project to a studio, and then the studio provides funds for production and marketing costs in exchange for the distribution rights for the domestic (US) market (Ulin, 2010). Studios can develop projects in-house, but in these cases the involvement of an independent producer is limited. In addition, the studio not only retains creative control over the project but also keeps most of the intellectual property rights along with the rights for distribution (Vogel, 2015). This is not to suggest that a studio only exercises influence over in-house productions, and studios will often offer notes and changes on scripts and productions before closing a distribution deal. In fact, some of the other forms of financing that we will discuss often exercise control over the creative process by requiring script approval before committing funds.

There can also be occasions where a studio will team up with another studio in order to finance a production. Perhaps one of the most well-known examples of this practice is the film *Titanic*. When the film's production began to swell to US$200 million, *Twentieth Century Fox* teamed with *Paramount* to complete the production. It was a partnership that paid off considering the film went on to gross over US$2 billion in global box office receipts.

In addition to studio financing, independent producers also can obtain financing from other sources, and often these sources of financing can be combined with studio support. Banks, insurance companies, and public and private investment funds have all provided financing for film production, although it should be noted that conditions of financing can vary from institution to institution and can constrain the producer's creative control and limit their profit participation (Epstein, 2012). In ways, when producers combine these multiple funding sources, they are setting up each film as a separate, freestanding company, and even studios will often set up in-house productions in the same manner. As Vogel (2015) explains, "Each film is essentially set up as a stand-alone financial entity that separately accumulates revenues and costs apart and different from those of the studio. This suggests that a film's company might generate losses even when the studio generates gains" (p. 206). Through this practice, production costs, and the rental of some studio equipment and production spaces, can be billed to a film's production company. On the other hand, when distribution is turned over to the studio, the studio also determines how revenue and distribution fees are attached to a specific film's account. Often studios will use this practice in such a way that a film's company appears to lose money, even though the studio itself is turning a profit on the film. This is just one of the creative accounting strategies that major Hollywood studios use to deflate profit participation payouts (Daniels, Leedy, & Sills, 2006; Sparviero, 2015).

After domestic (US) distribution is established with a studio financing deal, producers are then able to pursue funding by preselling distribution rights for their films to foreign markets. Johnson-Yale (2015) has noted Hollywood has been depending on foreign markets for several years. This dependence has become progressively more important over the years, and as Lee and Gillen (2011) point out, "approximately 60 percent to 70 percent of the theatrical earnings for the most popular U.S.-produced motion pictures are earned outside the United States," and some of the largest foreign markets for film include Japan, the UK, France, Germany, Spain, Italy, and Australia (pp. 37–38). These presale deals to foreign distributors can vary in their terms and can cover home video rights and television rights, in addition to the rights for theatrical release.

Once the presales of the distribution rights for both domestic and foreign markets are in place, producers must then secure completion bonds for their films. These bonds serve as insurance for those parties who have paid for distribution rights or invested in the film production in other ways. Completion bonding is a requirement for banks and other financiers to lend money to producers, and the bonds ensure that the picture will be completed on time within the budget and it will be delivered to the distributor. If a picture is not completed, or production is shut down for any reason, the guarantor will pay for the related losses. In addition, the completion guarantor plays an essential role in both independent and studio production financing because they verify important aspects about a film's development before it goes into production (Lee & Gillen, 2011).

For example, bonding companies will review a film's projected budget to determine if it is feasible, and their analysis proceeds from a business prospective rather than a creative vision. They also vet the above-the-line talent to determine if they have the experience to complete a production or if they have a history of delayed or disrupted production. Consequently, the bonding process has interesting implications for the production process, because bonding can influence who is hired and who is cast (Epstein, 2012). For example, if an actor proves to be undependable or erratic on the set or has too many personal and/or legal problems, that actor may not be bondable and therefore companies will not back productions in which they have been cast; Lindsay Lohan's career is a case in point. Other above-the-line talent may be held to the same scrutiny by bonding companies, directors, for example. Terry Gilliam's reputation was significantly damaged by a failed production of a *Don Quixote* film and resulted in a 7-year gap in his directing resume.[2] Therefore these bonding companies also exercise some creative control, because the above-the-line talent, especially the directors, can significantly change the creative vision of a film.

Often one of the final sources of funding that producers can tap into are bank loans, and banks are often the source for what is called "gap financing" (Ulin, 2010, p. 95). These bank loans are often secured to bridge the gap between projected production costs and the amount raised through studio deals and foreign market

[2] A quick perusal of Gilliam's IMBD page reveals the impact of this failed production.

presales. We should note, however, that some producers may try to secure these bank loans up front in order to better position themselves in negotiating terms for foreign market presales. In any case, the issues related to completion bonds still apply.

Crowdfunding has emerged as a new way of raising funds for independent production, but it is distinctly different from other forms of financing, because it seldom offers any investment interests. As Lee and Gillen (2011) describe the practice, "Crowdfunding films are an alternative model for both development and production financing by going online and soliciting donations. In other words, it does not include investments and only includes the donations, memberships, and preordering of products, giving none of the funders future profits in the film" (p. 170). Common crowdfunding services for this type of solicitation include *Kickstarter* and *Patreon*, but as Lee and Gillen note (Lee & Gillen, 2011), crowdfunding works best for projects that are unlikely to receive major studio distribution (documentaries and/or social issue films). In fact, when a producer has access to more traditional forms of studio and bank financing, using these crowdfunding sources can be controversial. For example, when Zach Braff used *Kickstarter* to raise $2.6 million in donations for his film *Wish I Was Here*, he received criticism when he later signed a $10 million deal with a traditional film financer for the same project (Child, 2013). At this point, it is unclear if crowdfunding will take the place of traditional forms of film financing.

Finally, some producers may augment their financing by taking advantage of various production incentives that are offered by several states in the USA and some countries that are looking to increase their film production. These incentives can take a variety of forms and can include rebates on production's costs that are expended on location, actual grants for specific location production, and tax credits. When a production spends money in a location that offers these incentives, those costs can be defrayed by these rebates and/or credits. Canada, for example, offers a variety of tax credits, and a good deal of Hollywood production (for both film and television) has been shot on locations in Canada in order to benefit from these credits (Epstein, 2012). Another highly visible example would be *The Lord of the Rings* trilogy of films directed by Peter Jackson. Jackson, himself a New Zealand native, shot all three films simultaneously in his home country in order to qualify for the government incentives that were available (Newman, 2008). Again, these incentives can augment a budget, and help a producer maximize resources, but primary funding often needs to come from the traditional sources that we have mentioned before production can commence. In other words, the producer often has to spend money in a location first, before production can receive a rebate or a tax credit.

2.2 Prerelease Deals

As we have mentioned before, most films incur most of their production costs up front and do not begin seeing a return on the investment until they are released to the theater. There are some exceptions to this rule, including revenue streams that

are established during the production and even preproduction phases, although they may continue to generate revenue after the release of the film. Some of these strategies occupy a liminal area, because sometimes the revenue they generate is used to support the financing of the production, but they are merely supplemental and not primary sources of financing.

First, we should distinguish the strategies of product placements and partner tie-ins. Product placements are when actual consumer goods and services appear in a film, and their placement can either be visual, auditory (the product is mentioned in the film), or a plot point. For example, the 2003 remake of the film *The Italian Job* prominently features the recently released *Mini Cooper* car; the small size of the car facilitated the bank heist that was the central plot point of the film. Promotional partner tie-ins involve an established consumer brand that combines with the featured film. For example, fast-food restaurants will promote films on their food packaging or have toys or other promotional items that are linked to a product purchase. As Ulin (2010) notes, the purpose of this type of promotion "is to attract more consumers to their product by associating themselves with another property/brand. E.g., *Disney* with *McDonald's*. For *Disney*, it gained exposure and excluded competition. For *McDonald's*, a high-quality and safe association with a family friendly brand" (pp. 394–395). Both product placements and promotional partner tie-ins are negotiated and arranged well in advance of a film's release and often in the preproduction stage. The actual fee for the use of the film's intellectual property is often paid at the conclusion of a successful negotiation, and those fees are sometimes added to the production budget. In extreme cases, product placement deals can drive the creation of plot elements and thereby influence the creative process.

Where product placement is concerned, however, cash deals are rather rare, and instead barter deals are arranged where the product manufacturer provides a cross-promotional advertising and marketing campaign. Again cars become an excellent example, and often a car company will use a product placement in a film to promote a new model. Yet, as Epstein (2012) notes, "Product placement gigs will become a major source of production financing in the future, in which a movie provides a controlled world of good-looking stars wearing a certain brand of clothing for an hour and a half, in exchange for which the brand manufacturer pays for a large share of the production" (p. 116). Therefore, this practice may become more cash-based in the future.

Producers can also raise funds prior to the release of a film by selling the rights to a variety of products, for example, the novelization of the film's screenplay. These novels are usually released 4–12 weeks before the picture's theatrical release and can serve as a valuable advertisement for the upcoming movie, in addition to a revenue source (Lee & Gillen, 2011, p.74). Normally, the novel will have the same front cover as the picture's one-sheet (the image that is used to promote a film in the media and advertising campaign). A case in point would be the novelization for the movie *Avatar*, which featured the face of the character *Neytiri* on the cover, the same image that appeared on the film poster. When the book cover appears on store shelves, the use of the one-sheet turns retail space into advertising space.

The same holds true for the video game adaptation of films, in which the one-sheet is used as the game box cover when the game hits the retail shelves. Video games also allow for adaptions and extensions of the film narrative, and as Ulin (2010) notes, “The bigger a franchise and the deeper the fan base, the more options the rights holder has for creating new intellectual property grounded in but only directly parroting the underlying franchise” (p. 363). In his analysis of the video game spun-off of the *Marvel Studio films*, Brookey (2010) shows how the video game releases for the *Spider Man*, *X-Men*, and *Fantastic Four* franchises allowed for a variety of narrative and visual cues that linked the films to their comic book origins. He argues that the video games operate as new, strategic intellectual properties that speak to the established fan base for these comic books and help to establish the authenticity of the films as an extension of the comic book texts. Although not quite as successful as *Disney* and *Marvel*, *Warner* has tried to exploit its ownership of DC comics in a similar manner.

Because video games are licensed intellectual properties, these rights are negotiated and acquired well before the release of a film. In many cases, these rights are secured by third-party video game developers and publishers, and in addition to the per-unit royalty (often 8–10% of the retail sale), these third parties must pay an up-front guarantee to the film producer (Ovadia, 2004). Given that the producer does not shoulder any risks for the production, distribution, and sale of the actual video game, these up-front guarantees serve as cash on the table, cash that can be invested into the production budget. For this reason, the video game release has become a very common practice for the most popular movie genres, including science fiction, action/adventure, and CGI (computer-generated imagery) animation. Although video games seldom drive the creative process of film production, the ability to market a video game, and tap into this revenue source, can be a determining factor for which projects get funded and how much funding projects receive.

Other ancillary products, including clothing, toys, and action figures, are often licensed in a manner similar to video games. Again, the licensing rights for these products often carry a per-unit royalty and an up-front guarantee (Raugust, 1995). The terms of these contracts, for both ancillary products and video games, are contingent on the popularity of the intellectual property, and more established properties (and film franchises) often carry more lucrative terms. When an intellectual property already has an established fan base, these ancillary products have a broader market. In fact, the men who originated *Marvel Studios* did so because they already had the intellectual property rights to these comic book characters for producing toys and action figures; they believed, and rightly so, that the films would help them sell their ancillary products (Raviv, 2004).

3 Exhibition Strategies

After a film has wrapped, and all postproduction work and editing is finished, the final cut is ready to be reproduced and released to theaters. Historically, the theatrical release has been the primary source of revenue for Hollywood studios,

but in terms of actual revenue generated, there are other markets that are more lucrative. Still, in important ways, the theatrical release is instrumental in driving demand for other markets. The theatrical release is a very complex process, which requires films to be available, and exhibited in a variety of cities and towns across entire territories on the same date and often at the same time. In addition, audience awareness must be established, requiring advertising to appear across a variety of media in these same territories. Finally, companies that handle the theatrical distribution of films must establish and maintain contracts with the theaters and then monitor those theaters to make sure the terms of those contracts are met. As we have noted earlier, given the complexities of theatrical distribution, only a few companies have the necessary infrastructure in place, and those companies are considered the major Hollywood studios. In fact, these major studios focus on distribution rather than production because it is a side of the business that is both more profitable and financially stable (Lee & Gillen, 2011).

When films are released to theaters, the box office receipts are split between the exhibitor and the distributing studio. The terms of these revenue splits vary and can be set on a sliding scale based on the length of time a film remains in theaters. For example, a film can open in theaters with a 90/10 revenue split with the majority going to the studio; then in the second weekend, the split may be reduced to 80/20, and subsequent weekends the split continues to decrease for the studio and increase for the exhibitor. The reason that the studios receive such a larger share of the box office is because exhibitors make their revenue at the concession stand, where the markup (and the profit margin) of the food and drink sold is significant (Epstein, 2012). Concession stand revenue is driven by foot traffic, and foot traffic is driven by popular films and new releases. Therefore, when a new film is released to theaters, the exhibitors benefit more from the mere presence of people in their theaters than the actual ticket sales.

Currently, most big-budget Hollywood films are given a wide release, appearing across territories and markets on the same date. These wide releases are supported by major marketing campaigns that are executed at a national, regional, and local level. The purpose is to create the largest audience possible on the opening weekend, with the hope that the popularity of the film will drive audiences to the theater in the subsequent weekends. Small films, foreign films, and those with specific target markets are often given a platform release. These films premiere in a couple of markets (often Los Angles and New York) and a handful of theaters, and then their release is widened in subsequent weekends. Films with smaller production budgets, and limited audiences, are not given large marketing budgets; therefore they depend on word of mouth and positive reviews to generate an audience. The slower release schedule gives these films the extra time needed to find an audience or, more to the point, for the audience to discover the film (Drake, 2008). Unfortunately, these films do not appeal to most exhibitors because they do not generate as much foot traffic as wide releases. Therefore, these films are often relegated to "art house" and smaller specialty theaters that can support the exhibition of these films because of smaller overhead costs.

A final release strategy, and one that is relatively uncommon, is to "four-wall" a film. In this case, a distributor will rent out a theater for the purpose of exhibiting the film and then collect the box office receipts (Ulin, 2010). Again, this type of distribution is rare and is usually reserved for independent producers who cannot obtain studio distribution support or for those films that have a very specific audience. For example, when one of us lived in the Chicago area, he would notice that Bollywood films would often be screened at the suburban theaters, specifically for the Indian population that lived in the greater metro area.

As should be clear at this point, the films given a wide release have the larger budgets and carry a greater expectation for generating revenue. Yet, although they are designed to attract a wide audience, ironically these films are initially marketed to a very specific audience. As Acland (2003) notes, audience creation often focuses on the "avids," that is, "individuals who on average attend a film every two weeks" (p. 74). These "avids" keep abreast of the current cinema offerings and are aware of what films are opening on a given weekend. Acland (2003) also points out that although "avids" only make up 8% of the population in North America, they have a significant influence on film production, in part because they often drive ticket sales on opening weekends.

Of course, the international markets are also important to the financial performance of Hollywood films. As we mentioned earlier, outside of the USA, Japan, the UK, France, Germany, Spain, Australia, and Italy make up the major territories for Hollywood film distribution, although China is also gaining attention as an emerging market for film distribution. As Lee and Gillen (2011) note, "Though the United States is the single highest earnings territory for pictures created by U.S. producers, approximately 60 percent to 70 percent of the theatrical earnings for the most popular U.S.-produced motion pictures are earned outside the United States" (p. 38). In fact, the international market can sometimes compensate for a disappointing domestic box office performance for Hollywood films. For example, when the film *Warcraft* premiered in June of 2016, it only generated $47 million in the US market, but would go on to generate $220 million in China.[3] In fact, over half of *Warcraft's* $433 million box office receipts were generated in the Chinese territories (see Footnote 3).

Until recently, the other modes (or windows) of distribution after the theatrical release were distinct, discrete, and separated by a temporal order. The reason for such modes of distribution is because of that "the exclusivity and subsequence of each of these windows of exhibition allow Hollywood studios to practice price discrimination of their products and capture a larger share of the value generated by their artifacts" (Sigismondi, 2012, pp. 19–20). With the emergence of digital technologies, the distinctions between these windows of distribution are collapsing, but they have not collapsed completely. After the theatrical release, exhibition on airlines and pay-per-view services in hotels make up the next release window.

[3]For example, the *China Film Group* and the *Chinese Le Vision Pictures* have teamed with *Universal Pictures* to produce and distribute *The Great Wall*.

Often a specific airline will strike a package deal with a studio that contains both film and television content. The same package deals are sometimes struck with hotel chains as well, and the terms of these deals can vary (Ulin, 2010).

The next release window is for home video, DVD, and Blu-ray. With the advent of the home video market in the late 1970s, video rentals became a very lucrative aftermarket for films. However, with the emergence of DVDs in the late 1990s, home video revenues increased significantly, in part because the DVD technology changed the market from rental to sell-through (Brookey, 2007). In other words, people began buying DVDs of films in ways they never did for the VHS format. This is due to the fact that the DVD retail price point for films was much cheaper than VHS, and the new format had additional features that increased the repeat viewing value of the product. This spike in revenue waned when the Blu-ray format was introduced, because other modes of home video became available to consumers, including video-on-demand (VOD) and digital downloads (Ulin, 2010). The VOD services can include either rentals or purchases and can be available through a cable service provider, such as *Comcast*, or an online retail service such as *Amazon* or *iTunes*. In addition, streaming services such as *Netflix* and *Hulu* offer film content to consumers at a set monthly rate.

Following the home video release, traditionally films were next released for premium television services such as HBO, *Showtime*, and *Straz*. While these premium channels still offer film content, each has begun to put efforts behind their own television series, with HBO being the most visible example with their "It's not television. It's HBO" campaign. Indeed, these series are often used to differentiate these channels in the market and drive demand for subscriptions. Therefore, while these channels still purchase and schedule Hollywood films, their own programming has become more important (Epstein, 2012). Like the airline/hotel window, these premium cable deals are often struck by the studios on packages of films and seldom on a specific film. In addition, because the deal happens at the studio level, the studio is at liberty to determine how the revenue will be credited to a particular film and what distribution fees might be charged.

The final window is broadcast or basic cable television. While films can appear on premium channels relatively unedited, films must be broken up to accommodate advertising breaks for most broadcast and basic cable channels. Additional editing is sometimes required if the film contains scenes and language that do not meet network or broadcasting standards. Given that these channels generate their revenue from ratings, and not subscriptions, some channels will negotiate contracts with studios for specific films (although these again can be part of packaged deals) in order to attract audiences for the "network premier" of a popular film (Ulin, 2010). Again, the revenues and fees for these deals are determined at the studio level and not by a specific film production company. For this window, the wider released and more popular films unsurprisingly are more attractive to broadcast and cable channels, because they produce higher ratings. Again, this is a distribution window that favors some films over others.

Different windows of distribution indicate the timing strategies major studios use to maximize the profit. These timing strategies aim to explore the nature of the relationships among different windows. In Charles B. Weinberg's research, he

analyzed how long the distributor should wait in order to release the video after a movie's theatrical release. As Weinberg (2005) points out, "releasing a movie on video shortly after theatrical release ensures that consumer interest generated by memory of the original advertising campaign and potentially positive word of mouth will be strong; however, it also risks cannibalizing theatrical sales through a lower margin outlet" (p. 177). Thus, a proper balance is needed in the timing of releasing the video. By generating an exponential function, Weinberg (2005) concluded that "The video demand falls by a constant percentage with each passing week" (p. 178).

With the advent of digital technologies, these distinct windows are showing signs of collapse. In some cases, films are available on VOD or on airline and hotel services at the same time they are appearing in theaters. In addition, the length of time between windows is shrinking, a practice brought about by DVD technology, in which studios try to tap into alternative sources of revenue as quickly as possible. The *National Association of Theatre Owners* (NATO) has a vested interest in maintaining the more traditional approach to film distribution and is trying to track the window/gap studio by studio (Ulin, 2010). After all, if the theatrical release no longer becomes the first opportunity to view a film, or if the "wait until video" option becomes less of a wait, then the members of NATO will continue to see a loss in ticket sales, foot traffic, and concession revenue.

Ulin (2010) makes a strong case for maintaining traditional windows and argues that these release strategies are important because "Distribution is all about maximizing discrete periods of exclusivity" (p. 31). Ulin (2010) goes on to note: "If windows are not choreographed and controlled but content is subject to the free-for-all of the Web, then many fear the bar will be lowered. Moreover, lower distribution costs given the elimination of physical goods do not guarantee higher margins given the downward pricing pressures online" (p. 299). More recent, Mann (2014) has raised a related concern about the use of the Web for content distribution. She sees online distribution as a power play by the tech giants such as *Google*, *Apple*, and *Microsoft* to wrest control of content away from the Hollywood studios.

The film industry is an industry that must create a market, or audience, for each product (film) it produces. While the traditional modes of windowed release may have worked in the past, they not may be the best way to attract an audience in the future. Or, more to the point, they may be less effective in driving demand across windows of distribution for those films that have the widest audience appeal or for those that already have an audience in place. A developing trend suggests that the Hollywood film industry, and the current Hollywood studio system, may only operate to produce and distribute certain types of films, which brings us to our point of critique.

4 Conclusion: Industrial Strategies Drive Homogeneity

The academic study of films has often focused on the artistic strategies associated with the medium and the study of those strategies within fine arts programs. While we do not challenge the inclusion of film within the pantheon of art, and have

enjoyed cinema experiences that have been uplifting and transformative, we hold firm to the position that film making, primarily, is a business. In the 120 years that have passed since the first commercial film was screened, the industry has gone through many changes and challenges. In the current climate, dominated by the rise of digital technologies, the industry is responding by focusing on film content that best utilizes these technologies in the construction of the film text and also maximizes revenue in the different channels of digital distribution.

We began our study with the purpose of determining how Hollywood studios manage uncertainty and if digital technology has changed those strategies. We found the answers to both questions are intrinsically linked: the film industry still attempts to manage market uncertainty by drawing on specific genres and franchises. Digital technology is often deployed to augment those genres and extend those franchises.

For example, action adventures, utilizing postproduction digital effects, and computer-generated imagery (CGI) animation have come to dominate Hollywood film production. At this moment, the top ten grossing films for 2016 include four CGI-animated features (*Finding Dory*, *Zootopia*, *The Secret Life of Pets*, and *Kung Fu Panda 3*) and four superhero features (*Captain America: Civil War*, *Deadpool*, *Batman v. Superman: Dawn of Justice*, and *X-Men: Apocalypse*). We should also note this roster contains four sequels. This homogeneity of Hollywood films is not the product of a lack of imagination, so much as it is a desire to establish certainty in an uncertain market, in an industry that carries a great deal of risk.

If audiences must be created for each film, then it is much easier to create those audiences from audiences that already exist. Sequels are an obvious choice because they already have built audiences from previous films, but drawing on content that has created audiences in other mediums can also be effective. The preponderance of "superhero films" developed from comic book characters has become such a common practice because it has become such a successful practice. *Marvel Studios* has led in this area, and its success can be attributed to the long-established strategies that *Marvel* used to capture and hold the attention of comic book fans (Pustz, 1999). As we noted earlier, however, *Marvel Studios* was created, not so much to create films, as to sell ancillary products, specifically action figures and video games. Given *Disney*'s long history with the ancillary market, it should come as no surprise that they acquired *Marvel* in 2009. The fact that they have now scheduled film production for *Marvel* properties for the next 10 years seems to be motivated more by strategies to tap into this ancillary market repeatedly than a stack of outstanding scripts.

In addition to *Marvel*, *Disney* has acquired *Pixar*, which ushered in the age of CGI animation, and the *Star Wars* franchise. All of these acquisitions included content that can either be continuously chained out into sequels and prequels or exploited in a variety of ancillary markets including clothing, video games, and toys. In fact, both *Marvel* and *Star Wars* have been referred to as universes, narrative spaces containing characters that can be chained out into a variety of content and transmedia narratives. Yet, we should keep in mind that transmedia narratives signify transmedia products. In other words, these are the types of stories

and characters that audiences will follow across a variety of commercial products. *Disney* has been in the business of retailing these types of products for years, and anyone who has visited one of the *Disney* parks is aware of these products as they exit a ride into a gift shop. Given that *Disney* (*Buena Vista* is the studios distribution arm) currently leads the other studios in 2016 box office with $2 billion gross and a 25.2% market share, *Disney* is clearly at the top of the game where the business of contemporary cinema is concerned.

In his analysis of industry practices, Sparviero (2013) included "diversify your slate" as an important strategy of the Hollywood studios. Unfortunately, his data was culled from films that were released in 2007, and this diversity has not been observed in the following years. For example, Epstein (2012) bemoans the decline of independent and art cinema with the advent of digital technology. More recently, Thompson (2014) noted that in spite of all the changes that digital technology has brought to the film industry, Hollywood studios still will not diversify their content nor reach out to the marginalized audiences that often find representation in independent films. Most telling, however, was a recent special issue of the *Journal of Culture Economics* (Chisholm et al., 2015), which in the contributed articles demonstrated that Hollywood's focus on sequels and remakes is as strong as it ever was. On a positive note, but one that proves our point, Fennessey (2017) has observed how *Netflix* and *Amazon* are now developing the kinds of film that used to be reserved for the independent festival market. He notes that while these online streaming distributors often give directors a great deal of creative control, it moves the content out of the theatrical exhibition experience and further erodes any interest that traditional studios might have for diversifying content.

Although foreign film production may seem immune to the market conditions that drive Hollywood film production, Finney (2010) reminds us that even foreign film production is highly dependent on presales of the US market and those sales open up opportunities for Hollywood influence. Drawing on his experience as a managing director for *Renaissance films*, Finney offers examples of when Hollywood studios required script changes, and sometimes demanded the proverbial happy ending, before they would commit money to a production. In addition, Miller (2016) argues that the Hollywood's business strategies have even influenced the labor strategies of global film production.

As we have attempted to demonstrate in our analysis, Hollywood strategies are designed to counter risky market conditions. We conclude that the practice of the industry is intended to establish certainty in the market, rather than inspiring and supporting creativity. We see this intent in strategies of preproduction and financing, in strategies of the prerelease deals for ancillary products and product placement, and in the way films are marketed through different windows of distribution. Finally, we argue that the advent of digital technologies may be driving these strategies in ways that might further homogenize Hollywood film production. In other words, and to borrow from Goldman, in the future, people in the Hollywood may actually know something, and unfortunately they may all know only one way of creating films.

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