

## 2. The Hollywood Mega Industry

‘That the movie industry is complex and that it often operates near the edge of chaos in the midst of uncertainty is almost an inescapable inference [...]’ (Vogel, 2007: p. 135)

The economic impact of the North American motion picture industry along various dimensions is vast. In 2009 domestic box office revenues reached a record high of 10.6 billion USD, with the growth being driven by the latest advancements in 3-D technologies. The latter are also expected to stimulate further growth in the years ahead (MPAA, 2009a). Over 115,000 businesses support 2.5 million jobs in the U.S. motion picture and TV industry and the sector remains one with a consistently positive balance of trade (MPAA, 2009b). In 2007, the surplus earned was 13.6 billion USD, or ten percent of the total private-sector trade surplus in services.<sup>17</sup> In the year 2010, international revenues of U.S. studio films amounted to twice as much as the revenues generated at North American box offices (21.2 billion USD); compared to the year 2005, this signifies a 48 percent increase. These figures clearly underscore the international audience’s appreciation of American filmed entertainment. Nevertheless, this development also bears important ramifications for the large Hollywood studios: Their competitive strategies must increasingly address global challenges and cater to international audiences.

The motion picture industry is a significant tax payer, both on the federal as well as state level. The MPAA estimates the 2007 public revenues attributable to just two types of taxes, namely income and sales taxes, to be 13 billion USD (MPAA, 2009b). The combination of tax revenues and stimulating effects on local economies<sup>18</sup>, explain the zealous efforts of states and other authorities to attract film crews for on-location filming. Tax incentives and easing the process of obtaining licenses are frequently offered to producers, not only in the U.S. but also in a number of foreign countries (Schpoliansky, 2010).

The broad media coverage about popular industry events like the Academy Awards Ceremony, the ‘hype’ surrounding blockbuster premieres like *Pirates of the Caribbean*, *Blair Witch Project* or the *Twilight* movies and the high social standing of ‘film stars’ reflect the public’s interest in and concern with the film industry and its protagonists. Furthermore, it points to the significance of motion pictures as a critical element of contemporary North American culture and simultaneously to the business machinery that operates ‘backstage’.

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<sup>17</sup> The motion picture and television surplus was larger than the combined surplus of the telecommunications, management and consulting, legal, and medical services sectors, and larger than sectors like computer and information services and insurance services (U.S. Department of Commerce, 2008).

<sup>18</sup> The MPAA has published numerous examples for the economic benefits for local communities in the report on ‘The Economic Impact of the Motion Picture & Television Industry on the United States’. An impressive example is the movie *The Dark Knight*, which was filmed in Chicago during the summer of 2007 and spent over \$35 million in the local economy. The 65-day shoot directly employed 900 crew members, 88 actors and 7,500 man/days of extras, who were paid \$18 million in wages. It also generated \$17 million in payments to 793 local vendors, including more than \$3 million in spending on hotels, \$1 million on catering, \$1 million on office rental and equipment, and \$980,000 on lumber and other set materials.’ (MPAA, 2009b: p. 19)

## 2.1 Historic Development

A comprehensive description of the historic evolution of the North American motion picture industry goes beyond the scope of this dissertation.<sup>19</sup> Notwithstanding, some of the prevailing industry characteristics and business practices, in particular the high degree of specialization trace back to important incidents in the past. For a better understanding of these developments a concise chronological summary of the milestones in the evolution of Hollywood follows. With respect to the focus of the work at hand, the changing film financing practices along with their causes are also outlined. Over the course of the last 100 years, in general, a trend from debt to equity financing may be documented.

### 2.1.1 *The Rise of the Entertainment Industry in Southern California: 1907-1930*

At the beginning of the 20<sup>th</sup> century most firms active in the entertainment industry were located in the New York City metropolitan area. Unfavorable weather conditions during the winter months, the increasing demand for diverse landscapes and the unorganized labor markets in California caused firms to increasingly scout for suitable locations in the western part of the country.<sup>20</sup> In addition to seasonal on-location shooting the first permanent studio subsidiary in southern California was constructed in 1909. In subsequent years other firms followed and by 1919 a total of 37 studios had been established in California which produced 80 percent of the world's motion pictures (Scott, 2005: p. 23; Davis, 1993). Numerous researchers have suggested an additional reason for why firms moved westwards: In 1908 a group of East Coast companies established the Motion Picture Patents Company<sup>21</sup> which functioned as a holding for the patents owned by its members. This gave the cartel monopolistic control over equipment needed for both, the shooting as well as the projection of motion pictures. In 1910 it also founded the General Film Company as a distribution entity for its members' products which further increased the power of the cartel. A rigorous enforcement of its patents resulted in monopolistic returns, before the cartel was disbanded in 1918 as a consequence of investigations by the U.S. Department of Justice. Along these lines, southern California has been referred to as a distant haven for producers to escape the influence of the Motion Picture Patents Company. Scott (2005), however, invalidates this argument as he notes that member companies themselves founded subsidiaries in the vicinity of Los Angeles.

As a result of the emerging spatial cluster of entertainment firms and the entrepreneurial dynamics within this agglomeration of creative talent, important innovations in terms of commercial practices and content<sup>22</sup> were brought forward in Hollywood during the 1910s,

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<sup>19</sup> For a detailed overview please refer to Scott (2005) and Sklar (1975) and the references quoted there.

<sup>20</sup> Los Angeles was initially used as a shooting location in the winter of 1907/08 to film *The Count of Monte Cristo*. Jacksonville in Florida was also a popular location at the time.

<sup>21</sup> Commonly referred to as the 'Trust', the following firms belonged to the cartel: Edison Manufacturing Company, American Mutoscope and Biograph Company, Essanay Studios, Kalem Company, Lubin Film Company, Selig Polyscope Company, Vitagraph Company, Kleine Optical Company, Méliès and Pathé Frères.

<sup>22</sup> Non-members of the cartel catered much more to the taste of the audiences, favored feature films over short-films and discovered the importance of film stars to distinguish and brand movie content.

reinforcing the rise and competitive advantage of the region (Scott, 2005: p. 33; Jones, 2001; Mezas & Kuperman, 2000). During the 1920s the forerunners of today's major studios were founded or emerged in consequence of corporate acquisitions; at that time, the first Hollywood blockbusters were produced.<sup>23</sup> While the importance of New York City for the filmed entertainment industry diminished, the name 'Hollywood' was firmly associated with the American film industry by the mid 1920s. Around the same time, an industry structure developed that consisted of eight major studios – five of them already possessing national and international exhibition facilities – and a plethora of much smaller independent production firms.<sup>24</sup> By the end of the decade, approximately 21,000 theaters across the U.S. functioned as outlets for the films that were mainly produced in California (MPAA, 2009b). Although in sum, the studios had ownership stakes in only a fifth of these operations, they owned the majority of the important first-run theaters in all metropolitan areas. Accordingly, the real estate value of their exhibition facilities made up the dominant body of the majors' assets (Sedgwick & Pokorny, 1998).

Driven by the companies' efforts to forward integrate exhibition operations and technological advancements in production equipment, the motion picture industry became increasingly capital-intensive. At the time, the larger studios raised additional equity via stock offerings at the NYSE in order to finance their corporate growth strategies (Foy, 2004). Project funds were typically arranged via bank loans. As integrated players with proprietary exhibition facilities and considerable market power, the majors could virtually guarantee loan repayments based on the 'safe' (i.e. controllable) cash flows of their films.

### 2.1.2 The 'Old' Hollywood: 1930-1950

As the major studios continued to grow during the 1930s, they also evolved into vertically integrated firms that were able to cover the entire value chain from production over distribution to exhibition. The strategic breadth of their operations enabled the majors to exert quasi-monopolistic power; collusive practices like admission price fixing or the allocation of geographic areas of distribution were common. Vis-à-vis independent theaters they exploited their strong market position by implementing blind- and block-booking arrangements<sup>25</sup> (cf. Hanssen, 2000; Kenney & Klein, 2000). Hence, the 'golden age of Hollywood' was characterized by omnipotent major studios that largely disabled open market forces and controlled creative talent by means of long-term contracts. Scott (2005: p. 30), however, notes that evidence exists for a much more complicated industrial organization than the often mentioned oligopolistic Hollywood of that time. External

<sup>23</sup> Early cinematic masterpieces and blockbuster include *The Squaw Man* (1913), *Birth of a Nation* (1915) and *The Jazz Singer* (1927), with the latter being the first sound feature film ever released.

<sup>24</sup> Sedgwick and Pokorny (1998) offer an empirical case study of the rise of the company Warner Brothers. They thoroughly describe the risk environment which the major studios faced during the inter-war years of the 20<sup>th</sup> century.

<sup>25</sup> Blind-bidding refers to the practice whereby an exhibitor bids on the licensing of a film without first having an opportunity to view the film. Block-booking describes the licensing of a bundle of films without giving the exhibitor an opportunity to select individual films. Before the Supreme Court prohibited block-booking in 1948, the two practices were often combined. As a consequence of a consent decree in 1968, blind-bidding was limited to three films per year and distributor; in subsequent years different states enacted statutes that made any form of blind-bidding illegal.

specialized service firms were frequently hired by the majors, studio space was rented out to independent producers in attempts to improve the return on fixed capital investments, even talent was occasionally lent to competitors and the most successful films also played on rivals' proprietary screens.

With the proliferation of color motion pictures Hollywood maintained its innovative capacity and attracted ever growing audiences to movie theaters. Despite the economic hardship of the Great Depression, weekly U.S. admissions reached 75 million by the mid 1930s (MPAA, 2009b). As a response to the Great Depression studios began to rigorously manage costs and production budgets which helped them to prosper financially. The post World War II years towards the end of the 1940s, however, marked the zenith of the 'old Hollywood'.

### 2.1.3 The 'New' Hollywood: 1950 - present

Two nearly simultaneously happening events led to a fundamental industry transformation and a prolonged crisis of the entire sector: First, in 1948 the Supreme Court decided against the eight major studios' collusive practices in the famous *United States vs. Paramount*<sup>26</sup> trial. Pursuant to this decision the court ordered the vertically integrated firms to divest their exhibition operations<sup>27</sup>, prohibited any intervention in box office pricing and banned licensing negotiations which were not in the form of theater-by-theater and movie-by-movie. The divestitures were governed by multiple decrees – the so-called Paramount decrees – which the court negotiated with the studios mostly bilaterally. This also entailed significant implications on the debt-financing of individual movie projects. The loan granting financial institutions responded to the augmented financial risk with higher collateral requirements. Moreover, completion bond guarantors were established that secured the finalization of a project because uncompleted films marked the dominant threat to loan default (Foy, 2004).

Second, and probably more important, the advent and proliferation of television caused more and more movie-goers to favor the convenient at home entertainment alternative over movie consumption in theaters.<sup>28</sup> Annual admissions plummeted uninterrupted but at diminishing marginal rates until the 1970s. Orbach and Einav (2007) demonstrate this development impressively with 2002 adjusted dollar figures: In 1946 box office receipts hit a record high of 15.6 billion USD before bottoming at 5.5 billion USD in the year 1964. From there on box office revenues increased again to 9.5 billion USD in the base year 2002. The same trend was observable in the annual per capita spending for movie tickets – declining from 110 USD in 1946 to 29 USD in 1963 – and in the percentage of personal

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<sup>26</sup> 334 U.S. 131 (1948). For a detailed discussion of the trial and related law suits, please refer to Litman (1998: pp. 61-73).

<sup>27</sup> The prohibition of vertical integration of distributors and exhibitors was somewhat relaxed in the 1980s. Today, many national as well as international theater chains are either informally or even formally affiliated with specific distributors. Owning international exhibition operations not only enables distributors to realize economies of scale but also to increase their bargaining power in foreign markets.

<sup>28</sup> Until the year 1955, the motion picture industry responded to television in the form of a boycott. Creative talent was permitted from appearing in TV programs and actors who refused were even stigmatized in the Hollywood community and informally blacklisted from motion pictures (Litman, 1998: p. 16).

expenditures spent at the box office (i.e. from a maximum of 1.28 percent in 1943 to a stabilized level of 0.11 to 0.13 percent during the 1990s). The opening of the first video store from which movies could be purchased in the year 1977 and the subsequent opening of the video rentals market resulted in only slight further decreases of theater admission numbers but simultaneously gave studios and distributors new opportunities to generate additional revenues from their existing film libraries.<sup>29</sup>

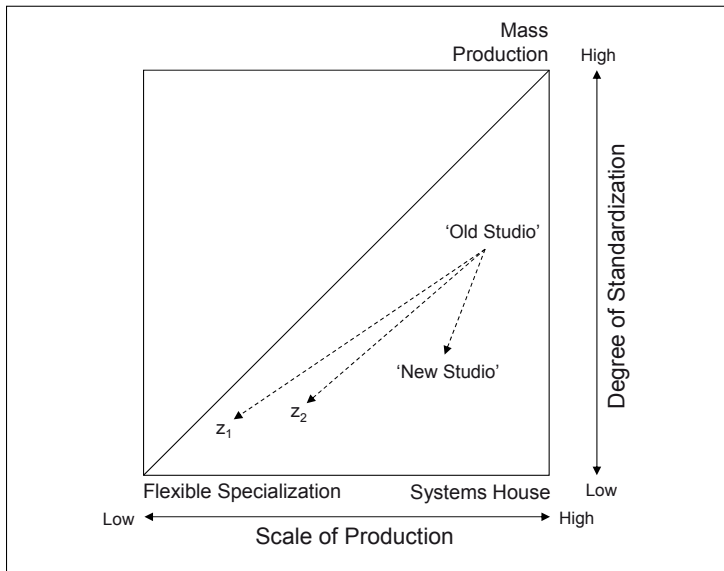
These two factors led to a dramatic rise in competitiveness, uncertainty and instability in the motion picture industry and significantly altered the business strategies of the incumbent players. As predicted by standard economic models the studios responded by reducing the supply of movies. In particular they produced fewer low-quality, so-called B- and C-list films, in order to concentrate on large-budget hit movies with higher production values (Sedgwick, 2002). Moreover, distributors and exhibitors increased ticket prices to exploit the relative inelastic demand of the remaining movie-goers. Concerning the financing of film projects in such a difficult market environment, the studios obtained long-term revolving credit lines, backed by syndicates of multiple banks that were typically cross-collateralized. These financial instruments provided sufficient access to production funds, typically ranging from hundreds of millions of dollars, up to one billion USD (Foy, 2004).

Furthermore, in attempts to improve their cost structures and sustain profitable operations, studios cut on overheads by divesting productive capacity and contractual engagements with creative talent. In consequence, a large number of specialized service and independent production firms were established that became contractors of the studios and provided the necessary inputs. The main role of the studios in the production process changed from a one-stop vertically integrated organization with nearly all necessary assets owned (e.g. contracted stars, screenwriters, soundstages and even movie theaters) to a central network coordinator of the vertically disintegrated agents proliferating around them (Scott, 2005: p. 5; Kranton & Minehart, 2000).<sup>30</sup> It is noteworthy though, that vertical disintegration in this context does not mean that the studios gave up entirely their ability to produce films in-house; executives of most studios believed that this capacity remained critical for the long-term success of their companies. Figure 1 depicts a simple schema of basic organizational possibilities in industrial systems and shows how the studios reduced both, the degree of standardization as well as the scale of their operations after 1950. In the figure,  $z_1$  and  $z_2$  represent specialized independent production firms and service providers that assumed the tasks which had been outsourced by the studios.

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<sup>29</sup> A thorough discussion of the various commercialization windows of motion pictures follows in Chapter 2.4.

<sup>30</sup> In this environment, the geographical clustering in Southern California became even more important as firms were able to economize on their spatial inter-linkages (Storper, 1989). The relations between the specialized firms were difficult to be planned over extended periods of time and useful inter-firm contacts needed to be constantly reprogrammed.



**Figure 1: Basic Organizational Patterns and the Development of the Motion Picture Industry**

Source: Adapted from Scott (2005: p. 39).

Following the argumentation of the resource-based view of the firm, Miller and Shamsie (1996) provide evidence that in the stable environment of the ‘old’ Hollywood prior to 1950, static property-based resources fostered financial performance while in the years following 1950, flexible knowledge-based resources were better suited to respond to uncertainty and augmented financial performance. Their research supports the notion that the two distinct environments required the studios to adjust their strategies and reconfigure their resources. This new role of the studios persists into the first decade of the 21<sup>st</sup> century with film finance, project coordination and distribution being the three critical functions assumed by the majors. In this regard, the studios have not at all lost control over production. In fact, an oligopolistic industry structure remains today with the majors’ market power stemming from their distribution systems. Nevertheless, the Paramount decrees and the rise of TV more than 50 years ago have caused Hollywood’s productive system to become more dynamic with a complex interplay of specialized agents. Along these lines, Robins (1993) shows with historical Warner data that co-operative film productions with independent partners altered the marketable characteristics of the films produced, namely it resulted in differentiated products and helped the firm to adapt its output to meet the changing patterns of demand. In summary, this also suggests that the studios became ‘intermediaries’ which assumed financing and distribution activities, with the creative inputs being supplied to varying degrees by contracted independent production firms.

Despite the common perception that Hollywood is still made up of the big players of the early studio era, the North American motion picture industry is fundamentally governed by multinational corporations as nearly all studios have been acquired by large media

conglomerates. The Hollywood studios attracted the interest of diversified entertainment firms during the 1970s and 1980s when incremental commercialization opportunities of filmed content appeared with novel information and communication technologies. Moreover, in comparison to other industries the average rate of returns generated by the studios appeared favorable. Hence, the integration of major studios as well as independent production firms into large conglomerate structures was driven by the calculus to exploit synergies across different media products and outlets. Although individual cases like Disney appear to underline the success of such diversification strategies (e.g. besides film production and distribution, Disney generates substantial revenues from theme park and cruise ship operations, television networks and merchandising activities), the general results of these attempts are in rather critical discussion (Peltier, 2004). The last two decades of the 20<sup>th</sup> century were also characterized by industry consolidation via numerous mergers and acquisitions. For reasons of brevity only one example is highlighted here. The distribution company TriStar was initially formed in 1983 as a joint venture of Columbia, HBO, and CBS. Columbia purchased the company in 1987 and formed the new Columbia Entertainment division which was first sold to Coca-Cola and then to Sony in 1989 (cf. Litman, 1998: p. 22). Since 1991 the Columbia TriStar Motion Picture Group constitutes the core of Sony Pictures Entertainment, the conglomerate's U.S. based subsidiary for filmed entertainment.

With additional exploitation opportunities in ancillary markets (i.e. mainly the home entertainment sector) and augmented international demand for U.S. motion pictures during the 1980s, the common financing practices for Hollywood films changed again. In order to mitigate risk, the studios began to pre-sell international and/or ancillary distribution rights even before production of individual projects commenced.<sup>31</sup> The returns were either used to finance negative costs or as collateral for additional bank loans; the latter set-up was commonly referred to as 'discountable contract finance' (Foy, 2004). Although during the 1980s large parts of the budgets could be raised via this approach, in some cases additional bank loans covered any remaining gaps, a practice called 'gap financing'.

In the wake of the 1997 Asian crisis and falling demand for U.S. filmed entertainment abroad, the potential of pre-selling exploitation rights for the sake of raising production budgets diminished during the late 1990s. At that time, however, significant tax shelters granted by governments in Europe and a range of other foreign countries attracted private and institutional investors to the U.S. motion picture industry (cf. Desai, Loeb & Veblen, 2002). Via film funds and related financial instruments that were often publicly traded<sup>32</sup>, foreign investors provided significant amounts of capital to U.S. production firms. Although being equity participations in specific film projects or a portfolio thereof, the tax-motivated investors were less concerned with the performance of the projects which gave U.S. studios ample degrees of freedom. Equity participations remain an important financing tool today but after the revision of the respective national tax laws, private foreign investors (i.e. individuals with comparably small amounts to be invested) have

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<sup>31</sup> A weak dollar further increased the attractiveness of international pre-sales from the perspective of the U.S. studios.

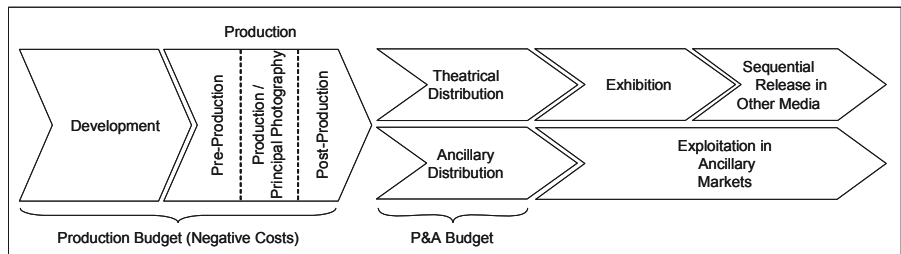
<sup>32</sup> The most notable market place for such investments was Germany's 'Neuer Markt'; an overheated environment, however, led to dramatically overvalued quotations, bankruptcies of numerous listed companies and the ultimate closing of the market in June 2003.

widely withdrawn from Hollywood. After the turn of the millennium, however, American high net-worth individuals as well as Wall Street investors started to become engaged with motion picture financing (Foy, 2004).

Today, the U.S. motion picture industry is characterized by a rather strict ‘bifurcation’ (Scott, 2005: p. 35) of the industry into two functional groups: The blockbuster producing conglomerate-owned major studios, on the one hand and the plethora of independent filmmakers whose individual output is best described by the term art-house, on the other. A thorough discussion of the dominant contemporary financing models follows in Section 3 below.

## 2.2 The Value Chain of Motion Pictures

The complexity of the production and marketing process of motion pictures becomes evident when analyzing the value chain. Figure 2 depicts the various stages involved in the manufacturing and marketing process of a motion picture, along with the corresponding budgets that cover the associated costs. The figure does not intend to be a comprehensive overview of the different markets in which the final product is exploited; a discussion of the various commercialization windows follows below. The entire process from the initial idea to the premiere of a movie takes – on average – approximately one to two years.



**Figure 2: Value Chain for Motion Pictures**

Source: Author's illustration based on Eliashberg, Elberse & Leenders (2006).

The production of a motion picture requires the coordination of a wide range of distinct inputs. Because a priori demand is difficult to predict, early test marketing is hardly impossible and nearly all financial resources are sunk upon completion, film projects underlie substantial risks. As a result of the recent economic downturn, the amount of new film productions initiated by U.S. companies fell to 520 in the year 2008, signifying a 20 percent decline versus the previous year (MPAA, 2008). As a generic blueprint, every film project may be divided into six phases: Development, pre-production, principal photography, post-production, distribution and exhibition. The production companies and the individual producers guide a film through all stages, manage and coordinate the agents involved and are responsible for the film's progress. Although the producer arranges for the distribution of the final product by approaching a suitable distributor, she is not directly in charge of the release and the subsequent exhibition.

During the initial development stage an idea is generated and translated into a script.<sup>33</sup> Both tasks are either performed by freelance writers or by employees within a production firm and do not require large physical resources. The intrinsic motivation of individual writers may already be sufficient. These comparably low entry barriers result in an over-supply of scripts – so-called ‘spec scripts’<sup>34</sup> – from which the most promising ones need to be identified. If a script is developed by an independent writer or a person employed at a small company that doesn’t have the resources to produce a film, the script has to be circulated or pitched to capable production companies. Wasko (2003: p. 25) notes that only one percent of all scripts which are screened by the major studios are considered for production and that the majority of those that are purchased are not necessarily of high artistic quality but are rather financially promising (cf. Taylor, 1999: p. 58). Hence, an additional development task of producers besides generating ideas and composing scripts is the screening of the abundance of scripts and the identification of the most promising (commercial) ideas. Thus, by pre-selecting projects, production companies act as ‘gatekeepers’. After the producer has acquired a script or the rights thereof, she has to organize funding for the project’s realization.<sup>35</sup> When all of these factors are in place, the final decision to move the film forward, the so called ‘green-lighting’ of a motion picture, has to be made. In large studio organizations, the executives are usually involved in this decision and are subsequently credited with hits but also blamed for box office flops.

Upon green-lighting, projects enter the pre-production phase during which the production company further adapts and visualizes the script and develops a project schedule. Moreover, the anticipated budget is allocated, crew members are hired and the filming locations are determined. In the next phase, the actual filming and the review of the footage take place. This is referred to as the principal photography or production stage which lasts on average approximately 60 days. During the following post-production, films are edited and additional elements like music, sound and special effects are added. This is typically done by specialized service firms that are contracted by the responsible production company. The majority of these firms are located in Southern California with a high concentration in the close proximity of the major studio locations (Scott, 2005: p. 49).

The budget for the negative costs covers all the development and production activities including the contractual fixed compensation for staff and cast members, studio overhead and capitalized interest.<sup>36</sup> The major studios as well as the production firms of large-scale projects generally disclose budget information but do not break down the total to distinguish between different input factors or expense items. Negative cost figures for smaller independent films (i.e. non-major productions), on the other hand, are usually not circularized and thus difficult to obtain. Table 1 provides an exemplary breakdown of the production and P&A costs incurred by Columbia Pictures for its 2004 blockbuster release

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<sup>33</sup> Prior to the composition of a final script, usually shorter documents, so called scene cards, synopses, film treatments or scriptments are written which outline the ideas and the plot of a film without specifying many details.

<sup>34</sup> Short for speculation script; i.e. written on speculation that a studio or independent producer is interested in the script.

<sup>35</sup> For an excellent overview of Hollywood film financing please refer to Cones (2008).

<sup>36</sup> Moore (2002: p. 46) underlines that ‘self-charged’ producer’s fees are included in the budget while deferments and participations are not. For a thorough analysis of profit-sharing contracts in Hollywood please refer to Weinstein (1998).

*Spider-Man 2*. Budgets are typically organized in two cost categories: Expenditures for above-the-line and below-the-line input factors. The former includes costs for major creative elements like main cast and staff, literary property acquisition and script development. The latter comprises ancillary expenses for crews, equipment, transportation, shelter, props, film stock, printing and technical labor.

| Million USD                |     |
|----------------------------|-----|
| Story rights               | 20  |
| Screenplay                 | 10  |
| Producers                  | 15  |
| Director                   | 10  |
| Cast                       |     |
| Tobey Maguire              | 17  |
| Kirsten Dunst              | 7   |
| Alfred Molina              | 3   |
| Remaining cast             | 3   |
| Total cast                 | 30  |
| Production shooting costs  | 45  |
| Visual effects             | 65  |
| Music                      | 5   |
| Production (negative) cost | 200 |
| Domestic P&A cost          | 57  |
| Total cost                 | 257 |

**Table 1: Budget Breakdown for Spider-Man 2**

Source: Adapted from Young, Gong & van der Stede (2008).

Over the last three decades, production budgets have clearly increased at a higher rate than the general inflation rate. The reasons for that development clearly go beyond those that were discussed in the section on the historic evolution of the industry in the second half of the 20<sup>th</sup> century. Since 1985, the negative costs for major studio productions have increased at an average rate of 6.72 percent annually.<sup>37</sup> A similar trend, albeit with more volatility and on a smaller level is observable in the negative costs incurred by studio-affiliated specialty divisions, the so-called mini-majors. Between the years 2000 and 2006, the compound annual growth rate (CAGR) amounted to 6.12 percent (compare Table 2).

<sup>37</sup> Vogel (2007: p. 115) reports an even higher CAGR of 7.7 percent for the time period 1980 through 2005.

Co-Financing Hollywood Film Productions with Outside  
Investors

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