

Cultural Daily

Independent Voices, New Perspectives

Indie Films, Part 3: The \$1 Billion Opportunity

Adam Leipzig · Monday, January 31st, 2011

Updated.

There were some surprisingly hefty deals announced at Sundance, but despite major media reports that indie films are making a comeback, the overall news isn't that good. If we meet back here in a year, we'll learn that some of those films were sold for too much money,* and if some of them underperform we can expect next year's headlines to read "America Loses Interest in Indie Films" instead of "Indie Films Come Back."

And no one will remember the 3,775 movies that didn't get sold or distributed.

That's right. 3,775. About forty of the 3,812 finished feature films that were submitted to Sundance this year got picked up, although some will only get minor DVD distribution, and only about a half-dozen will get a full-scale, nationwide theatrical release. That still leaves 3,775 movies you won't even be able to find on Netflix. To give you a sense of scale, let's assume, conservatively, that each film cost \$300,000 to make (some cost way less, but many cost way more). Those 3,775 films represent an investment of over \$1 billion. If we assume that 30 people worked on each movie (of course most films engaged even more people), those unseen movies will represent the efforts of more than 100,000 people – two and a half times the size of Park City's entire Sundance Film Festival-swollen population bulge.

As I've said before, indie films are being made. They're just not being seen. The flurry of interest in them from a handful of distribution companies does not, as yet, amount to a genuine business change.

It's one thing to make a product and discover people don't want it. But it is quite another thing to make a product and not even offer it to consumers. That's exactly what's happening with indie films: each year, more than \$1 billion of "product" isn't even being put before the public for sale, all because there are not enough – or the right kind – of distributors.

Did somebody just say "Market Opportunity"?

Timing's ripe for new distribution companies. Fox Searchlight and Sony Classics can't significantly increase their current output. Recent players like Summit Entertainment don't release indie films. Others, like Apparition, never got off the ground. There are some small distributors, like IFC and Magnolia, but their business model doesn't give indie films a strong nationwide release. (IFC acquires indie movies inexpensively, to feed their cable channel, and gives them a

theatrical release primarily to get some reviews that will promote their channel's offerings.) So, despite the thousands of independently-made films each year, there is no viable theatre distribution for most of that creative effort.

Until some new players enter with a viable, alternative distribution strategies, indie movies will be all dressed up with no place to go. Funny thing is, we all pretty much know what the viable strategy will be: Lean overhead, not built on the studio model; fair deals for films and filmmakers; reinvented marketing and audience-community building using available technologies and social networks; distribution to every possible screen and device. Plus plenty of ready cash, to make quick moves and acquire companies and platforms as well as movies.

While there are a few people working on these approaches, I've been surprised at how long it has taken them to get their companies going. Part of it is inertia, because it's hard for some well-paid executives to leave their comfortable "consultant" gigs and try being entrepreneurial. Part of it is investor fear, which seems irrational to me, because it is so much safer to invest in a portfolio of films being distributed, instead of bankrolling a single movie. Many investors won't take the time to understand how and why distribution makes sense; they think it is so much more glamorous to produce a movie. As most of these single-movie investors will soon discover, their movie will never be seen – because there are so few viable distribution companies.

For example, I'm aware of one investor who ponied up \$20 million to bankroll one picture. It will not get distribution, and his entire investment will be a write-off. For that same \$20 million, he could have financed a distribution company with a hefty P&A credit line. With a new distribution company, he might have brought 100 movies to audiences over the next five years. Why didn't he do that? He would have had to give over managing authority to professionals who understand the business, be prepared to build the new company over time, and not see his name onscreen as "Producer."

You may be thinking, "Lots of those unsold Sundance films aren't good enough for people to want to see them." You're probably right. But enough of them are good for specific audiences to find them worthwhile. If only 10% of those movies could find their audiences, that's another 300 viable films each year where artists would have their work seen, and be able to connect with their public.

The revolution will arrive when a critical mass of new distribution companies enters the scene. For that to happen, entrepreneurs will need to get bolder, artists will need to get vocal, and audiences will need to express their dissatisfaction. Because now, entrepreneurs are missing their chance, artists are seeing their work go to waste, and audiences are being force fed a diet of films that is only a fraction of what should be, and could be, available.

*For example, here's some math. The Weinstein Company reportedly paid \$7.5 million plus a \$15 Million P&A guarantee for *The Details* (pictured above). Their "settlement rate" – the amount they get from each theatre ticket sold – will be 42% at most. So to clear their investment entirely in the US theatrical run, the movie would have to gross \$55 million. However, TWC bought worldwide rights, so they will get some revenue from selling the film internationally, plus they will generate additional income from domestic home entertainment and cable TV deals. So let's say that they'll break even at about \$22 million domestic theatrical gross. That is possible, but it means *The Details* will have to be in the top 20% of box office earners, and achieve results better than movies like *The Kids Are All Right* and *The Ghost Writer*.

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