

**Assessment of Production Opportunities in Eastern
European Emerging Film Markets:**
A comparative multi-case study analysis.

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Abstract

Title: Assessment of Production Opportunities in Eastern European Emerging Film Markets: A comparative multi-case study analysis.

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The film industry has predominantly highlighted the success of Hollywood, with little focus on the emerging markets of Central and Eastern Europe. As an increasing number of film production companies move from mature markets into emerging ones, various success factors are revealed as being crucial to the decision-making process of where to go. Through expert interviews and existing data, the benefits and disadvantages for institutional promoters and film professionals in the four countries analyzed led to the discovery that Poland ranked highest within attractiveness scoring for foreign film production potential. Furthermore, numerous ways in which a film production can increase economic return in the hosting country became apparent throughout the research by increasing auxiliary service demand, boosting awareness to cultural values, as well as tourism initiatives. In order to boost the potential of these returns, governments in the emerging markets invest substantially into grant programmes and facilities to attract foreign production firms. Coming full circle, film professionals can utilize boons granted by local incentives, as well as co-produce with domestic players, to enhance their network strength and lower costs across the board. This discovery was found through the analysis of six variables that were formed using the SMART (Specific, Measurable, Achievable, Relevant and Time-Bound) criterion. Ultimately, the recommendation is for foreign film production companies to look to Eastern European markets in order to cut production costs, as well as take advantage of a Blue Ocean opportunity.

Keywords: Film production, Success Factors, Decision making process, Film professionals, Institutional promoters, Production costs, Emerging markets, Economic Return.

Resumó

Título: Avaliação das oportunidades de produção nos mercados cinematográficos emergentes da Europa de Leste. Uma análise comparativa no estudo de múltiplos casos.

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À medida que um número crescente de empresas de produção cinematográfica se desloca dos mercados estabelecidos para mercados emergentes, vários fatores se revelam cruciais para o êxito no processo de tomada de decisões sobre qual país escolher. Através de entrevistas com especialistas e estudo dos dados existentes, os benefícios e desvantagens para os promotores institucionais e profissionais de cinema nos quatro países analisados levaram à descoberta de que a Polónia estava em primeiro lugar na classificação de atratividade no que respeita ao potencial de produção cinematográfica estrangeira. Do mesmo modo, ao longo da pesquisa, tornaram-se evidentes várias formas através das quais uma produção cinematográfica pode aumentar a sua rentabilidade no país anfitrião, aumentando a procura de serviços complementares, encorajando a sensibilização aos valores culturais, bem como as iniciativas de turismo. A fim de aumentar o potencial desses lucros, os governos nos mercados emergentes investem substancialmente em programas de subsídios e instalações para atrair empresas de produção estrangeiras.

Aproveitando todos os recursos, os profissionais de cinema podem utilizar os benefícios concedidos pelos incentivos locais, bem como co-produzir com agentes nacionais, para expandir a sua zona de influência e diminuir os custos globais. Este resultado foi encontrado através da análise de seis variáveis obtidas pela utilização do critério SMART. Em conclusão, recomenda-se que as empresas estrangeiras de produção cinematográfica se redirecionem para os mercados do leste europeu para reduzir os custos de produção, tirando simultaneamente vantagem de uma área inexplorada de negócio.

Palavras-chave: Produção de filmes, Fatores de sucesso, Processo de decisão, Profissionais de cinema, Promotores institucionais, Custos de produção, Mercados emergentes, Retorno económico.

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1. Introduction

Since the mid-2000s, the global film business has been experiencing a massive transformation due to the disruptive impact of the expansion of online video streaming services. These technologies have sparked a rapid shift away from the traditional pattern where film lovers purchased movie tickets at the local cinema box office and bought some popcorn, or watched a blockbuster film on a Saturday night. Now, the vast majority of consumers subscribe to one or more online streaming services such as Netflix, Amazon Prime, HBO, etc., and watch these films at home at any time they choose. This shift has meant substantial disruption to previous business models. From the moment that Netflix and Amazon Prime launched their on-demand film streaming platform in 2007, film producers began to realize that previous business models would soon become obsolete (Sharma & Flint, 2019). Emergent, digital technologies have also inspired a wide number of powerful conglomerates and mega-giants, in both creative fields and technology (telecommunications and the Internet), to invest into media content production and distribution through innovative online delivery mechanisms. By 2019, virtually all major media content producers have recognized the necessity of going online into the content streaming business. As recently as November of this year 2019, Disney launched its Disney + streaming service, and Apple launched its Apple TV + service. In October of 2019, AT&T, owner of Warner Media, launched its HBO Max, giving consumers full online access to HBO, Warner Brothers, TimeLine and Japan's Studio Ghibli content, for a few dollars per month (The Economist, 2019).

The growing number of streaming platforms ultimately breeds furious competition for customers among providers, but also increases the pressure on media content makers to expand the volume of additional content to fill these channels (Barnes, 2019). In 2019, more than \$100 billion (89.23 billion EUR) is expected to be invested by 16 media firms in new content creation (The Economist, 2019). Yet, at the same time, streaming profit margins are shrinking due to saturation of the market, and there are no longer easy profits to be made from distribution of films as in the traditional “pre-online-streaming” business model. Costs of production are increasing rapidly as stated in a report by Bloomberg Intelligence (The Economist, 2019) noting that “the average cost of producing a single episode of a scripted drama is close to \$6 million (5.4 million EUR), twice the going rate of three to four years ago” (The Economist, 2019).

“Media firms have three ways to make streaming pay. Firms can accumulate deep ranks of loyal subscribers at home and abroad. They can raise prices. Or they can spend less on programming.” (The Economist, November 14, 2019)

As the cost of making film content has increased dramatically, media firms are finding it a strategic necessity to look for ways to provide high quality media content to set themselves apart from competition, but at an affordable cost— Therefore, these firms from developed economies are turning their attention towards finding alternative ways to make high quality film content (Lule, 2016). Hand in hand with the online media streaming phenomenon, film producers today have a wider range of strategic variables that need to be considered, including questions of where to produce, how to control content production costs, as well as the challenge of producing a greater volume of consumer-appealing film content in a shorter time-frame.

1.1. Defining the Scope of the Analysis

For the sake of simplicity, the term “film” as utilized in this paper, refers to “visual media content” including not only “Big Budget”, or “Blockbuster” Hollywood formatted feature films (ex. Batman Returns, Die Hard, Star Wars, etc.), but also documentaries (The Blue Planet, Dynasties, etc.), music videos, dramatic and comedic TV series (Game of Thrones, The Handmaid’s Tale, etc.), as well as independent studio productions and art house films , known as “Indie” films. Film content is any visual media content with a scripted story line, filmed using modern, digital videography. “Film producers”, for the purpose of the discussion, include all companies involved in making visual media content available to the consumers of visual media entertainment. These companies include giants of the media industry (ATT/ WarnerMedia, Disney, etc.), TV broadcasting companies (BBC, NBC, ABC, CBS) and independent film companies (A24, Roadside Attractions, Cinedigm).

For the purpose of the analysis, two categories of film production are examined: Big Budget film and independent films. Big budget films are described as having a large economic forecast, which involves large costs/expenses, Independent films are defined as feature-length or short films that are produced outside of the “normal” film studio system (Ortner, 2012).

1.2. Focus of Inquiry

In response to these economic pressures brought about by new technologies, film producers look towards the “emerging” economies of Eastern Europe as an attractive region for both economic and cultural reasons (Mitkus, 2017). These film production companies are exploring new locations, particularly with a focus to receive the support and incentives provided by the local Eastern European governments and to gain subsequent movie audiences in these emerging markets (McDonald, 2011).

This paper will aim to explore and analyze the challenges and opportunities of film production companies from developed countries intending to produce films in these emerging regions. Through a multi-country comparison analysis, using primary and secondary sources, this paper will endeavor to answer the overarching research problem:

To what extent is it attractive for film producers from mature markets to make films in the emerging markets of Eastern Europe?

In addition, light will be shed on the following areas of inquiry:

- What are the most important benefits that an established film production company can expect from operating in an emerging region?
- What are the most significant disadvantages of making films in emerging Eastern European markets?
- Is it equally attractive to produce films in emerging Eastern European markets, for all types of film projects?

The paper will focus on the front-end production variables of highest importance for film and media content creators in mature markets, rather than conducting an in-depth analysis of the downstream distribution and marketing considerations.

2. Literature Review

2.1. Film Industry

2.1.1. Introduction to the Film Industry

The film industry is a large sector of the economy, often measured by the global box office which in 2018 accounted for \$41.7 billion (37.2 Billion EUR) in revenue, as well as home entertainment gross earnings which was worth \$136 billion (121.3 Billion EUR) (Watson, 2018). Over 150 years ago, at the time moving film was introduced by the innovator, Thomas Edison in 1888 with the invention of the “Kinetoscope” (Bellis, 2019) it would have been impossible to foresee the overwhelming popularity that film would command today in 2020. Today, films are a large part of what people deem to be popular entertainment; references to films permeate culture and play a role in interpersonal and business communication, music, and literature (Sham, 2011). Although the film industry has often been associated with the fame and glory of Hollywood, offering film productions the potential to make substantial returns from theater releases as well as achieving a global audience (Ortner, 2012), today, the pressures of technology, production costs and shifting consumer tastes make it more and more difficult to make profits in the industry.

2.1.2. Obstacles

Big Budget Films

As mentioned previously, technology and evolving consumer tastes are creating production challenges for Big Budget film makers. Some of these include the fact that DVDs and Blu-Ray are becoming less and less in demand as technological developments such as video on demand and streaming services compete for audience’s money (Dutton & Blank, 2011). Consumers no longer want to travel long distances to purchase tickets to watch films in theaters; they prefer paying for a film as to enjoy it from the comfort of their own home (video on demand services) (Kaufman & Mohan, 2008). The issue is that customers are paying less and less per online stream, which will not only impact the profits that filmmakers, studios and distributors make but it also affects the film financiers who expect a return on their investments, likely causing them to invest elsewhere in the future (Kaufman & Mohan, 2008). The franchising model within the big budget film industry is lucrative and in demand due to the brand recognition of studios and films (Proctor, 2012), as well as due to the repetitive nature of franchises which humans tend to crave (Johnson, 2013).

Although these film franchises are being released at a record rate, they are also frequently criticized for taking over the market, and customers who are expecting a quality based on the original are often disappointed as less value was added to the franchised film; analysts call it “franchise fatigue” (Parody, 2011). Digital piracy is a huge problem within the film industry, threatening film makers’ profits. The only measure set in place to avoid this threat is that internet service providers (ISPs) block sites that host illegal film content. However, there are no laws with proposals on how to stop this threat all together (Global Online Piracy Study, 2018).

Independent Films

Independent films are facing several challenges as well. The fact that film “majors” dominate the market means that independent films run the highest risk of not being produced and operate on an uncertain promise of reward (Olsberg, 2012). In order for independent films from developed countries to move into emerging markets, predicting the potential demand is crucial as consumer tastes vary in a global market which creates more demand uncertainty (Elberse & Eliashberg, 2003). Few countries in the world provide a government grant system for smaller budget or short films, as traditionally these are not seen as profitable investments. Nonetheless, short films are regarded as an influential communication tool in today’s market and can create profit through non-traditional channels (Grove, 2019). Any form of film can enhance the image of places, people, products and expand people’s understanding of a certain culture and therefore would be an excellent source for creating profit in various industries (Gao, 2009). Films cater to various niche tastes of consumers--however, if there is little funding support for independent and short films then a large portion of consumers will be disappointed as varied content is limited (Grove, 2019)

2.1.3. Venture potential

With the film industry facing disruptive technologies, it is becoming clear how opportunities are emerging for Big Budget and independent films outside of normal distribution channels (Zhu, 2010). As digital distribution is becoming a common practice, with consumers being able to stream online and utilize video-on-demand services, the market is being saturated with content, expanding a demand for competitiveness which can be difficult for lesser known, independent organizations to meet (Kaufman & Mohan, 2008).

In light of the elevated degree of competition due to ease of distribution through digital delivery in mature markets, it is advisable to seek alternatives to “Red Oceans”; namely, forego saturated markets and seek emerging markets with fewer established content creators in order to seek a niche (Kim & Mauborgne, 2015). An opportunity emerges for various types of films to create a hybrid distribution strategy that combines the traditional distribution method as well as utilizing online distribution channels (Grove, 2019).

Film makers from mature markets have the benefit of seeking funding from a bountiful supply of public aid grants, yet heightened competition means that government funding is ultimately more difficult to receive (Murschetz et al, 2018). In the EU, production budget size increases with the size of the national market (Poort et al, 2019). Emerging markets want foreign investments as it increases their employment rates, spreads awareness of their country and culture as well as increasing their overall economic sustainability within tourism, accommodation services, catering etc. (Mitkus & Mitké, 2016).

2.2. Emerging Markets

2.2.1. Introduction to Emerging Markets

A developed market is defined as being politically stable, having a very advanced economy and developed capital markets which produce high levels of liquidity (Roberts et al, 2015). Emerging markets are described as being less developed, having initiated economic reforms, with lower per capita income with higher market volatility and experiencing rapid economic growth (higher than 5% annually) which is depicted through annual GDP growth rate (Arnold & Quelch, 1998). Rapid growth in emerging markets is not only due to the increased purchasing power of consumers, but also in the changes to urbanization, migration, literacy growth and development of new regulatory institutions (Sudhir et al, 2015).

Due to the economic growth in emerging countries, developed nations are realizing the potential for creating a profitable business (Shankar et al, 2008). Since growth has stabilized and remains constant in developed countries, such as UK and United States, companies aim to compete with domestic players in emerging markets (Mitkus, 2016). These foreign companies look to achieve

mass distribution levels, achieve growth in their brand's reputation and escalation of their global operations by moving into emerging markets (Shankar et al, 2008).

2.2.2. Advantages for Emerging Markets

Foreign investment incentives are beneficial to emerging countries as they provide a boost to national economies by offering employment opportunities, utilizing local hospitality and infrastructure services such as accommodation, catering, transportation, etc. (Heitmann, 2010).

A typical model for public funding of film projects is to financially support with 50% of a production's budget; these incentives result in an economic return for the country, as well as the potential of social and cultural boost. Emerging markets seek to encourage creative forms of expression as these elevate the local, creative economy, as well as increase tourism by appealing to consumers' curiosity, and ultimately increase a country's national brand and identity (Gao, 2009). Films educate consumers on cultures, histories, politics, and other aspects of a country which in turn attract tourists to that region, which increases a country's overall economy (Heitmann, 2010).

2.2.3. Advantages for Companies from Developed Economies

Production companies from developed countries receive various benefits for operating in an emerging market. Among others, access to human capital, lower labor costs, local networks, market understanding, and incentives.

Academic institutions in these regions are creating a skilled workforce within various film processes, which foreign production companies in turn can outsource and use to locally distribute their value chain activities (Sanson, 2014). As the most valued asset is arguably that of human capital, production companies save money on hiring local experts instead of bringing talent from overseas (Sanson, 2014).

Foreign production companies benefit from taking advantage of the cheaper labor costs they encounter by managing their overhead, utilizing local talent, partnering with local players, and using local suppliers and outsourcing activities (Shankar et al, 2008). Developed companies

sustaining a business in an emerging market have the opportunity to partner with local players that can assist in national operations and distributions. Local businesses have spent years studying their target customers and understanding their nation's buying behaviors and needs (Radjou & Prabhu, 2012). In addition to this, local companies have established relationships with local players that would be beneficial and create value for any value chain (Sherlekar et al. 2010). Working with local companies or players in the market would help any developed company build a strategy to sustain their operation and compete for advantage in that market (Marketing strategies for emerging markets).

In addition to increased consumer demand in emerging markets and growth in consumer purchasing power, emerging markets are increasing the levels of global innovation as they offer production at lower cost and with a largely skilled workforce (Küng, 2017). This results in companies from developed countries moving their business operations and distribution channels to emerging markets where there is a higher potential for a global competitive advantage (Shankar, 2008). Incentives to attract film production companies to invest time and money in emerging markets is a concrete benefit (Visser, 2014). For instance, since 1990, over 30 countries have offered fiscal incentives in order to attract foreign companies to emerging regions (Mitkus, 2016).

2.3. Film Industry in Emerging Markets

2.3.1. Introducing the Film Industry in Emerging Markets

The global film industry is highly competitive and traditionally has a primary focus of making a profit - ultimately, the film product being a cultural representation is of secondary importance (Mitkus & Mitké, 2016). This means companies' mode of entry into the film industry is more competitive than ever before (Ortner, 2012).

Considering that Eastern Europe has gone through heavy economic, social and cultural transformation in the last 30 years, there is still a reflection of the pre-transformation sentiment within Eastern European Filmmaking (Parvulescu & Turcus, 2014). The hardships that came for Hungary and Czech Republic were defined by the reshaping of their national identity after the end of Soviet occupation which had defined their culture for many years (Mazierska, 2010). The film industry attempts to set itself apart from the post-communism aspects by attaching itself with the

European alliance to create and legitimize a new culture (Parvulescu & Turcus, 2014). Cinemas are at the heart of the film industry value chain and add value to the cultural and commercial success of a film. Going to see a film in the cinema and share the experience sets the benchmark for all type's distribution (UNIC report, 2018). Although cinema-going numbers are decreasing world-wide due to the digitization of screens, and limited resources of the younger generation, the film industry is still thriving as much as ever (UNIC report, 2018).

In 2017, Poland experienced a record year at the box office with an increase of 10.88% with three films making it to the top of the 5 films in the box office with a market share of 23.2%. In this same year, (2017) the Czech Republic had the second highest performance even though the box office success dropped by 0.3% whereas Hungary saw their box office increase 4.1% in 2017, and Croatian box office results increased by 6.6% in 2017 (UNIC report, 2018). Combined, these results account for roughly \$466 million (415.9 Million EUR) in the emerging markets for film (Kanzler et al., 2018)

2.3.2. The Film Value Chain

In order to demonstrate the film industry within emerging markets, it is important to define the value chain or business systems of the film industry. The value chain was made known by Michael Porter in 1985, where he defined it as a “framework for identifying all activities and analyzing how they affect a company's cost and the value delivered to consumer”. The Value Chain is depicted as a process diagram, beginning with research, development, manufacturing, packaging, marketing and lastly distribution. A film company's value chain depicts the importance of outsourcing to other players in their value chain activities to deliver a final project (Küng, 2008) therefore the value chain is more often referred to as a “value system” or “Value Network” (Porter, 2001). The way Porter illustrated the value chain, means that it only applies to business strategy, competitive advantage, cost advantage and buyer value, not the revenue flow. Since revenue flow of the film industry involves various players at different stages, it means that the film value chain must be revised in priorities according to scale of the film production (Küng, 2008).

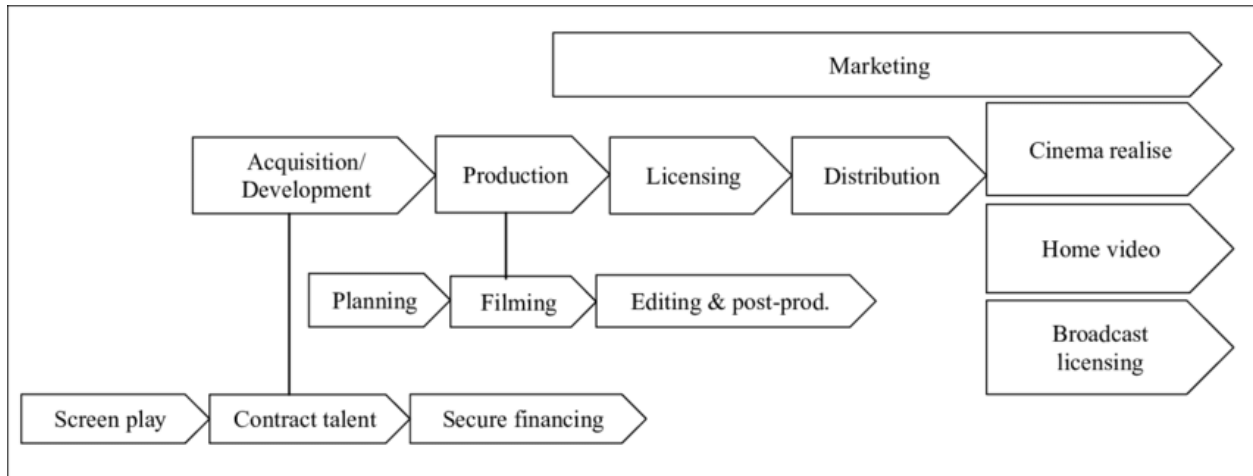


Figure 1: The Film Industry Value Chain according to Küng, 2008, pg, 71.

The activities with primary focus inside the film value chain are changing as digital technological innovations occur (Bloore, 2009). Innovation trends begin with digital downloads and on demand screening of films, and secondly lower production costs with the digitization of the filmmaking process. Thirdly, the reduction of the value chain as producers can directly market and distribute their films to a consumer themselves is observed (Bloore, 2009), and lastly as a result of online sales and internet-based platforms, like Amazon and Netflix, the niche film market is expected to grow in the coming years (Andersen, 2006).

2.3.3. Distribution

Through the emergence of digital media, it is argued that cinema will slow to an absolute halt as other possibilities for audiences become more and more attractive. Now that Pay Per View (Netflix, or Amazon) has become so readily available from the comfort of one's home, and downloads can source the desired film, it is hard to argue why a consumer would travel far to pay for a ticket to the cinema. As the theatrical release becomes more and more controversial as the determinant of a film's success, it still is very clear that this sector will be changing its strategic landscape as digital exhibition and distribution becomes more available (Luckman & De Roeper, 2008). There are three approaches to digital distribution, often known as the "long tail" distribution method (Anderson, 2006). Firstly, the niche marketing of traditionally produced formatted features. Secondly, traditionally produced formats meant for online and mobile marketing and distribution. Thirdly, creating new formats/content for "new" platforms by using niche marketing methods (Luckman, & De Roeper, 2008).

2.3.4. Marketing

Through the use of “produsage” models, a film can gain more traction ahead of release by engaging with the audience. Produsage meaning “simultaneous production and usage”, refers to the interaction that film marketers have with audiences, encouraging the latter to release fan videos, blog reviews, commentaries etc. (Bruns, 2006). Easier than ever before, productions can save money by engaging with social media platforms to do online marketing campaigns (Hearn & Brow, 2008). Production companies are utilizing social media and networking to maintain their low-cost marketing model by using social formations such as fans, co-creators, and editors as precursors to marketing their films (Ryan & Hearn, 2006). New media tools, such as Facebook, Twitter, and YouTube, allow filmmakers to create an ongoing interaction with their audience which in turn maintains a social network, online community, and loyalty from audience members (Bruns, 2007). (The main focus of this paper is the production and development steps of the Film Value Chain and therefore will not address the Marketing and Distribution aspects).

2.3.5. Packaging

As there are different buying behaviors and demands of a local consumer, this means that packaging a product will remain a difficult strategy. There is a solution, which can be fulfilled through the co-partnering with players that have long standing knowledge of their market and target consumer. In order to package a product or film successfully, a company must fulfill their R&D stages effectively, in order to find out what is most important to the customer (Radjou, 2004).

2.3.6. Production

The production process includes the hiring of talent, shooting the film and the post-edit (Bloore, 2009). This is a complicated process, given that the demands and requirements of investors can change during production and can impact the vision of the final film (Bloore, 2009). There are several success factors that contribute to creating a film business in various markets. Building strong international relationships within the value chain is necessary for film companies to build strong links and long-term connections for future projects. Considering the expensive nature of making a film and the fact that a domestic market may not be profitable, a rise of international co-productions has become the norm which provides access or funding to film productions from other

countries (Olsberg, 2012). In addition, film companies who have a long-standing relationship with various talents will benefit from the success of building on their previous successes (Finney & Triana, 2010). This relationship creates a brand for the company, and lets audiences become accustomed to a certain level of established talent; this gives stakeholders an understanding of their investment and the films they produce (Olsberg, 2012).

2.3.7. Research/Acquisition & Development

Doing business with emerging markets can potentially offer growth in profitability and innovation. An innovative strategy called “value chain localization” is when foreign companies create their R&D and manufacturing stages in the emerging market (Radjou & Prabhu, 2012). The issue here, is that typical R&D processes do not apply to the creative industries as R&D is still a new process, with a high degree of uncertainty and has differing characteristics compared to other industries (Franklin, et al, 2013).

The phase with the highest degree of risk and longest duration in the film value chain is considered to be the development process as it is farthest away from the investment received by the consumer, and therefore has less transparency of what the capital investor should receive (Vickery & Hawkins 2008). The development process includes creating the idea for the film (script), acquiring funds for script development which is often public subsidy funds, ensuring that the finances are in place for production, and in some cases pre-selling the film to various territories on the basis of the value created by the reputation (Vogel, 2007). This process takes a long time and changes rapidly with the collaboration of various players in the value chain who have requirements of their own (Bloore, 2009).

2.4. Dynamics of the Film Industry in Emerging Eastern European Countries

Currently the EU Creative Europe Program has been given an amount of 800 million EUR from 2014-2020 to support European film projects (Bruell, 2013) which is in addition to the national film support systems. In Europe, there are five major countries that account for 80% of the film industry in Europe; France, Germany, UK, Italy, and Spain (European Film Commission, 2014). In order to understand the dynamics of the film industry in Europe, assessing the weaker countries in terms of competitive position and capacity is pertinent (Mitkus, 2016). For a film company to

consider moving their business into an emerging market, they will look at the geographical needs of the film, opportunity for creating a talented and experienced local team, as well as lowered production costs (Katsarova, 2014).

Securing government and public financing is commonly seen as the heart of the film industry which is why emerging countries offer various incentives (Visser, 2014). Countries in Eastern Europe, such as Hungary, Croatia, Czech Republic and Poland all have incentives, most offering a tax rebate of 15-25%, as well as development of tax reductions, to attract foreign investments (Deloitte, 2016). Incentives have particular requirements in order for projects to receive benefits and make it worth the incentives provided. Hungary is known for having one of the best incentive programs for film production companies which include; tax rebate of 30% as cash on all film production costs, if at least 50% of the overall budget is used in Hungary as well as 50% of crew and cast being Hungarian (Deloitte, 2016). Tax incentives for the Czech Republic are 25% with a cash rebate of 20% on expenses for goods and services provided locally, with a 66% rebate on withholding tax paid on salaries within Czech Republic. In Croatia the cash rebate is 20% on expenses for resident workforce, goods and services or a 50% of the production being filmed in their country. Lastly the Polish cash rebate scheme is 30% of foreign productions filming in their country (Rodrigues Law, 2017). These incentives are not only to attract foreign investments or to increase their global competitiveness (Mitkus, 2016) but it also to increase employment rates, awareness of the regions' natural landscape, culture, and history as well as promoting the country's identity and film industries (McDonald, 2011).

2.4.1. Success factors

In terms of the film industry, the success of a film is evaluated by three criteria; Critical evaluation, financial performance, and film awards (Sand, 2017). Considering that this paper is exploring the potential for film company's success in the emerging markets of Eastern Europe, we will have to outline what success is described as in relation to this region. Firstly, "success" is related to the situation in the film industry of that country, for example smaller productions with lower earnings and low production volume (Sand, 2017). Secondly, "success" is related to the importance of the artistic vision of the film instead of the importance of its financial

profitability (Sand, 2017). Thirdly “success” is only possible for films if there is an access to public funding in that region (Sand, 2017).

The lessons that can be learned from successful film companies would be to diversify the range of project concepts to ensure that they have profits in at least several areas of their business (Finney & Triana, 2010). Diversification could either be horizontal, which develops projects within television, commercials etc, or it could be vertical, which involves film sales, distribution formats, or the provision of post-production services (Olsberg, 2012).

3. Methodology

The majority of this thesis used a qualitative approach for gathering research and utilized both primary and secondary data to create working hypotheses and to draw conclusions. This approach was developed in order to gain a deeper understanding of the potential benefits that emerging countries can offer the film industry and how a film business can create a sustainable strategy to sustainably benefit from making films in one of the emerging Eastern European countries under investigation: Hungary, Czech Republic, Croatia, Poland. This deeper understanding of the emerging countries' potential will be found by comparing them to the developed market of Germany.

This paper aims to answer the research problem:

To what extent is it attractive for film producers from mature markets to make films in the emerging markets of Eastern Europe?

Through a multi-country comparison analysis, the following research questions will be explored:

Research Question 1: What are the most important benefits that an established film production company can expect from operating in an emerging region?

Research Question 2: What are the most significant disadvantages of making films in emerging Eastern European markets?

Research Question 3: Is it equally attractive to produce films in emerging Eastern European countries, for all types of film projects?

3.1. Attractiveness as determined by Key Variables (Tangible and Intangible)

- 1) Film Production Costs
- 2) Ease of Doing Business
- 3) Market Potential
- 4) Risk Factors
- 5) Availability of Manpower
- 6) Incentives from Hosting Country

3.2. Measurements

In order to find the emerging Eastern European country with the highest attractiveness for established film production companies, the above (6) variables were identified using the SMART criteria (defined as Specific, Measurable, Achievable, Relevant and Time-Bound). The SMART framework is useful in setting actionable objectives and creating performance goals for a business.

Although it was not possible to provide objective quantitative measures for all of the variables under study, most concrete data was gathered from secondary sources to supplement the primary data, i.e. collective subjective assessments based on expert panel's experiences. A ranking of each country's attractiveness, from 1 (most) to 4 (least attractive) for each variable was then performed. The measurement for the variable "availability of manpower" was the number of film schools, and Eurostat on employment rates of recent graduates. The measurement for the variable "Market potential" was the Market Potential Index which rated dimensions out of 100, such as: market size, market intensity, market growth rate, market consumption capacity, commercial infrastructure, market receptivity, economic freedom, and country risk (Global Edge, 2019). The measurement for the variable "Ease of Doing Business" was the Ease of Doing Business Ranking Index according to the World Bank, and The TI Corruption Perception Index which scored perceived public sector corruption from 0 (highly corrupt) to 100 (very clean). Lastly, the measurement for the variable "Production costs" was the Comparison of Worldwide Cost of Living Index 2018 (Worlddata).

See Table 1 for a summary of Measurements based on Primary and Secondary data sources.

3.3. Structure of the Inquiry

A Qualitative Iterative Approach was used in exploring the research topic as described in Figure 2. Each step in the inquiry is iterative, confirming hypotheses developed in each previous and ongoing step of inquiry. Secondary sources, confirmed by expert panel members' insights, or adjusted for accuracy, then provide a platform for confirming conclusions drawn.

3.4. Secondary Research

As a first level of the inquiry, secondary data was gathered through the use of public channels such as; Movie Picture Association, World Competitiveness Ranking 2019, European Audio-Visual Observatory, UNIC Annual Report 2018, MSCI Index on Emerging Markets and European Film Commission. A wide-ranging literature review provided an overview of film industry dynamics and the current state of the four emerging film production markets of Hungary, Czech Republic, Croatia, and Poland. Germany’s film production market conditions are examined as a benchmark for comparison purposes, as Germany is a fully developed economy, and will provide a platform for contrasting and comparison of production costs and incentives.

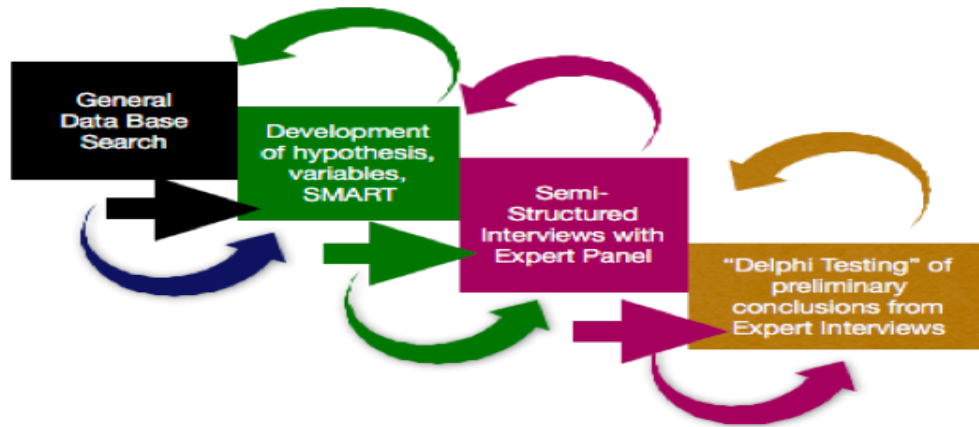


Figure 2: Structure of Inquiry

Supplemental data regarding the film industry and the emerging markets was collected through Grade A journals and reliable sources from the web, examining sources between the date range of 2008-2019 with few exceptions.

3.5. Primary Research

These hypotheses and variables were then assessed through conducting a series of semi-structured interviews with a “panel” of four experienced experts within relevant fields (Figure 3). The selected interviewees (See Appendix for details) were professionals that were engaged with making films (producers, directors, writers), industry stakeholders and critics, as well as academics teaching and researching within the creative film industry. These interviews aided in the exploration of the

research questions and subsequently verified the key success factors for determining the attractiveness of each emerging markets.

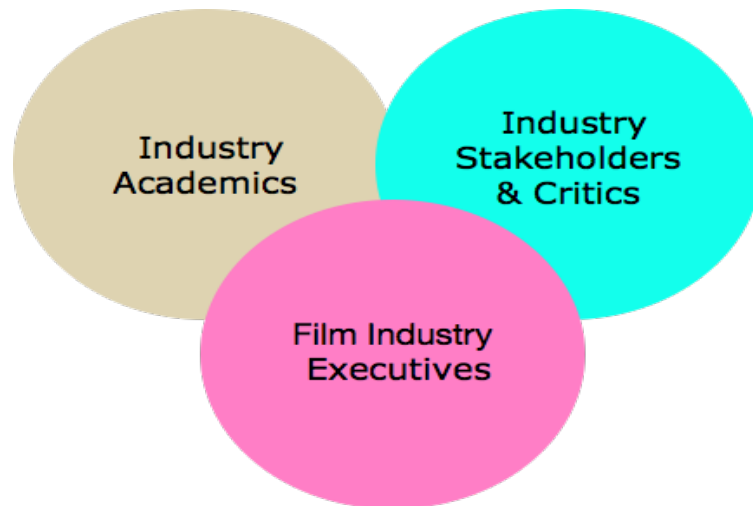


Figure 3. Structure of Expert Panel

For the semi-structured interviews, informed questions were developed to explore the key topics discussed in this paper. Additionally, the questions aimed to collect the appropriate data and exclude any irrelevant information. Interviews were collected through a combination of interview formats and through digital channels.

Lastly, wherever it was feasible, a Delphi Approach was used in the analysis of interviews (Grisham, 2009). Based on the interview results of various industry experts, a second round of interviews was conducted to allow experts to revise their previous judgments based on other interview participants' answers. This approach is useful to determine an expert's knowledge on subject matter and to achieve a consensus on point of view on forecasting for that industry.

4. Findings & Discussion

This dissertation aims to answer the research questions;

1. What are the most important benefits that an established film production company can expect from operating in an emerging region?
2. What are the most significant disadvantages of making films in emerging Eastern European markets?
3. Is it equally attractive to produce films in emerging Eastern European markets, for all types of film projects (big budget vs. independent)?

The first part of this section will focus on the market conditions of the individual emerging markets in Eastern Europe. The second part of this section will analyze the emerging markets according to the variables defined in the previous chapter. The last part of this section will analyze the key success factors of each emerging country, studied in order to compare which country will be most attractive for a foreign production company.

4.1. Market Conditions in Eastern Europe

“Developed markets are very difficult to film in because of all the costs and native restrictions they put on us. They are pushing filmmakers into the emerging markets because that’s where there are less restrictions and costs. As soon as something is established, it changes again, the industry is an ever-changing landscape. As soon as something is established it’s gentrified, so you never know how long it will last” (J, Grimås, personal communication, September 19, 2019).

This section will review the information gathered from expert interviews alongside key industry research; i.e. GDP, industry growth rate, box office results, etc.

Under the guidance of the European Commission, The Creative Europe Program (2014-2020) consisted of a budget of 1.46 Billion EUR, and assigns 56% of the budget to the Media sub-program and 44% to the Culture sub-program. The Media sub-program creates an opportunity for independent filmmakers to fund their films in addition to supporting the development and distribution of all types of films (feature films, documentaries, shorts, etc.) (Creative Europe Media Desk, 2019). This funding is given through opportunities posted regularly. Countries or companies

can apply for the proposal opportunities for specific genres that highlight local communities or cultures.

4.1.1. Hungary

As of 2018, the total GDP in Hungary was \$155.6 billion (138.9 Billion EUR) with a growth rate of 4.9%, and per capita income of \$15,939 (14,222.37 EUR) (OECD, 2018). It must be kept in mind that analysts consider that the structural funds of the European Union have skewed forecasting and that it is difficult to accurately reflect economic activity. The minister of finance in Hungary, Mihály Varga, mentioned that GDP growth for Q3 in 2019 was over 4.8% which he said was “supported by government measures to boost employment, improve competitiveness, better utilize EU funding, and by investment incentives” (Budapest Business Journal, 2019).

Beginning in December 2012, the national film fund in Hungary replaced its predecessor, MMKA, which gave production and development grants to various sizes of national productions and co-productions. For a national feature film produced in Hungary, the average budget would be 200 Million HUF (604,176.42 EUR) and for an independent film with a low budget, the average would be 15 Million HUF (45,295.19 EUR). Along with the 25%-30% tax rebate incentive (Budapest Business Journal, 2019), the influx of foreign film productions was also due to the standardization of rental fees for filming locations, the availability of fully equipped studios inside and outside the city of Budapest, and due to the allowance of 20% of the eligible spend for the rebate to be used outside of Hungary (Hollywood Reporter, May 20, 2019).

4.1.2. Czech Republic

Currently the Czech Republic needs structural reform as the emerging country catches up with the rest of the EU. There is a need for effectively targeted investments in infrastructure, human capital and innovation which could in turn diminish administrative hindrances and address the labor shortage that is currently present in the national market (Czech Film Commission Report, 2019). GDP in 2018 was \$244.11 billion (217.6 Billion EUR) which was reported to be the highest in the country’s record with the GDP per capita being \$22,850 (20,366.33 EUR), though the growth rate decreased from 4.3% in 2017 to 2.9% in 2018.

As of July 2018, Czech Republic film production activities accounted for 1.1% of GDP, in the form of direct and indirect sales of over 104 billion CZK (4.1 Billion EUR). Czech films reflect 13% of production, foreign films reflect 55% of overall production and adverts standing for 31% (Deloitte, 2018). Czech film industry had direct sales amounting to 54 billion CZK (2.1 Billion EUR) in 2018, however as it takes a lot to create a film, it is imperative to consider that an additional 50 billion CZK (1.96 Billion EUR) in indirect sales stemming from the film industry were also benefiting the Czech economy, almost equal to the direct sales benefits (Malysa, 2018). The film and television industry employ more than 12 thousand people, and as other sectors are impacted, the industry generates another 20 thousand jobs indirectly (Deloitte, 2018).

4.1.3. Croatia

In 2018, the GDP was \$60.8 Billion (54.2 Billion EUR) which represented a growth of 2.6% from the previous year and the GDP per capita in 2018 was \$14,870 (13,253.71 EUR).

After the filming of *Mama Mia* in 2017, Croatia is said to have quickly become one of the most popular filming locations in Europe. Despite this fact, Croatia has yet to reach a market economy at the same level with developed countries in Eastern Europe.

In 2018, the government presented three various goals for reform; first, to improve their economic competitiveness, to improve the educational system so that it is linked to labor market needs, and to make public finances more sustainable. Challenges that are said to remain to this day are: political volatility, public sector debt, and the corruption that threatens the rule of law (Index of Economic Freedom, 2019).

4.1.4. Poland

Poland's growth is strong and continuous (OECD Survey, 2018). Areas of focus for the nation are increasing their capacity to increase innovation in order to prompt higher living standards, and to strengthen skills and education to encourage stronger employment rate.

In 2018, Poland's GDP was \$585.8 billion (522.1 Billion EUR) which represented a growth rate of 5.1%, and the GDP per capita was \$15,426 (13,749.28 EUR).

2018 was a big year for Poland who made over 45 feature films which were mostly supported by the Polish Film Institute who had acquired the Film Commission Poland. The box office results

were record breaking and the incentives scheme had increased to 30% for international filmmakers. The Polish filmmaker's association has over 1700 members, who are involved in festivals and organization of major markets.

4.1.5. Germany

In 2018 Germany's GDP was approximately \$3.95 trillion (3.51 trillion EUR) representing a growth rate of 1.5% in comparison to the previous year, and their GDP per capita was \$47,662 (42,895.8 EUR). Film production is a cornerstone for Germany's cultural and entertainment industry. Each year, the government gives approximately 170 million EUR to the film industry, of which 58% originates from tax. The German Federal Fund (DFFF) grants less per film than other countries with a cap of EUR 4 million. The German box office results in 2018 were down 14.8% due to the lack of local and international content created in 2018 (European Audiovisual Observatory, 2018/2019)

4.2. Variable Measurements in Emerging Markets

1. Film Production Costs
2. Ease of Doing Business
3. Market potential for companies to access
4. Risk Factors
5. Availability of Talent
6. Incentives from Hosting Country

4.2.1. Film Production Costs

Through various interviews conducted with industry experts, a common consensus is that production costs are one of the most important variables when deciding where to film. Production costs include crew wages, production design, the set, costumes, catering, accommodation, transportation, travel, etc. It is important to mention that upfront wages are included in the budget, however deferred payment as a percentage of the film's return is not included. The line producer or production accountant will prepare the budget in order to prepare a film for pre-production and the subsequent production process. The budget is usually split into four departments: above the line (talent), below the line (direct production costs, which are the primary focus of this research

project), post production (editing, etc) and other (product placement, insurance, etc). The budget will not include marketing or promotion as this is the role of the film distributor, which this paper will not discuss.

“Money is important. If you can save money on production, then you can spend more on what goes on the screen” (J, Grimås, personal communication, September 19, 2019).

According to an independent film director who has filmed in various regions of Eastern Europe including Hungary, independent films put more weight on production costs as their investors are limited and they have more competition when applying for grants from the various film grants available. When it comes to big budget films, the overall budget includes production costs and the consensus shows that it is considered most important; the higher a budget is, the more a distributor will pay for the film as the price is a certain percentage of the budget.

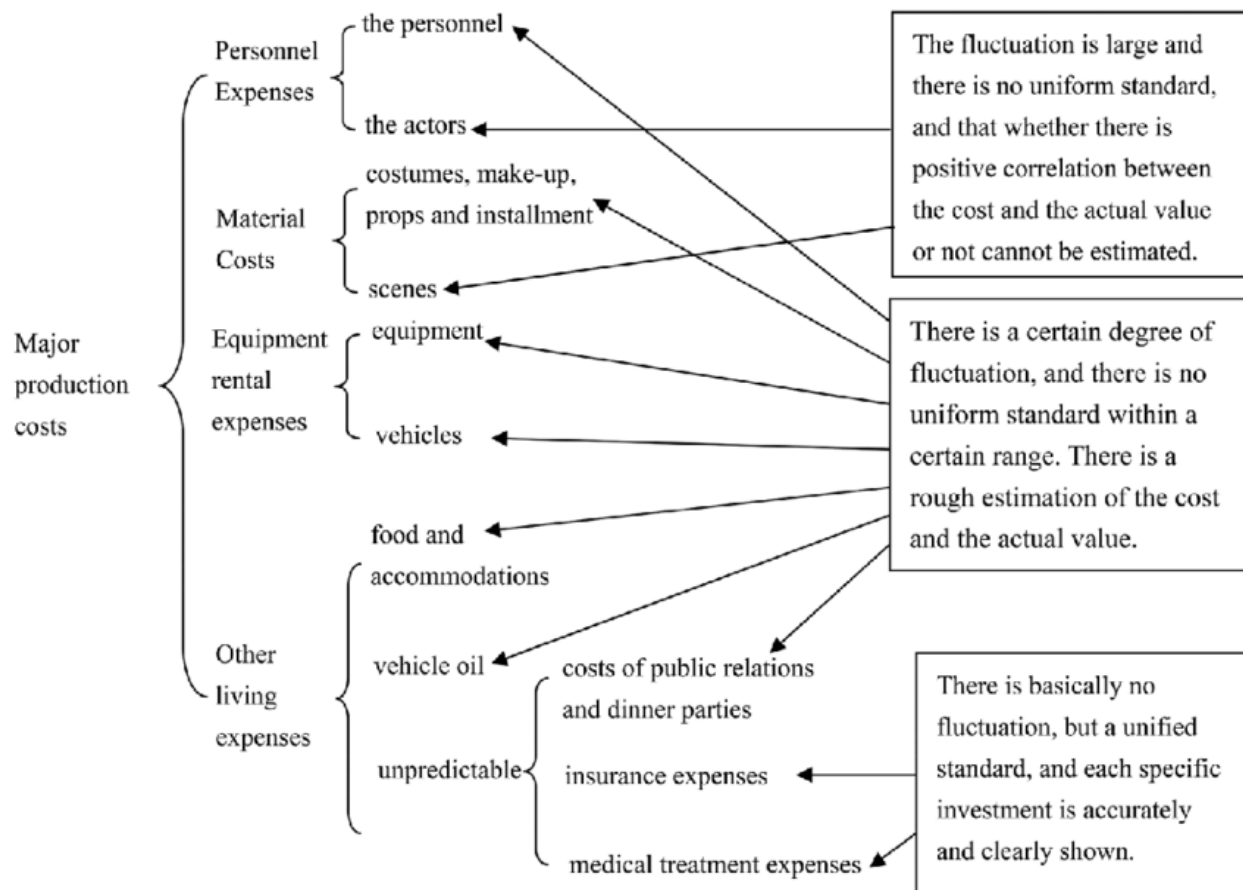


Figure 4: A Study on the Cost of Production in Film Project Management according to Lu, X. 2019

Production costs are difficult to accurately define as there are inclusions and exclusions to various costs, as defined above, and cost estimations that will increase or decrease due to the unpredictable nature of filming in a foreign location. Big budget films are infamous for not reporting production costs accurately (or not having reported them at all), and therefore the production cost budget generally provides an allowance of 10% excess margin for overages.

In order to get a sense of production cost levels, a proxy used was the “Comparison of Worldwide Cost of Living Index 2018” (Worlddata, 2018) which gives an overview of the country rankings out of 100. An index of 100 represents the average cost of living in the United States; thus, if the index for cost of living of a country is 114, then that country’s average cost of living is 14% higher than the average cost of living in the United States. This index needs to be considered with caution as product/service quality, size, and price can differ from city to city as well as the level of income that that country offers. The cost of living index is based on the OECD, the IMF, and Eurostat figures:

- Hungary’s cost of living index is 55.9 and ranks 54/100.
- Czech Republic’s cost of living index is 60.5 and ranks at 48/100.
- Croatia’s cost of living index is 63.4 and ranks at 43/100.
- Poland’s cost of living index is 50.9 and ranks at 59/100.

As a benchmark, Germany’s cost of living index of 91.9 and ranks 26/100.

In conclusion, as Poland’s cost of living is lowest out of the four countries studied, this translates to a surrogate measure for overall cost of production most likely being the lowest.

4.2.2. Ease of Doing Business

The ease of doing business variable is measured using two indices: Ease of Doing Business Ranking according to the World Bank (Doing Business 2019), and The TI Corruption Perception Index (The TI Corruption Perception Index, 2019) which scores perceived public sector corruption from 0 (highly corrupt) to 100 (very clean). The Ease of Doing Business Index includes different parameters that define the ease of doing business in a country and is calculated by collecting the

distance to frontier scores of various economies. “Distance to Frontier score” is based on regulatory best practices, and is used to benchmark markets according to the parameters set (World Bank, 2018). “Distance to Frontier includes permits, registration, receiving credit, tax payments etc.

Hungary places at 52 amongst 190 economies in the World Bank’s latest Ease of Doing Business ranking (The World Bank). According to the Transparency International’s (TI) Corruption Perception Index, Hungary scored 46/100 in 2018.

Czech Republic places at 41 amongst 190 economies in the World Bank’s latest Ease of Doing Business ranking (The World Bank). According to the Transparency International Corruption Perception Index, Czech Republic scored 59/100.

Croatia places at 51 amongst 190 economies in the World Bank’s latest Ease of Doing Business ranking (The World Bank). According to the Transparency International Corruption Perception Index, Croatia scores 48/100.

Poland places at 40 amongst 190 economies in the World Bank’s latest Ease of Doing Business ranking (The World Bank). Transparency International Corruption Perception Index, Poland scores 60/100.

Germany places at 22 amongst 190 economies in the World Bank’s latest Ease of Doing Business ranking (The World Bank). Transparency International Corruption Perception Index, Germany scores 80/100.

In conclusion and as summarized in table 1, when comparing the four Eastern European emerging countries on this factor, the worst market according to its “ease of doing business” is Hungary with the highest perceived public sector corruption, and the best market according to its “ease of doing business” is Poland with the least perceived public sector corruption.

4.2.3. Market Potential for Companies

The Market potential of these various emerging markets will be analyzed using the Market Potential Index which is made up of several dimensions and is rated out of 100: market size, market intensity, market growth rate, market consumption capacity, commercial infrastructure, market receptivity, economic freedom, and country risk (Global Edge, 2019). The findings are summarized in table 1.

Market size weighs 25/100 considering electricity consumption and urban population. Market Intensity weighs 15/100 considering GNI per capita estimates and private consumption % out of GDP. Market growth weighs 12.5/100 considering CAGR of energy use and CAGR of GDP. Market Consumption Capacity weighs 12.5/100 considering consumer expenditure, income share of middle class and median disposable income. Commercial Infrastructure weighs 10/100 considering various factors such as broadband subscription, road density, logistics performance index etc. Market receptivity weighs 10/100 considering per capita imports and trade % out of GDP. Economic freedom weighs 7.5/100 considering economic freedom index and political freedom index. Country Risk weighs 7.5/100 considering business risk rating, country risk rating, and political risk rating.

The average is calculated with the inclusion of all dimensions, the overall score is out of 100. Hungary scores 35, Czech Republic scores 37, Croatia scores 30, Poland scores 37, and as a benchmark for comparison purposes, Germany scores 50.

“Funding here in Eastern Europe is so different than in the States, because there is government funding, you don’t have to think so much about the mass appeal to audiences and whether you can get it into the theater, it is more about creating a good film” (N, D. Phelps, personal communication, December 4, 2019).

According to Interviews with industry experts, market potential is the least prioritized variable for weighing the attractiveness of a country. Experts mention that it is necessary to see whether a storyline will be accepted or rejected in a targeted country and it can often prompt rewrite or reedits of the film upon distribution (E. Hooks, personal communication November 20, 2019). Although this sentiment seems to be the consensus, a producer working in Hungary, Czech Republic, and Croatia mentioned that there is always a market for a film whether it is small or large and those markets are still important to provide content for (N, D. Phelps, personal communication, December 4, 2019)

4.2.4. Risk Factors

When producing abroad, generally political stability and other risk factors (macro-level factors) must be considered. However, as the four countries studied in this paper, are all members of the

European Union and are also in close geographical proximity to each other, the expert panel considered “risk factors” to be highly similar, and of minor importance in considering where to produce. In the event that a film company was to assess production in a relatively new member of the EU or non-EU emerging countries, the film producer would find “The Global Risk Report 2019” and the World Bank Group Flagship Report “Doing Business 2019” useful to assess macro-level risks of doing business in that particular country.

On a micro-level, film makers are obliged to complete a risk assessment before any film production begins for insurance purposes. Risk assessments are described as documents a line-producer or 1st assistant director will complete based on any potential risks or anything that could cause harm in a specific film shooting location. This is useful for the production company/producer as they can validate whether or not to add additional measures of control to prevent any unnecessary liabilities (Franklin, 2018). Therefore, it is important to evaluate potential risk factors in a certain location, although risk factors will generally not hinder the film production, unless crew safety becomes an issue as a result of the risks.

4.2.5. Availability of Manpower

The availability of manpower such as talent, crew members and other players in the region will be discussed using information from personal communications with industry experts, Eurostat on employment rates of recent graduates, and number of film schools. The Eurostat on employment rates of recent graduates looks at young people (aged 20-34) and their transition from education to work and their ease of entry into the labor market (Eurostat, 2018).

The higher the employment percentage of young graduates, the greater the incentives for young people to pursue higher learning, and the greater the pool of skilled laborers for the film industry. It is also an indicator of a dynamic economy in the emerging markets.

Low budget independent films are not always able to move abroad to take advantage of the cheaper costs as moving crew is very expensive, which is why connecting with the local players is imperative to cut costs and to gain a larger audience (Iordanova, 2003)

Looking at the Eurostat for employment rates of recent graduates who had found work within 1-3 years of graduating. Hungary with 82%, Czech Republic with 88%, Croatia with 67.3%, Poland with 81.6% and Germany with 88.7%. An overview is provided in table 1 (for comparative purposes).

Drawing conclusions from the overall consensus of interviews conducted, filmmakers predominantly look to emerging markets in Eastern Europe, such as Hungary or Czech Republic, for making films as these regions have accommodating infrastructure and the technical know-how. Acquiring talent and crew members from these regions will not only meet the requirements for government incentive programs, but will also provide technically skilled employees with familiarity of local customs and networks (J, Grimås, personal communication, September 19, 2019). With the knowledge that emerging markets are cheaper to film in than mature markets, it is prudent to mention that more and more of these Eastern European countries have or are building large well-equipped studios that can support the large-scale productions that seek to film in that region (Mazierska, 2010).

Film schools in **Hungary** are found in the city of Budapest. Budapest offers very prestigious options named Academy of Drama & Film (Faculty of Film & Television) and Budapest Film Academy. The number of full-time students in the Academy of Drama & Film is 458, and in Budapest film academy at any given time is 100.

Film Schools in **Czech Republic** are found in Prague and Písek. In Prague, there is the Academy of Performing Arts (AMU), FAMU (the Film and TV School of the Academy of Performing Arts), and Prague Film School. In Písek exists FAMO (the Film Academy of Miroslav Ondricek) which is a private film school. The number of students in the Academy of Performing Arts is approximately 1500, the number of students in FAMU is approximately 300 at any given time divided into BA and MA programs, lastly the number of students in Prague Film School is 80 at any given time. The number of students in the private school of FAMO is a little over 200 including both international and Czech students; it is documented that the employment success rate is 90% (Film Academy of Miroslav Ondricek, 2018).

Croatia has a varied amount of art schools, amongst them Skola Animiranog Filma which is a film animation school located in Cakovec. The Institute of Documentary Film has over 8720 members in their database

Film schools in **Poland** are the Polish National Film, Television and Theatre School in Lodz, The Warsaw Film School, and the GSF Film School. The Polish National film, television and theatre school has 566 full time and 225 part time students split into international and Polish students either doing a BA or MA. The Warsaw Film School has a maximum number of 16 students per specialization; Film Directing & Video Games, Cinematography & Post-Production, etc. The GSF Film School in Northern Poland is a non-commercial educational project that does not require tuition from students and only accepts students every two years.

A shortcoming to the Eurostat data is that it does not provide accurate information on the number of film graduates being hired within three years of graduating, which could potentially have a very different percentage in the emerging markets studied.

4.2.6. Incentives from Hosting Country

“Every time a country puts money into a production, they are putting money back into their own community. These incentives have a ripple effect on other areas of the economy. That’s the way work is generated in Eastern Europe” (N.D. Phelps, personal communication, December 4, 2019)

Requirements for government incentives is varied from country to country. All emerging markets studied have commonalities which is that more than half the production budget needs to be spent inside the country, 30 % of crew/cast needs to be national citizens, approximately 50% of the film should be shot in the country, and a cultural test must be passed (European Film Commission, 2014)

The cultural test that is set by the European Union has a minimum point system that must be met (at least 16 out of 32). The cultural test was designed to promote a “national cultural film industry”, to create requirements for productions seeking aid, and to portray the aiding country respectfully. For instance, the film needs to create cultural value, be based on a story/event based on national

culture, have characters/personas based on or significant to national culture, have imagery of or set in the country of intent, script is an adaptation of cultural work, etc. (European Film Commission, 2014)

Productions from foreign markets going into emerging markets bring technical knowledge, network, and bring investments into the economy. Incentives that are offered by a country add to the local economy in many various ways. For example, if a production company from the UK wants to film in Croatia for a year to create a feature film and are looking for funding then a co-production between the UK and Croatia is created by following certain criteria set by the Croatian incentive scheme. Whatever amount Croatia puts into the film, that money has to be used in Croatia, and the ripple effect is that it generates work for other sectors in the economy such as tourism or service (N, D. Phelps, personal communication, December 4, 2019).

“American films depend on merchandising which is how they make a lot of their money. Europe has a lot of government funding which is how they support their film creation, instead of relying on money from film merchandising” (N, D. Phelps, personal communication, December 4, 2019).

4.2.6.1. Hungary

Hungary offers two forms of film state support which is direct (local films and co-productions) and indirect (tax incentives). All genres made for cinematic release are eligible for support, except commercials, reality shows and soap operas. Either the film is made by foreign filmmakers in tandem with a Hungarian production company or the film is made from a Hungarian filmmaker or in co-production with. The tax rebate accounts for 30% of the production costs used in state, or 25% for non-Hungarian spent of productions costs used in state. In order to gain support from this incentive, the film must pass the required cultural test by the European Union (16 points out of 32 is the minimum, and 2 of the points must be meeting section A’s “cultural criteria”).

With incentives that attract foreign productions being made in Hungary, censorship rules must be considered as many films trying to release in Hungary will result in some not receiving permission to show in theaters (N.D. Phelps, personal communication December 4, 2019).

4.2.6.2. Czech Republic

Czech Film commission is part of the Czech Film fund and a member of the European Film commission network mainly working out of Prague, the capital city. Currently the Czech incentive scheme “on audio-visual works and support for cinematography” offers 20% rebate on qualifying Czech spending, and 66% rebate on “withholding tax paid in Czech Republic” for international costs paid to “foreign above the line cast and crew” (Czech Film Commission, July 2019). In order to gain support, a film must be a feature, animation or documentary at least 70 minutes, fictional TV content (films at least 70 minutes, and TV series at least 30 minutes), or an animated series lasting at least five minutes per episode. In order to qualify a cultural test must be passed on the film’s European cultural and production criteria, the applicant pays tax in Czech Republic with a place of establishment within the country. Lastly, there are a range of minimum spending levels required based upon the format of the content (ex. Feature film, documentary, TV episode, etc.) ranging from 39,329 EUR up to 589,931 EUR.

4.2.6.3. Croatia

Through the Croatian Audio-Visual Centre which is part of the European Film Commission Network, the Croatian government supports film makers and promotes a vibrant creative industry (Croatian Audiovisual Centre, 2019). In order to gain support from this scheme, the film must be considered a co-production within the bilateral treaty or by the European Convention on Cinematographic Co-Production. Productions are eligible for 25 % tax rebate and an additional 5% if the filming takes place in an underdeveloped territory. There are requirements that need to be met in order to receive the incentive, such as; having a Croatian Producer being a creative collaborator, Croatian financing of at least 10% of budget, 60% of the overall budget needs to be spent in state, at least 30% of crew and cast must be national citizens, and 50% of the filming must be done in state (Croatian Audiovisual Centre, 2019).

4.2.6.4. Poland

Poland offers a 30% cash rebate on production costs expended in Poland for Feature films, documentaries and animated productions set in Poland (Polish Film Institute, 2019). The limit for one project is 15 million PLN (3.4 million EUR). If projects meet the requirements that are drawn out by the “ACT on the financial support of audiovisual production and the regulation of the

minister of culture” then they will be eligible for reimbursement from public funds. Funds that are assigned to support audiovisual projects in Poland are from the state budget and are given out until it is exhausted. 10% of this overall budget is kept for supporting animation projects (Polish Film Institute, 2019). This support is eligible for co-productions with a branch addressed in Poland and for Polish productions with proven and adequate experience in broadcasting on TV, distributing to theaters, or attended accredited festivals.

“It is important for Eastern Europe. to get foreign investments to their country. People see it as part of making the city /country more attractive not just for tourists but general business, that there is an increased familiarity with the country etc. you expose the country itself, that is why countries spend money to facilitate that, to attract marginal income.” (P. Barklin, personal communication, December 28).

4.2.6.5. Germany

The German Federal Film Fund (DFFF) grants are based on the guidelines from the German Federal Government Commissioner for Culture and the Media (BKM) and it assigns 75 Million EUR every year to encourage film production. International co-productions can apply for a rebate up to 25%. There are also regional film funds available to support film projects with all types of budgets depending on how much is spent in state (German Film Commissions, 2019). Productions are eligible for the DFFF support if at least 25% of the overall budget is spent in Germany then it is possible to receive a grant up to 20% of the approved costs as long as at least 20% of the financing comes from Germany (Deutscher Film Förderfonds, 2019). If the budget of the film is over 20 Million EUR and the production costs spent in Germany are over 8 million EUR, then it is possible to receive a grant up to 25% of the allocated costs.

In order to receive the support all productions must pass the Cultural test criteria.

As an international producer, there is the option of gaining financial support by collaborating with a studio or post production company eligible for the DFFF and other post production funds. An alternative option would be to collaborate with a German co-production partner.

Germany has national funds and regional funds available to support film productions set in Germany.

The incentives that are offered are not only for the aim of building a country’s economy, but also to bring awareness to their national identity. This is done through the films that are based on

cultural traditions and heritage known in the region (E. Hooks, personal communication November 20, 2019). An independent film may want to target film festivals in the Eastern European region, there, they will find more success targeting the locals' knowledge of traditional books, stories, and/or history/atrocities. If these films find success at the festivals, they are more likely to gain government support for their next film.

Table 1: Variable Factors for Doing Business in 4 Emerging EU Economies

Ranking; 1=most attractive; 4 = least attractive, related to each variable considered

		Hungary	Czech Republic	Croatia	Poland	DE (Benchmark)
Variable	Proxy Measurement	Raw Score and Ranking 1-4				
Production Costs	Cost of Living Index, 100= USA	55.9 (2)	60.5 (3)	63.4 (4)	50.9 (1)	91.9
Ease of Doing Business	Ease of Doing Business (World Bank) ranking out of 190 countries	52 (4)	41 (2)	51 (3)	40 (1)	22
	Corruption : Transparency International's (TI) Corruption Perception Index Out of 100 (0 = most; 100= least corrupt)	46 (4)	59 (2)	48 (3)	60 (1)	80
Market Potential	Market Potential Index rated out of 100: Incl, market size, market intensity, market growth rate, market consumption capacity, commercial infrastructure, market receptivity, economic freedom, and country risk (Global Edge, 2019)	35 (2)	37 (1)	30 (3)	37 (1)	50
Incentives	Cash Rebate on spending in-state	30% cash (1)	20% cash (3)	(2)	30% cash (1)	<25% cash (2)
	Tax Rebates	30%	20%	25%		
Risk Factors		(1)	(1)	(1)	(1)	-
Availability of Manpower	Eurostat for employment rates of recent graduates.	82% (2)	88% (1)	67.3% (4)	81.6% (3)	88.7%

5. Conclusion

Generally, a foreign film production seeking to cut costs on their production has two questions to consider: where is it possible to ultimately and accurately set the story, and which location will facilitate the cheapest production? Some films will utilize a location for brief inclusions and some will be situated in that location for the long-term - with each option, their production will impact that countries' economy for the better.

In an attempt to answer the research questions presented in the beginning of this paper, three conclusions can be offered.

The first question was to find what the most important benefits that a film production company from a mature market could expect from operating in an emerging region. The conclusion was that the most important benefits would be that foreign film productions can take advantage of the cheaper costs, skilled labor and talent, beautiful scenery with rich heritage, and government incentives which offer film productions rebates on expenses used in their country as long as they co-produce with a native company.

Secondly, this thesis sought to find the most significant disadvantages of making films in the emerging Eastern European markets studied. The result was that significant disadvantages are difficult to pinpoint as they are particular to every situation. However, if a foreign film production does not plan to co-produce with a local player they will meet challenges with the language, cultural understanding, legal frameworks, and they will limit themselves in making networks with other players that may prove to be necessary in production, such as creative companies and auxiliary services.

Finally, the question of whether it is equally attractive to produce films in emerging Eastern European markets, for all types of film projects, was the hardest to answer. Through the data provided in table 1, Poland proved, overall, to be the most attractive market, in terms of the variables defined, when compared to the other markets studied. However, as different types of projects (i.e. big budget vs. independent) will weigh the variables differently according to their needs, the question cannot be answered with a simple yes or no. The future research section will elaborate on ways in which this question may be answered in further research.

5.1. Conclusion for Institutional Promoters

Film production activities in emerging markets, and tourism associated with marketed films, will increase economic activity in the host country, providing positive impact on the local economy. Service, hospitality, and private transportation sectors will all see boosted activity due to the growing number of visitors, need for auxiliary and transportation services that come along with film productions such as accommodations and transportation for crew/cast, equipment, catering services, and mobile lodgings.

In addition to impacting the auxiliary services, productions will utilize domestic creative companies for ease of doing business. For instance, creating co-productions with local film companies speaking the local language and who have relationships with various people, locations, equipment services, insurances, etc. This is a recommended path for any foreign film company seeking to increase their chances of success within the emerging market. It would be prudent for film production companies from mature markets to remain in the host country for a longer period of time, should they choose to enter an emerging market in Eastern Europe. This is recommended as long-term relationships with auxiliary services and local players create for more fruitful films being made in that region, and for a percentage of the regular cost “back home”.

Thus, the governmental incentives and city support for foreign film productions is rational and this paper has explored various ways in which countries have chosen to implement supportive efforts for the established film industry. The viewpoint is that this will continue to grow and become more nuanced.

5.2. Conclusion for Film Professionals

Film professionals from mature markets may look to the emerging markets in Eastern Europe to take advantage of the low costs and skilled labor present in that region. Additionally, film producers from mature markets can expand their distribution opportunities by tailoring their film to the niche of the host country’s culture, increasing the potential relevance to the intended audience. Moreover, film professionals can increase their creative network by forming long-term relationships with local players. This is beneficial as local partners have a knowledge of the language and culture but also the legal frameworks of operating in their country. Furthermore, familiarity with the locations offered, ability to navigate government grant systems, and the newly

created studio services with the newest technologies offered by certain emerging markets act as a benefit to film professionals seeking to collaborate in that region.

A disadvantage that may present itself to film professionals seeking to operate in these regions is the increased transaction cost of work visas, additional licenses, insurances, and unforeseen risks. Finally, cultural and language barriers might present themselves as hindrances to effective project development, therefore a local partner or co-producer is a recommended mitigant to this issue.

5.3. Limitations and Future Research

Firstly, primary and secondary data sources were more difficult to obtain than originally anticipated which proved to be a limitation to this multi-country comparison. Four emerging East European countries were studied, but with more time and greater access to data, more countries would be included into the sample to give a more thorough analysis of the possibilities.

The aim of this thesis was to have a larger sample of interviews in order to gain a deeper and more critical perspective on the emerging country that adds the most value potential. Due to the limitation in time and the number of respondents, the intended five interviews became four.

The Delphi method is a conceptual research framework used for forecasting, based on the results of several rounds of questionnaires. The original intent was to utilize the Delphi model to develop consensus; due to time limitations, however, the feedback round was only available from two of the four panel members.

Through this research process, it was discovered that funding and distribution are often tied together. However, as distribution was too large of a subject to tackle in this study, the scale of the discussion was abbreviated. Future studies could investigate this aspect more thoroughly.

Throughout the course of this thesis, a certain lack of significant research within the field of the film industry became apparent especially in Eastern European emerging markets. Considering that the film industry is generating activity for the global economy, as well as being impactful on modern pop culture, there is still a lot of research that could be done to elaborate on business

practices and market conditions in various geographical regions. For instance, during the course of the study, the necessity for co-productions between foreign companies and local players became evident as a key method for determining market entry into emerging markets. This is a management challenge that future research could explore in more depth.

In the film industry literature, the “impact on practice” has not been analyzed like in other industries such as consumer goods, and the research dealing with business aspects of the film industry is lacking. Current film-related research deals predominantly with cultural aspects of film, rather than business practices. It would seem desirable that industry leaders and researchers make more efforts to develop concrete knowledge on business “best practices” for future generations, and provide modern data-driven models for entering new markets. There is a lack of forecasting models for success, which could be developed by industry leaders or global consulting services, based on script quality, talent availability, location ratings, etc. Ultimately, the lack of extensive and comprehensive studies on emerging film markets does not adequately prepare entrepreneurs and film production firms to take full advantage of the burgeoning opportunities offered by doing business in the emerging markets of the EU.

6. References

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7. Appendices

Appendix 1- Expert Interview

Subject: Jonas Grimås.

Position: Film & Television Director

Phone Interview: 19.11.2019 - 20 minutes

I go where the work takes me, but deciding on where to shoot the film decides on where the story would work best. The world is becoming a smaller place, you end up with people coming from different places. They make friendships in school, then when they are going to film they choose a place where they have friends and a network. A lot of students are going to Budapest because it's quite cheap. Stories is always the first consideration; would it work to film it somewhere else.

Where can I get It made?

The first gateway there; network and who you know. If they like the story, are they excited by it?

The emerging markets in E.E- they have the high end of stuff in Czech, Hungary, because they have a good infrastructure and they have the know-how. Big productions go to E.E. for the technical skills and locations, and what the locations offer. Production costs are important when going to a place, as well as the network.

Romania is hot at the moment. They want the industry.

Incentives/ local support is a very important consideration. Money is important.

If you can save money then you can spend more on what is going on the screen. It's above the line cost- try to bring them down: make films cheaper to make and put more money on the screen.

London is very difficult to film because of all the costs and restrictions they put on us.

These e.e countries make it easier to. Move there for productions because its' easier and there are not as many restrictions. They are pushing filmmakers away into the emerging markets because of their native restrictions. As soon as something gets established it changes again- it's a changing landscape. As soon as something is established, It's gentrified – they start changing more. You never know how long it will last?

Ex. Scandinavian broadcasts are moving to the baltic regions. Those regions want you to invest your production there. Its becoming universal.

VOD platforms are taking over: high profile productions are all going through netflix, amazon etc. they have a lot of money and are making so much content.

The film making process has become democratized. Anyone can make a film through all new technological innovations. Its water divided; you have many expensive productions, and many cheap productions. The gap is increasing between high end and low end and everyone fights for distribution.

I was a supervisor for students in Eastern Europe. Students go there because they come from there and have a network in those regions. The Motivation is familiarity and their network.

People go to school in London then go back to their country to have their national identity & to make films there. E.E. want big productions, they want the money

There is still another market in that nation for independent films because they also want to be part of the industry and meet consumers in festivals.

To cut costs on production is great for the filmmakers but Making a profit is where the challenge lies.

If productions are moving from mature markets to emerging ones, it can bring technical know-how, network, bring investments, hopefully the rest of the world will open their eyes to indigenous productions.

Ex. Films from Sweden didn't travel that well because they were culturally specific, or because of their subtitles. I did an anglo-swedish production to distribute in England. Before they did released, they screened the classic shows that were based on this Swedish topic, which opened the floodgates to what they wanted to distribute. Suddenly the world, thought "maybe were missing something"- their curiosity was formed. Hopefully it will happen in E.E. because there is a lot of talent there. Majority of cinema distribution is owned by big production companies. Owners of cinemas in the U.K are not film lovers but business men- you are lucky if you get your film distributed in England, they stick to their big budget films that guarantee to make money.

It's becoming more and more polarized between these big budget films and the smaller independent ones. Independent films still have a huge audience. There are two cultures that are becoming clearly defined with the years. We don't know what will happen in the future, because the industry is changing constantly.

Appendix 2- Expert Interview

Subject: Nancy Denney Phelps.

Position: Animation Producer & Critic for Animation Network

Phone Interview: 04.12.2019 - 25 minutes

Eastern European films are being made for the European market not for the American one. They find more success that way and they don't want to make films for the American markets. They are not interested in being Disneyfied. They have their own interests, style, tradition, films play in theaters and television in Europe. The Oscars nominate one film a year in the short animation film category, we know it's not going to win, it's a token film. It doesn't win because of the Disney/Pixar voting bloc, they buy a voting membership for everyone they can. Hollywood studios buys every one of their members an Ani membership & CEEFA membership, that's why CEEFA Hollywood is the largest chapter, so they can vote in a block for their own films once a year. A European film is not going to compete against that, most European animation makers that qualify for the Oscars, don't have the money to do the full-blown campaign to win the Oscars. The EMIL in Europe has started as a counter to that. That's how they compete in Europe. Theaters hit the niche markets in E.E. not like in the states. American animation depends on merchandising which is the main difference between them and Europe. They make a lot of their money that way. Europe have a lot of government funding which is how they support their film creation, instead of relying on money from merchandising. First you have to get the film made, there are many co-production opportunities in Europe, many films are based on books and traditions that are known to the region. Polish animation, it's so strong and wonderful. If you have success at a film festival in Europe, you are very likely to get support for your next film.

Funding here is so different than in the states because there is government funding, you don't have to think so much about the mass appeal to audience and whether You can get it into a theater it is more about creating really good animation.

National film board of Canada does a lot of co-production with European films. European animators don't want to go to the states. US animators can come to Europe for co-productions because they won't give co-production money to the US .

Incentives do in turn add to the local economy. Everybody likes money, if money comes into the community that's good, if someone can get a long-term job that's good. But there isn't that much of that. They think about putting the government money together. Say you are doing a Belgium French co production, say the producer and director are in France. However much France is putting into that production, that money has to be used in France. Every time a country/government gives money to a production, they are making money back for their own people. That's a way that work is generated in Eastern Europe. These incentives have a ripple effect on other areas of the economy. They want to make the money back, but also they want really good films made in partnership with their country. There is a segment of the population that goes to see frozen, people want to see European animation like the "Cat of Paris". It's not a children films, it's an adult animation. There is becoming a larger trend for adults to watch "adult" animation. Most countries in E.E. offer most to foreign productions but Hungary has many limitations especially with censorship. When considering to film in a certain location, you want to make sure there is a studio that can support you as an independent filmmaker, then after the film is made, that's when you pitch to get It distributed.

Appendix 3- Expert Interview

Subject: Ed Hooks

Position: Acting Professor & Producer

Phone Interview: 20.11.2019 - 59 minutes

What you want in a film is different cultures talking to each other. And that's the challenge. 2 challenges: 1) how to pay for your film 2) how to break out of your own culture. I've taught in over 35 countries and I see this all the time. Creative people have a difficulty talking with others outside their own culture. How do you develop the entertainment industry? What needs to happen is that they need to break out and talk beyond the borders.

There is not enough money within the market and the only way to keep doing it in the market is with government funding. They can't make projects and pay for themselves. If you wanted to make a movie and you were in Slovakia, you're going to look around and see who has the money and then tailor make your film to who has the money, that's what you're going to do. Instead of doing what Tolstoy says which is to have a perspective on some subject, something where you are communicating your values your emotions about a topic to people. That's the primary thing, first you need the story, you need the impulse to communicate, then you come up with the way to pay for it. In my mind- It's backward in Eastern Europe in my experience. You are lucky if something is made that will travel . All it does it goes into the festivals. With my colleague in Eastern Europe she says that the artist focus on making their art, that Hollywood is just about the money and that's not what it's about. It's very hard to make people deal with universals, they have tunnel vision. For example, religion often doesn't travel well, because all audiences can't relate. The Movie coco, is about the day of the dead which was allowed to happen by the catholic church, but nowhere in the film does it mention the catholic religion. The budget often reflects the scale of the film. Disney and Hollywood is referred to as an 800 pound gorilla, and in E.E A misunderstood 800 pound gorilla. People that have money, look at how successful some of these big companies. But they don't understand how those big companies are making money. They aren't making it from ticket sales. It used to be before the internet, a movie had to make 5 times its cost to break even. They gave up that formula in Hollywood a long time ago. They are going

to make money on merchandising and franchising. It's called a tent pole, where you make money in other areas with the product. You make a sequel, a stage musical on Broadway, the posters and products, then a television show etc. E.E. cannot copy the Hollywood business model, the government is different, the culture is different, the philosophy is different, they don't believe in free enterprise. You cannot tease this apart, it fits into a blog, that informs the answer to your questions. How will the entertainment industry evolve. It will evolve slowly, the model needs to change. In the beginning, the word art came from "artisan", they made something and then sold it. I don't think the hope for profit is best reason enough to make something. Disney has sold out now, they will put anything out there as long as it feeds the "tent pole". Films used to represent Walt Disney's wholesome values and how he believed it reflected American philosophies, now its changed. Disney and Comcast, own 90 % of the entertainment industry now, owning most of the market. They are trying to adapt to the current in the industry. They have two options and that is; to make content themselves, or to buy it. Disney has such big pockets, so they can buy the content, the bought libraries of old films, and they produce their own stuff. Netflix is producing an increasing amount, they just took on another 2 billion dollars in debt, they call it content. The commercialization of it all, they call it content. When something gets through that you would consider worthwhile art, most of its chewing gum, the flavor doesn't last long. For independent filmmakers they can make money. When I first moved out to Hollywood, it was only stage resume. I went to the American film institute, and sat in on classes and it was so instructive. The students that came out of there, had already graduated from films schools and film festivals. I teach acting for animators, what I do, everything I teach is pinned by evolutionary psychology. Not just teaching technique but why it is the way it is. That all humans are the same. I try to teach them universals. We all are born and die. We are joined together by a drive to survive and immortality. Humans are the only animal that can contemplate our own mortality. People are afraid of death inherently. If you want to make stories that break out of the confines of Eastern Europe, you're going to have to deal with universals. Things that all humans have in common and take out things that don't. You are going to have find ways to screen your movies. Know that if you feel strongly to keep things that are not universal, then you should know that your distribution is limited. It's about consumers may not understand it, or they consider stereotypes in a negative way. Often in Asia, a film will not be screened or blocked because it offends their culture or religion. You have to go with universals, what we have in common. Language itself,

they save, developed in order for us to tell stories. We are story telling animals. We are the only animal, that can pretend in juvenile play that we are something else. In evolutionary history, everything has a purpose, thumbs, nails etc. so what purpose is it that we can pretend we are someone else. We learn our survival strategy through stories not direct experience. And the reason is because of our huge brain, and we can contemplate our own mortality. Humans, we can contemplate our own mortality, therefore we have to worry about politics or threats etc. we have to worry about a lot of things beyond how to find food.

How to break out of eastern Europe, they need to address what is universal in all of us.

Politicians will tell us why we're different. Artists need to tell us how we are all the same. I believe the secret to the growth of art, is in the development of this shamanistic sense of the arts. When artist say they have a job, which is to look at death and life like a priest and come back and tell the tribe what they saw. Yes, your projects need to pay for themselves otherwise you can't keep doing it, so you have to have one eye on the cash register, but the cash register should not be your master that's not the reason to do it, also why you don't want to copy Hollywood.

Because Hollywood's master is the cash register. The era mark of success is if you make money. I look at this in a global way, I see the west actually in decline, the decline is heading toward where ancient Rome was. Huge deficit, philosophically a mess. What's doing to replace this? I believe the world needs artists right now. Your strength and your curse as an artist is that you can see what others don't and it can feel lonely. I believe If you can do this, financial success will follow. You need artist speaking with each other from their own "tribes" or cultures. But to get to here and there, you have to deal with the cultures. How do I get a government grant, then you look at the history, what have they done in the past, then you have tinkered with your project in order to get the money. Labors of love are often the first movies that directors make, and these filmmakers were not going to go to the government back then, they would sell the mother in to slavery in order to get a movie made.

One thing is how to developed talent from within E.e. another thing is how to deal with American /British film companies that want to shoot in Croatia, so they give incentives, rebate production budgets and tax rebates then that's when the visiting companies are coming in. It's not necessarily developing talent from within. But check how much talent is coming out of these places they are talking to an echo chamber, its cultural. People don't always want to go into a

different perspective. People are culturally closeted. There is a distance when you travel from culture to culture, and Artists have to break through this.

Appendix 4- Expert Interview

Subject: Peter Barklin

Position: Investor at Cimid SA

Phone Interview: 28.12.2019 - 20 minutes

Both things such as various incentives, tax schemes, etcetera in our mind is always very important, but they don't substitute for that the fundamental business idea itself is sound. So they can help tip the scale, but the basic business idea needs to be sound in the first place. For investments it has to be a sound investment in itself, then you can say an incentive in terms of cash, or tax schemes will be a sweetener, but never in itself be fundamental. And that goes for film industry or any other industry. What classifies a sound investment is basically the return on investment needs to be good and it also means depending on the risk, of course the discount factor for the NPV, sometimes needs to be adjusted. Of course your discount rate and Net present value can be helped by various incentives but the business idea needs to be sound in the first place. That is the problem with the film industry in the first place, is that film projects are notoriously risky because you don't know how much sales or distribution etcetera that you can get and that is why you have these two general business models. You either have these large and very large integrated players that have full control over the project from when they buy the script and all the way to distributing the project in various channels. They have custodial control over the whole thing except maybe the creative side, which even they can dictate to who writes the script. Or there is the independent film where you have these small entrepreneurs who take on the risk themselves, and for them, a lot of the time they don't make money or they go bankrupt. Risk factors, are converted into financial risk, especially Eastern Europe. Although some countries will have a larger premium, but it is because of the long-term, for example properties or factories. But when we speak of Eastern Europe, as part of the EU, it always comes back to the financial

aspects. Big budget vs. independent. I am much more likely to go with the people who have the experience and can guarantee a financial return. When you go with a big player, what you do is diversity out the specific project risk as opposed to the independent where it is feast or famine. As a serious investor i would rather go with the safety rather than playing the roulette. That is the big problem with these films that they so inherently risky and it has nothing to do with the production takes place. It has something to do with the fact that they don't know if they can sell the product or not. The motivators for moving from a developed market to an emerging one, the issue is co-production opportunities or distribution or if the storyline can be culturally adapted and you can save some money. Sometimes you can save a lot of money by shooting in E.E. but can the location be adjusted to fit the story line? Why is it that France, UK, Germany are the biggest countries for film production? Well they are the countries with the biggest viewer market in europe. These things tie together. Cost is important, but it is not the only thing. It is much more important that you have a storyline with integrity and that there is a hook up with distribution. It is important to tailor make the script for a specific viewership and there are many ways to do so. You can film in a certain location, or hire people from there (crew or talent) and through that you might have gained that certain credibility you wanted or needed. Mitigating risk, it all starts back with your assessment of risk, you use a different discount factor, if you invest in property in london, you may be happy with a slightly lower discount factor, if you go to Lithuania, you want to have a higher discount factor. You do it conceptually very quickly, saying that there may be more risk with a certain business. The other way to do it is having local partners that have skin in the game. Local partners offer an insight into how things are done, they offer things like language or cultural understanding but also legal understanding. EU is changing but the understanding of local laws is so useful not just for the film industry but all industries. You can hire people from there for your project even for the parts that dont take place in E.E. Europe is very integrated, so you can even hire students from that country even when your not operating there at the time. The hiring decision doesn't need to just be in the country, you want locals but it can also impact other business decisions.

It is important for E.E. to get foreign investments to their country. People see it as part of making the city /country more attractive not just for tourists but general business, that there is an increased familiarity with the country etc you expose the country itself, that is why countries spend money to facilitate that, to attract marginal income. For example, we had CNN visit the

city of copenhagen and it was basically free advertising. Good films shot in your country can be worth alot, especially if it is a good movie that made a lot of money, it's free advertisement. As a businessman, There is a lot of risk with putting up a fixed investment, for example building large studios to facilitate the likelihood that big budget films will come there to shoot in anticipation of variable income. Cost is always an issue, you have to be careful that you are not penny wise and pound foolish. This is why when it comes to film, many of the cutting cost decisions are related to the distribution decisions. I think they go hand in hand, you cannot isolate them: saying that E.E. is a good or bad place to film, it depends on afterward, if you can generate actual revenue. Film is so project based even with the last integrated production companies and players, such as netflix, you are making those decisions and you are making them based on how much will they be able to contribute according to revenue and eyeballs. There is a lot of good business to be had in Eastern Europe.