



## Investing in Motion Pictures

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You've made it into the entertainment industry; a mid-sized production company has hired you. Of course, getting in the door is only half the battle. Your responsibilities require you to select a movie for the company to produce. The assistants reading scripts have helped you narrow the field of hundreds of potential projects to just three:

### **The drama**

Readers have classified the first project for consideration as a drama. Their executive summary of the plot reads as follows:

The woman. She's beautiful, and seductive, and as shifting as a shadow. Her name, her appearance, and her victims are forever changing. There is only one constant in the woman's life: her chilling motive...

A private investigator, driven and obsessed, a desperate loner with secrets of his own. His job? To follow the women. But catching her is the last thing on his mind. He likes to watch. And the closer he gets, the more dangerous his fantasy becomes...

As the web grows deeper, his mental anguishes from past experiences haunt him. Is he in too deep or can he stop himself, subsequently stopping her?

The project proposes to bring together a set of relatively inexperienced but potentially talented parties. The proposed lead actor has appeared in 9 films, and has already won several minor awards for his work. His box office appeal, however, remains uncertain: he has only played the lead in two films, grossing \$4.3 million and \$16.5 million respectively in U.S. theaters. The potential female lead has appeared in 11 films, has been nominated for both an Emmy and a Golden Globe and has won a couple of prestigious minor awards, but she has never played the lead in a film released in theaters. The director, who has also written the screenplay, has only one U.S. released theatrical credit to his name, which grossed \$11 million. On the positive side, the director has adapted the screenplay from a novel that received excellent reviews; the New York Times called it "One of the most remarkable combinations of a private-eye crime novel and psychological suspense story... that has ever been published.

Classified as a drama/thriller/mystery, the movie would almost certainly receive an R rating from the MPAA given both the prevalent sexual content and violence in the screenplay. The project has an estimated cost of \$15 million.

### **The comedy**

The second project is a comedy, and the readers have once again produced a synopsis of the plot line:

The lead character has just escaped from prison and wants to get revenge on Craig, who helped put him there in the first place. To hide out, Craig leaves his home in the inner city and goes to live with relatives who, after winning the lottery, now live in a predominantly white suburb. They proceed to have a series of misadventures that make life in the ghetto look relatively safe.

The film, oriented primarily towards an African-American audience, proposes to cast a popular rapper, who also wrote the screenplay, in the lead role. He has had one modest success as the lead in a action/thriller that grossed \$65+ million in the U.S. box office. To keep the budget down, however, the rest of the cast is filled with unknowns; for example, the proposed lead actress has only appeared in three films, in minor parts. The director also has no experience in Hollywood. You have estimated the costs of production to be roughly \$10 million.

Strong language in the script virtually guarantees an R rating. And the lead actor/writer refuses to consider modifications that would tone down the language arguing that a PG version just wouldn't seem authentic to the intended audience.

### **The children's movie**

In addition to these two mainstream projects, your assistants have also included a children's film in the final set. Drawing on the characters from a popular children's book, this script proposes new adventures for one of the supporting characters in the original book. An animated treatment, the script has the character (a tiger), roaming through the forest in search of his family.

Although other adaptations of this popular book have appeared on the silver screen, these versions have all been shorts, opening for other animated features. Despite market research indicating that audiences have enjoyed these shorts, it remains to be seen whether the characters have sufficient drawing power to open on their own. Also, since the original shorts appeared with Disney movies in the 1960s, the appeal may have waned over the intervening three decades.

Computer animation techniques have reduced the expense of producing this type of film, but a conservative estimate still places the costs in the range of \$20 million.

### **Making a choice**

Your budget (and your limited time) will only allow you to pursue one of these projects. Moreover, since you have no track record in the industry, you really wish to maximize your odds of establishing a good reputation for picking and producing projects by selecting a winner. Nobody really knows what makes a particular movie successful, but you thought that you would see whether you could put your MBA training to work to handicap these projects.

**Exhibit 1: Box office by genre**

	Children's	Comedy	Drama
Mean (U.S. box)	62,700,000	12,600,000	8,570,000
Std Dev (U.S box)	55,000,000	27,400,000	25,100,000
1 <sup>st</sup> decile	2,090,000	24,000	6,000
2 <sup>nd</sup> decile	10,400,000	95,000	17,000
3 <sup>rd</sup> decile	14,100,000	286,000	46,000
4 <sup>th</sup> decile	21,300,000	728,000	129,000
5 <sup>th</sup> decile	53,700,000	2,330,000	331,000
6 <sup>th</sup> decile	92,600,000	6,030,000	784,000
7 <sup>th</sup> decile	101,000,000	9,900,000	1,930,000
8 <sup>th</sup> decile	113,000,000	16,700,000	6,510,000
9 <sup>th</sup> decile	154,000,000	30,200,000	23,800,000
10 <sup>th</sup> decile	163,000,000	161,000,000	216,000,000
Number of films	11	90	157

Source: Variety.com

**Exhibit 2: Box office by rating**

	G	PG/PG-13	R
Mean (U.S. box)	55,500,000	35,200,000	11,700,000
Std Dev (U.S box)	62,700,000	44,000,000	26,400,000
1 <sup>st</sup> decile	58,000	98,000	14,000
2 <sup>nd</sup> decile	8,190,000	553,000	38,000
3 <sup>rd</sup> decile	10,600,000	2,720,000	215,000
4 <sup>th</sup> decile	14,100,000	7,910,000	785,000
5 <sup>th</sup> decile	19,400,000	13,100,000	1,780,000
6 <sup>th</sup> decile	53,700,000	25,600,000	4,550,000
7 <sup>th</sup> decile	107,000,000	50,200,000	8,310,000
8 <sup>th</sup> decile	129,000,000	69,800,000	17,500,000
9 <sup>th</sup> decile	163,000,000	106,000,000	32,900,000
10 <sup>th</sup> decile	163,000,000	183,000,000	216,000,000
Number of films	8	96	189

Source: Variety.com