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# How Should a Film Studio Invest Its Capital?

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# The Global Film Industry

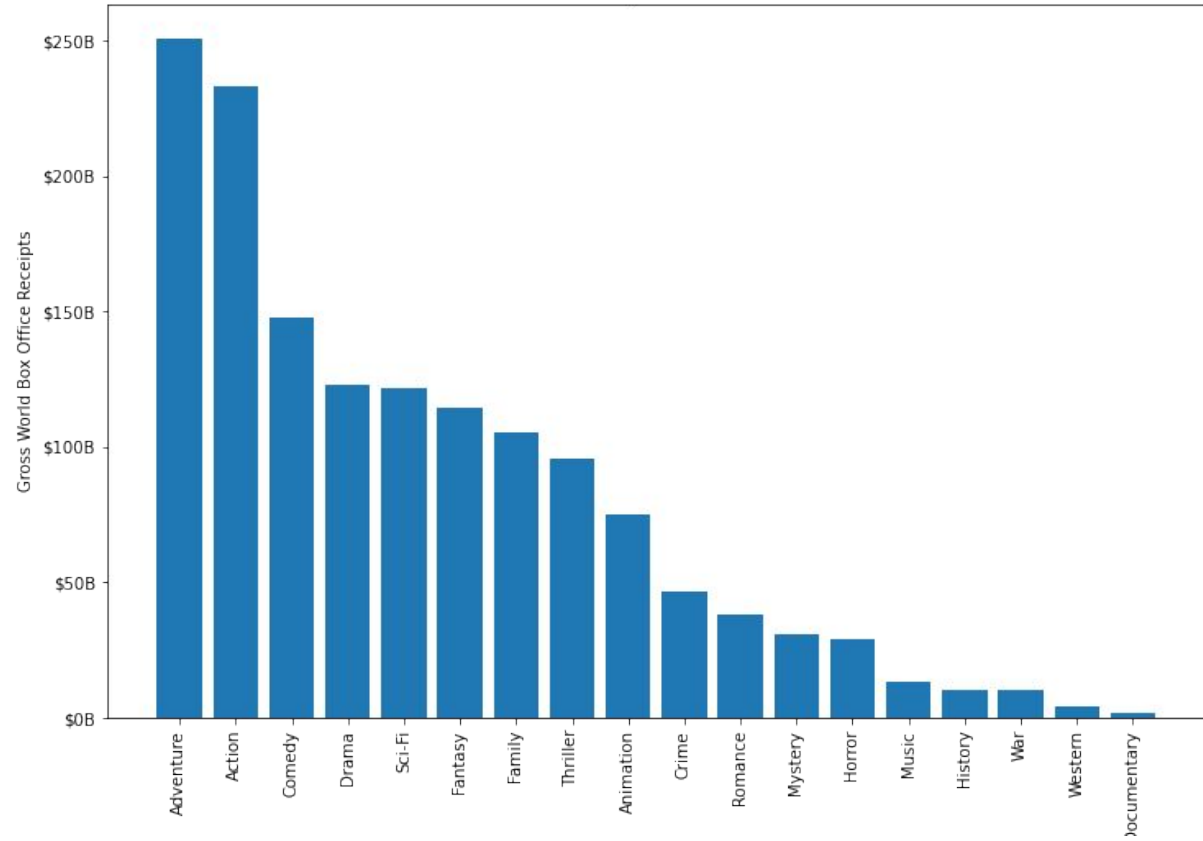
- The global film industry grossed over \$425 Billion at the box office between 2000 and 2020.
  - Relative to production costs, this represents a global return on investment of 181%
  - A new studio can beat this ROI by identifying the most profitable categories of investment within the industry and allocating its capital accordingly.
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## Looking at Market Size by Genre

- The market for movies is segmented by genre–Action, Adventure, Drama, Comedy, etc.
  - There is a different level of demand for different genres of movies.
  - So, in determining how to allocate capital, the first thing we need to look at is the overall size of each of these genre markets. This will identify an upper limit for investment once we identify which markets earn the highest returns.
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World Gross by Genre 2000-2020

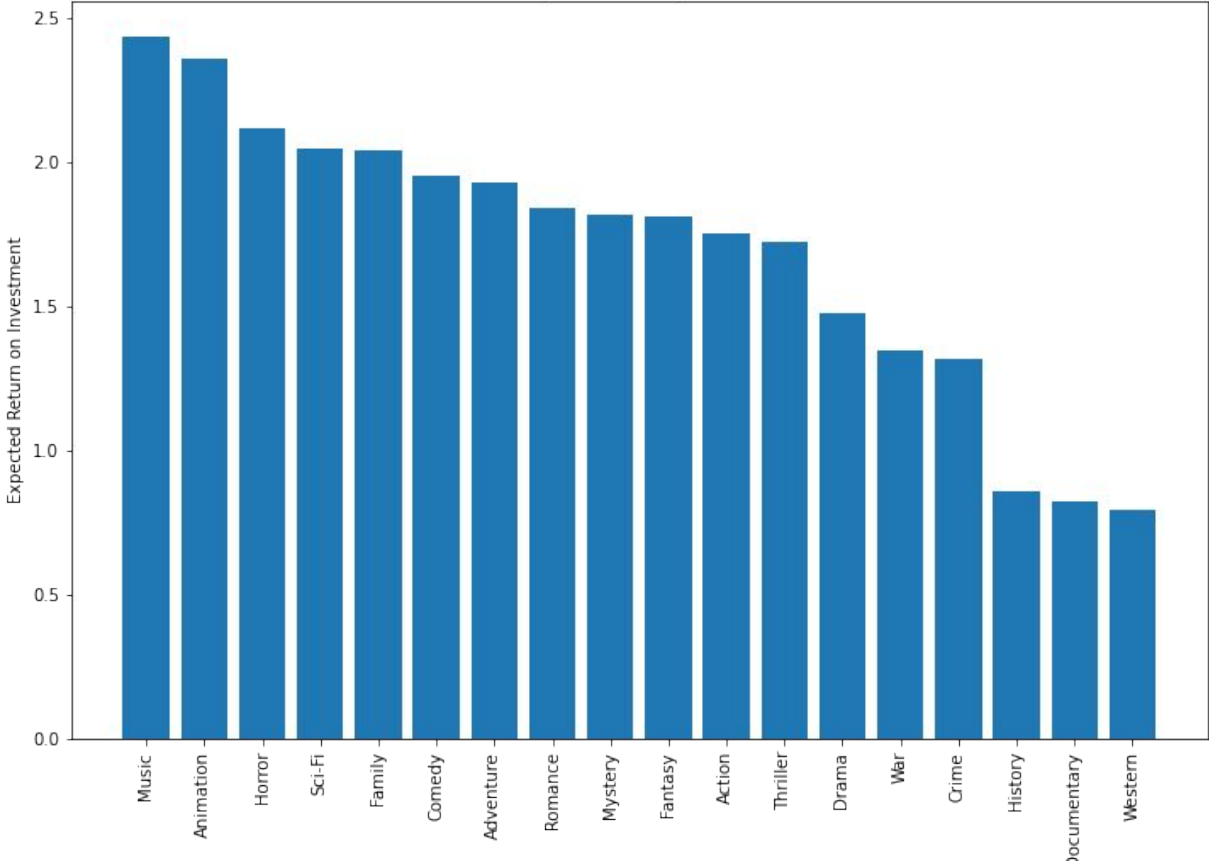


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# Looking at Expected ROI by Genre

- Return on Investment tell us how many dollars in profits we should expect from each dollar of investment.
  - In the next slide, we look at Expected ROI by genre based on production costs and global box office receipts.
  - Genres with high Expected ROI represent good opportunities for investment, but we still need to keep in mind overall demand.
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Expected ROI by Genre



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## Allocation of Capital by Genre

- Music and Horror both beat the industry's overall profitability with ROIs above 200%, but they represent only 2% and 6% of global box office sales.
  - Adventure movies have only average profitability, but make up 60% of global box office sales.
  - While we want to tap into the profits that can be made in smaller genres, we need to direct most of our investments towards movies that capture the largest share of total profits.
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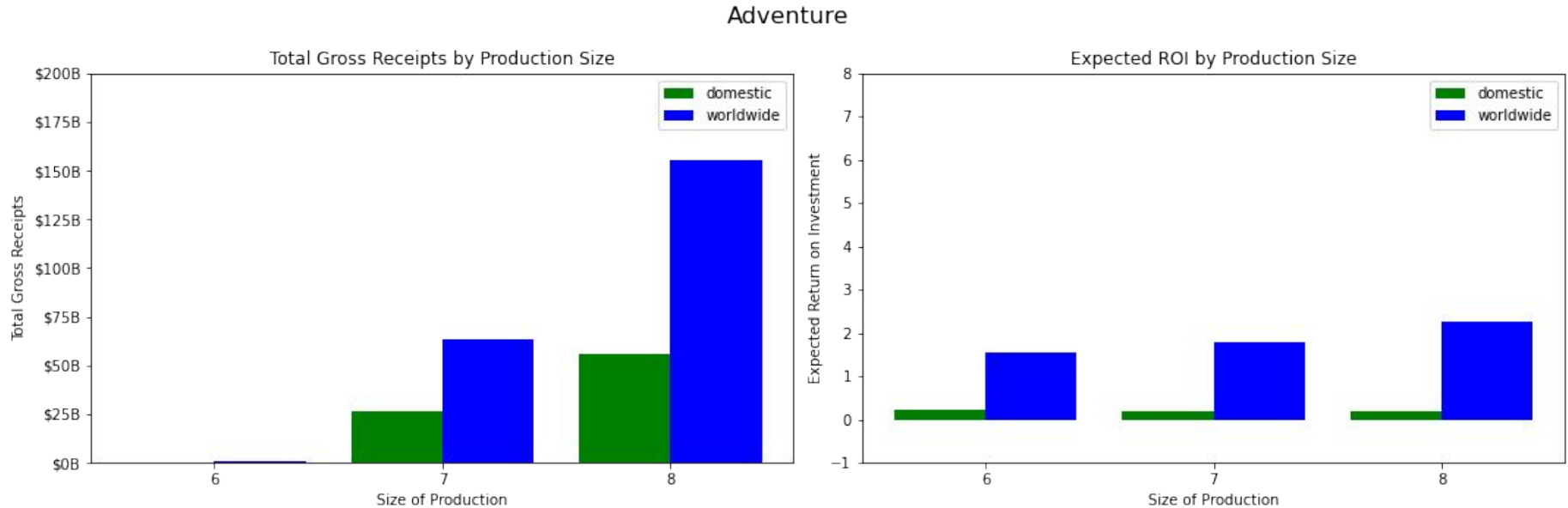
# Profitability by Production Size

- We just examined the allocation of capital by genre.
  - Our next question is: within each genre, how big should each production be?
  - When do we see increasing return on investment?
  - When do we see diminishing return on investment?
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# Big Productions Dominate, Increasing ROI



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# Adventure and Action

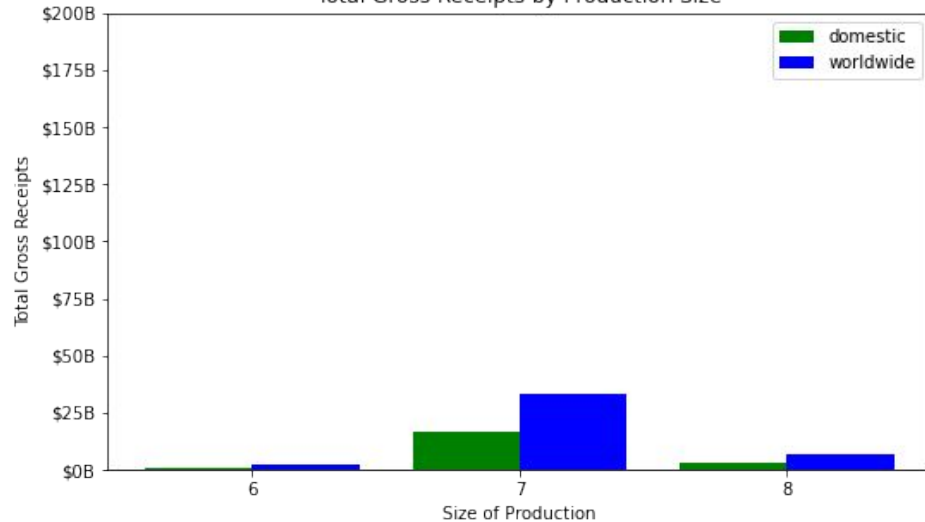
- In the Adventure and Action genres, big budget movies dominate the global box office.
  - This means that despite their high production budgets, they have a higher Expected ROI than their medium budget competitors.
  - Studios are smart to spend so much money on them, since increased investment corresponds with increasing returns.
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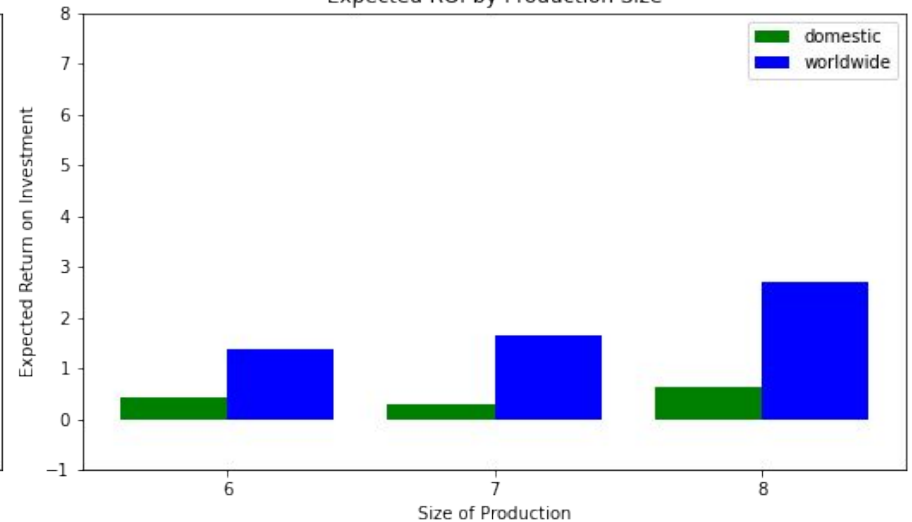
# Medium Productions Dominate, Increasing ROI

Romance

Total Gross Receipts by Production Size



Expected ROI by Production Size



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## Romance, Comedy, Drama etc.

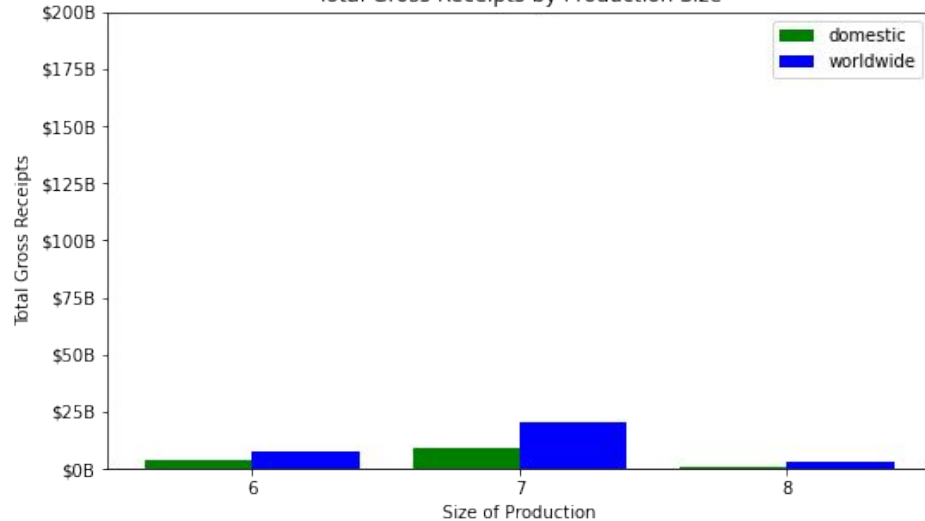
- In genres like Romance, Comedy, and Drama, big budget productions are the most profitable but make up a small share of the market compared to medium budgets.
  - This suggests that few studios attempt to leverage big budgets in these genres into global box office success.
  - But the ones that do tend to be successful.
  - This should encourage us to spend more on fewer productions in these genres in order to maximize profits.
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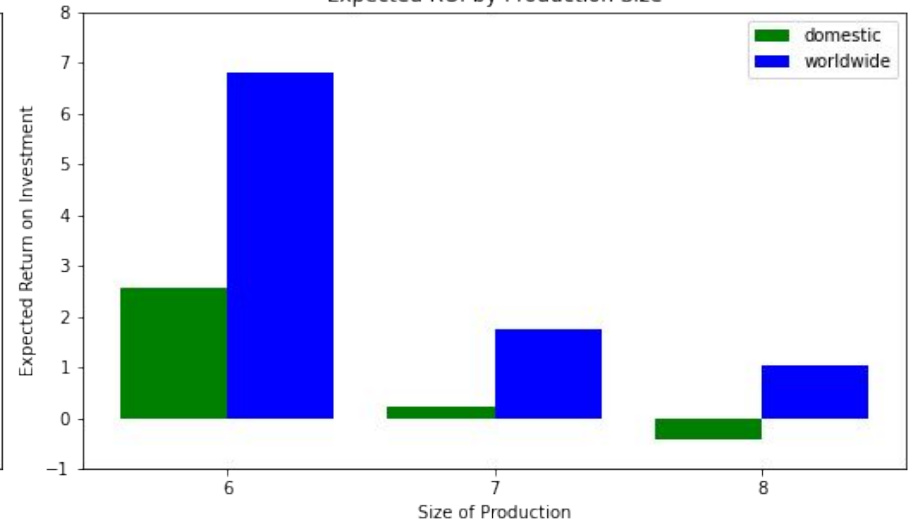
# Medium Productions Dominate, Diminishing ROI

Horror

Total Gross Receipts by Production Size



Expected ROI by Production Size



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# Understanding Horror (and Mystery)

- Horror and Mystery are both small markets.
  - However, some of the most profitable movies ever made (e.g. The Blair Witch Project and Paranormal Activity) are low budget horror features.
  - The high ROI for low budget horror means that the modest performance of most low budget films in this category is more than made up for by the astronomical success a few big hits.
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# Investing in Horror (and Mystery)

- In a competitive market, investing all our capital in a small number of projects can be risky.
  - In the Horror and Mystery genres, we should invest in many small budget projects rather than in a small number of big ones.
  - The more projects we invest in, the more likely it is that we'll achieve the high Expected ROI for producing low budget horror.
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# Conclusion

- We've determined that Adventure and Action dominate the global box office and should therefore receive the greatest share of investment dollars.
  - We've also determined that for many genres, it's better to invest more money in a smaller number of projects, while for a few genres it's more profitable to invest less money in a greater number of projects.
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# Thank you for viewing my presentation!

- For more detailed analysis, please see the Github Repository for this project, located at:

<https://github.com/DavidKRichter/dsc-film-project>

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