

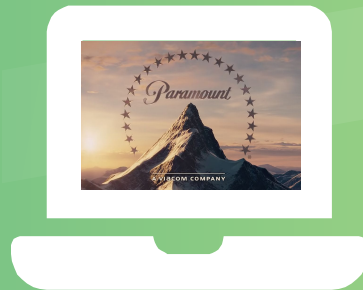
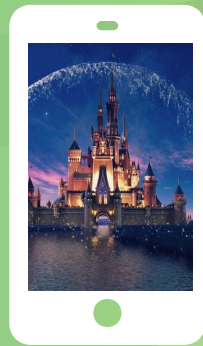
# The Winning Formula



Christine Egan, Joe Sanders,  
and Lavender Zhang

# The market is crowded

But with the expansion of movie consumption through streaming services, now is the perfect time to get into the movie industry.



# The Winning Formula

## Foundation Built on Low Risk, Low Reward Films

By putting out several films with modest budgets that are more likely to turn a profit, the company has a solid foundation to build upon.



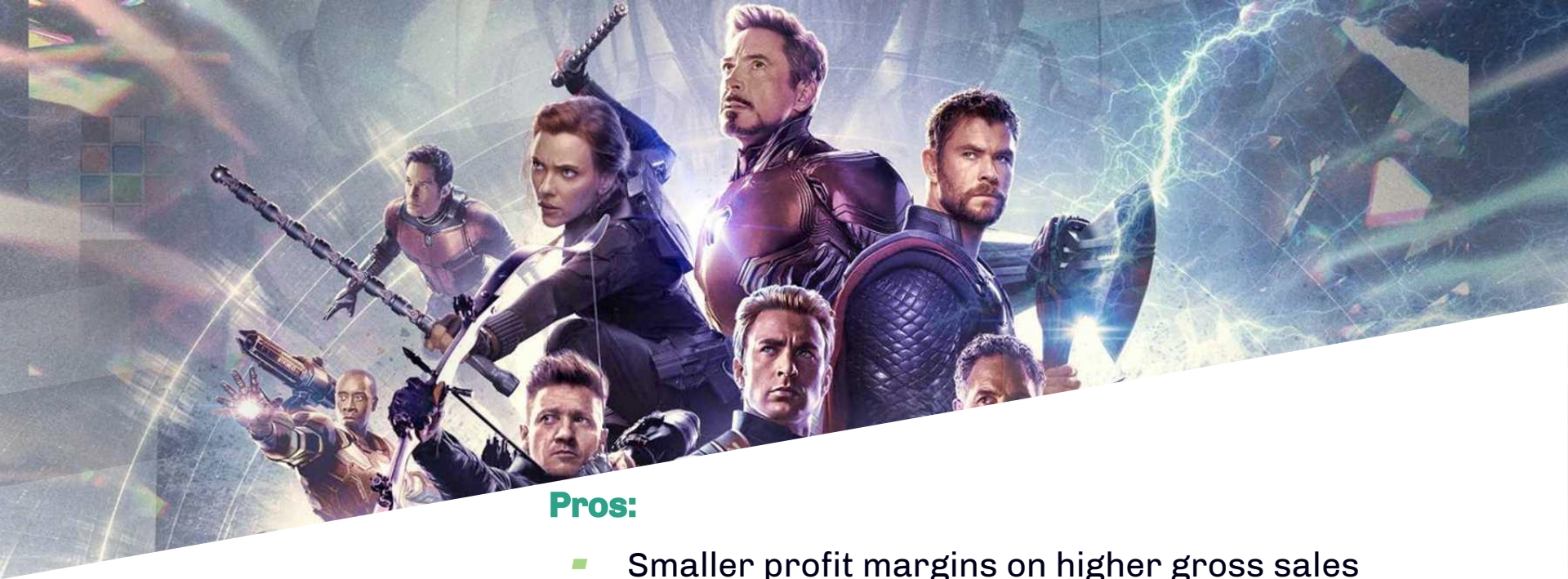
## One or more marquee projects that are High-Risk, High Reward

Focusing on a few high-budget films that have the potential for high-grosses is a great way to earn both revenue and acclaim.



**GO BIG OR GO HOME**  
High Risk, High Reward





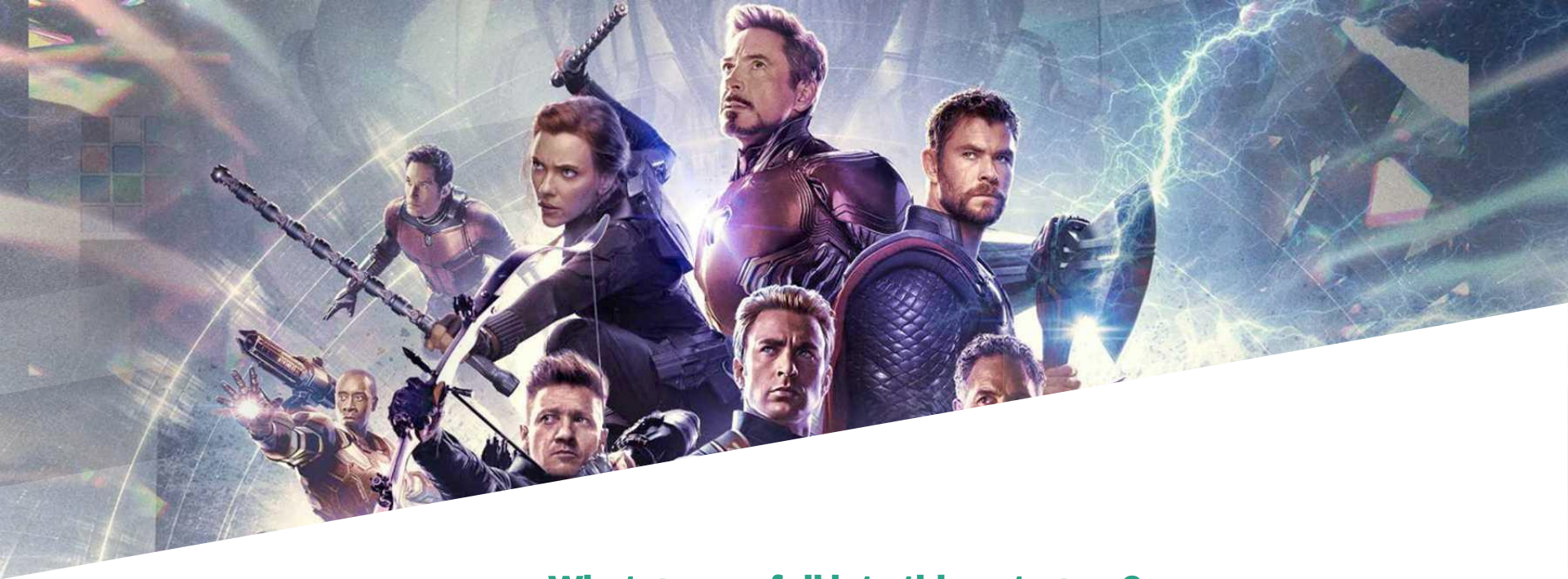
## Pros & Cons

### Pros:

- Smaller profit margins on higher gross sales

### Cons:

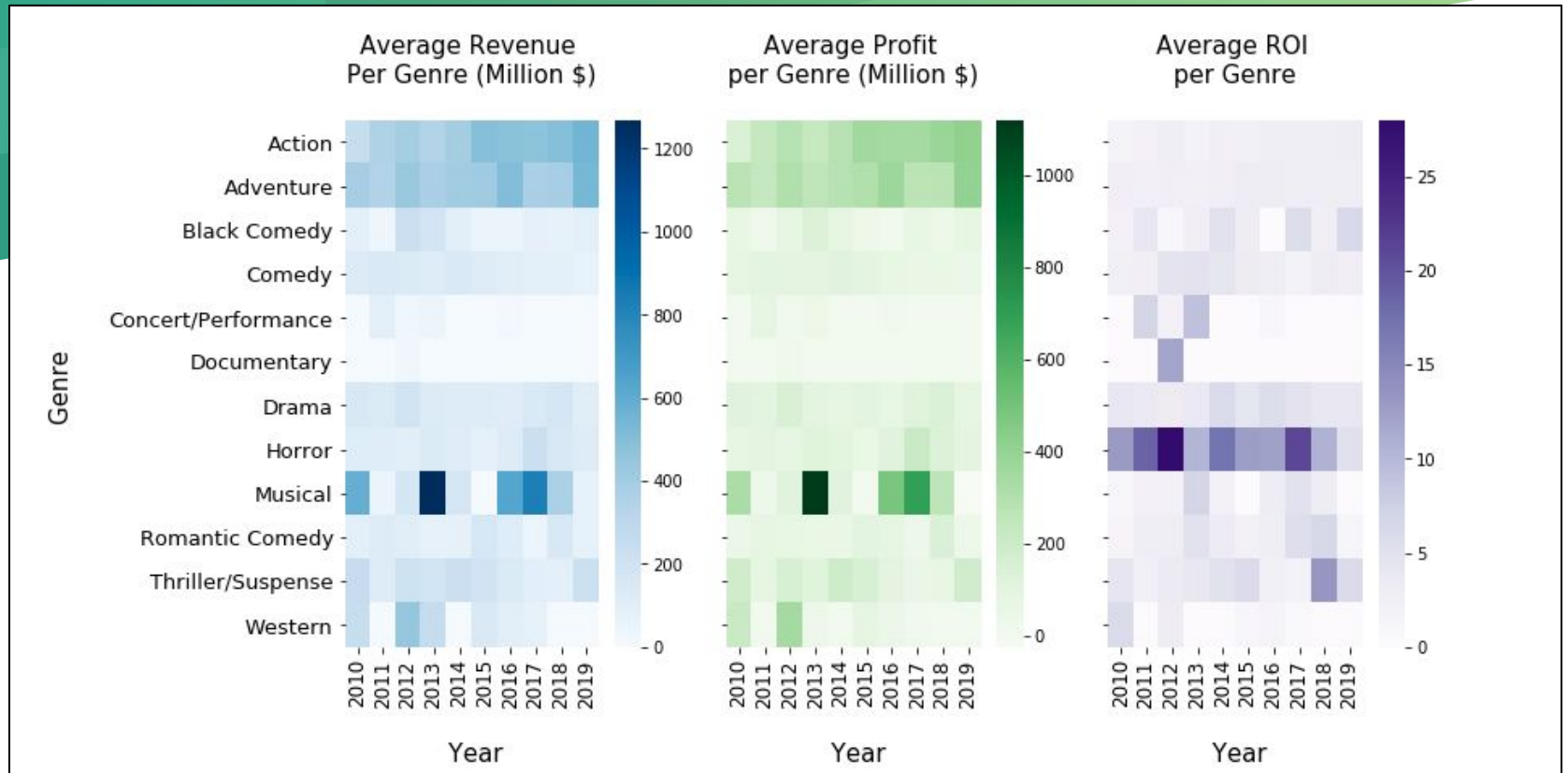
- Budgets must be carefully managed to avoid profit erosion
- Typically more complex and thus harder to mass-produce



# Classification

**What genres fall into this category?**

- Action
- Adventure
- Musical



- Action, Adventure, and Musicals are the clear genres with both highest revenues and highest profits.





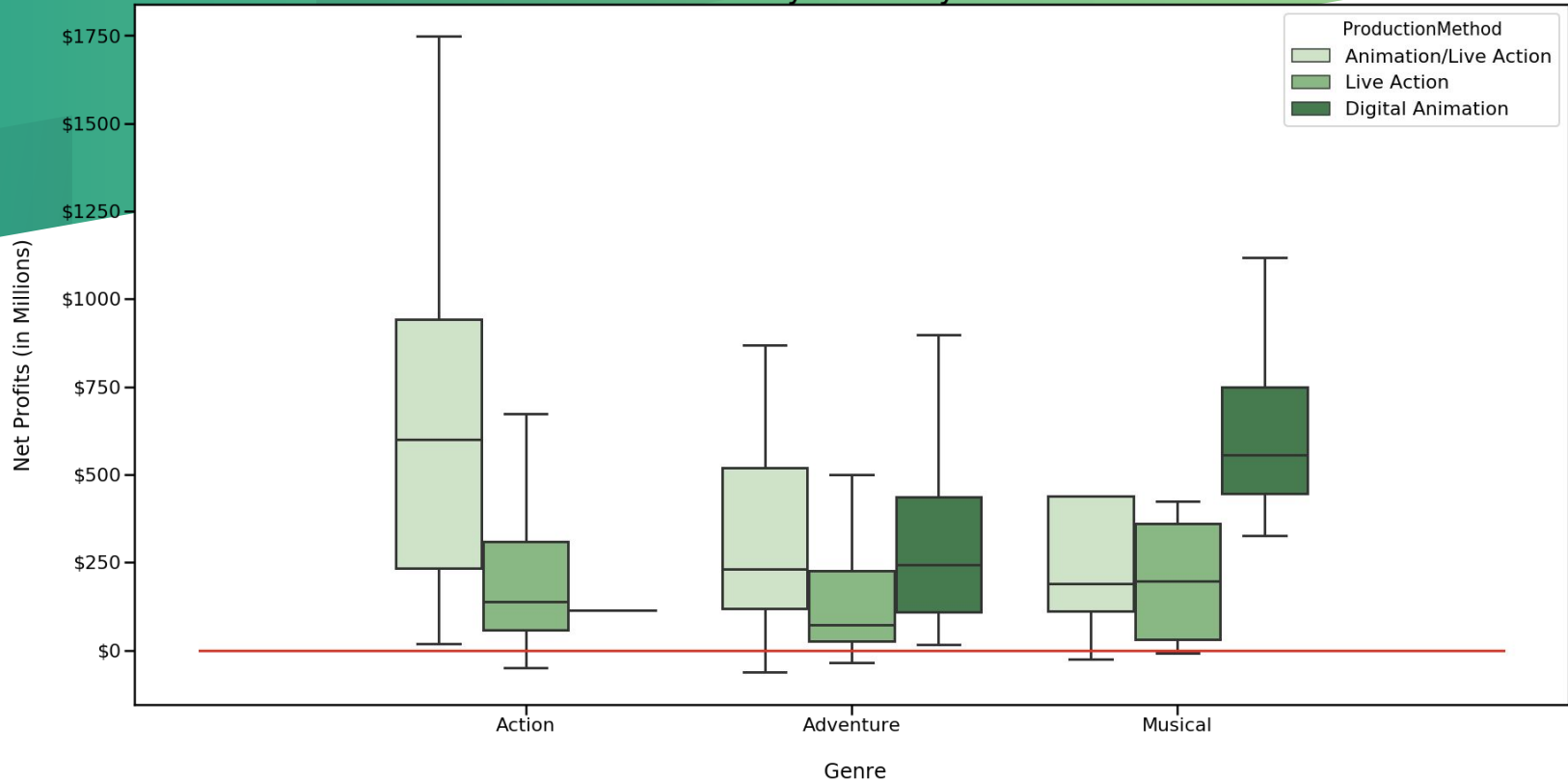
## Where to Invest

### What types of films have historically done the best?

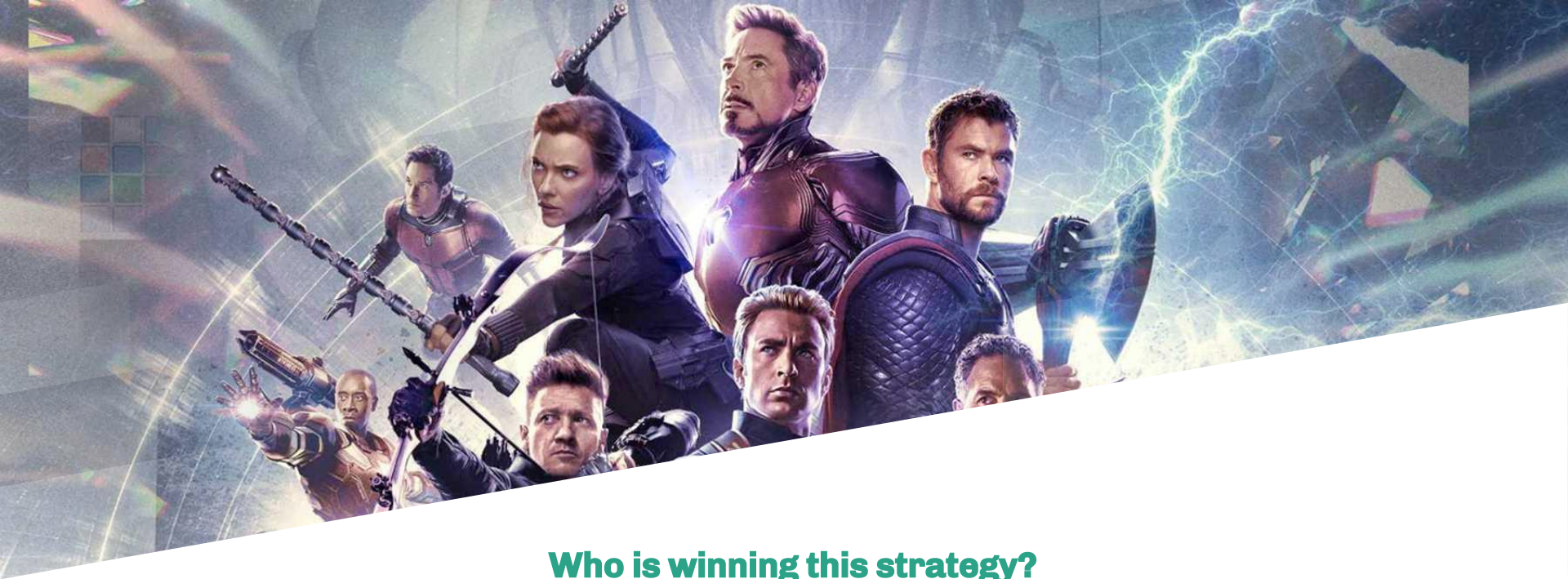
- Live Action/Animation Hybrid Action Films
  - Think: *The Marvel Cinematic Universe*, *Sonic the Hedgehog*
- Animated Musicals
  - Think: *Frozen*, *Moana*, *Tangled*



Distribution of Profit by Genre by Production Method



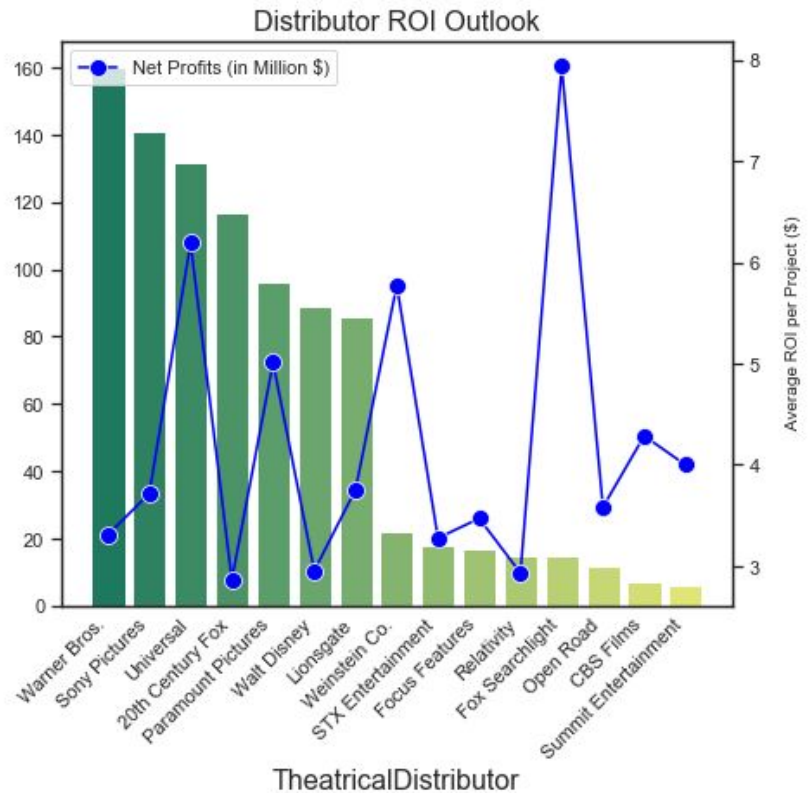
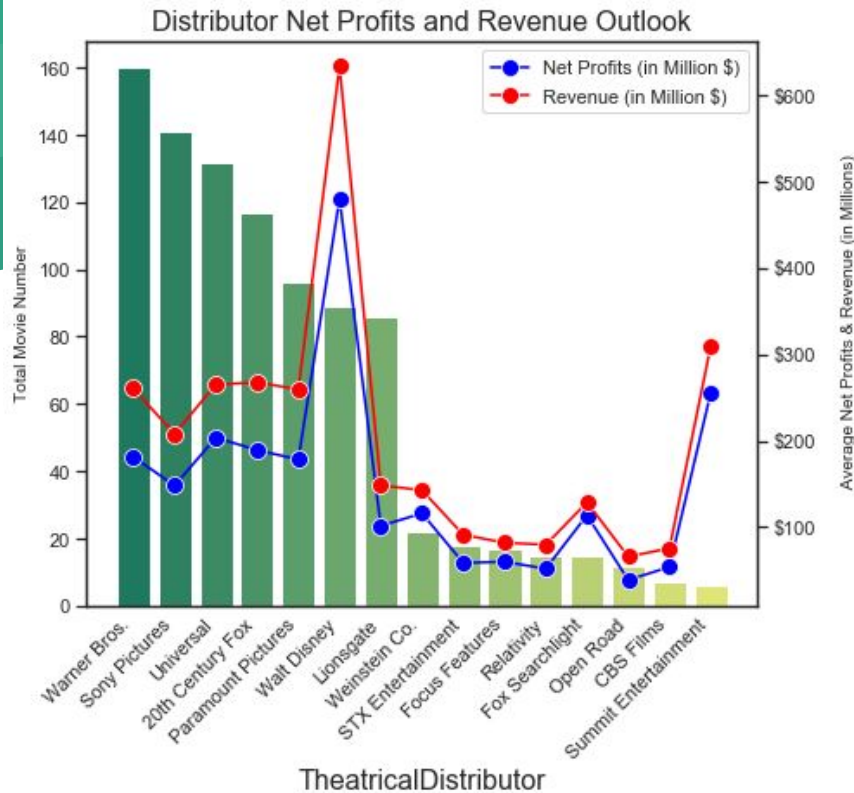
- Animation/Live Action Hybrid Action films have a wide range of profitability, but nearly always turn a profit
- Animated musicals have a smaller profitability range, but consistently turn high profits.



## Strategy Leader

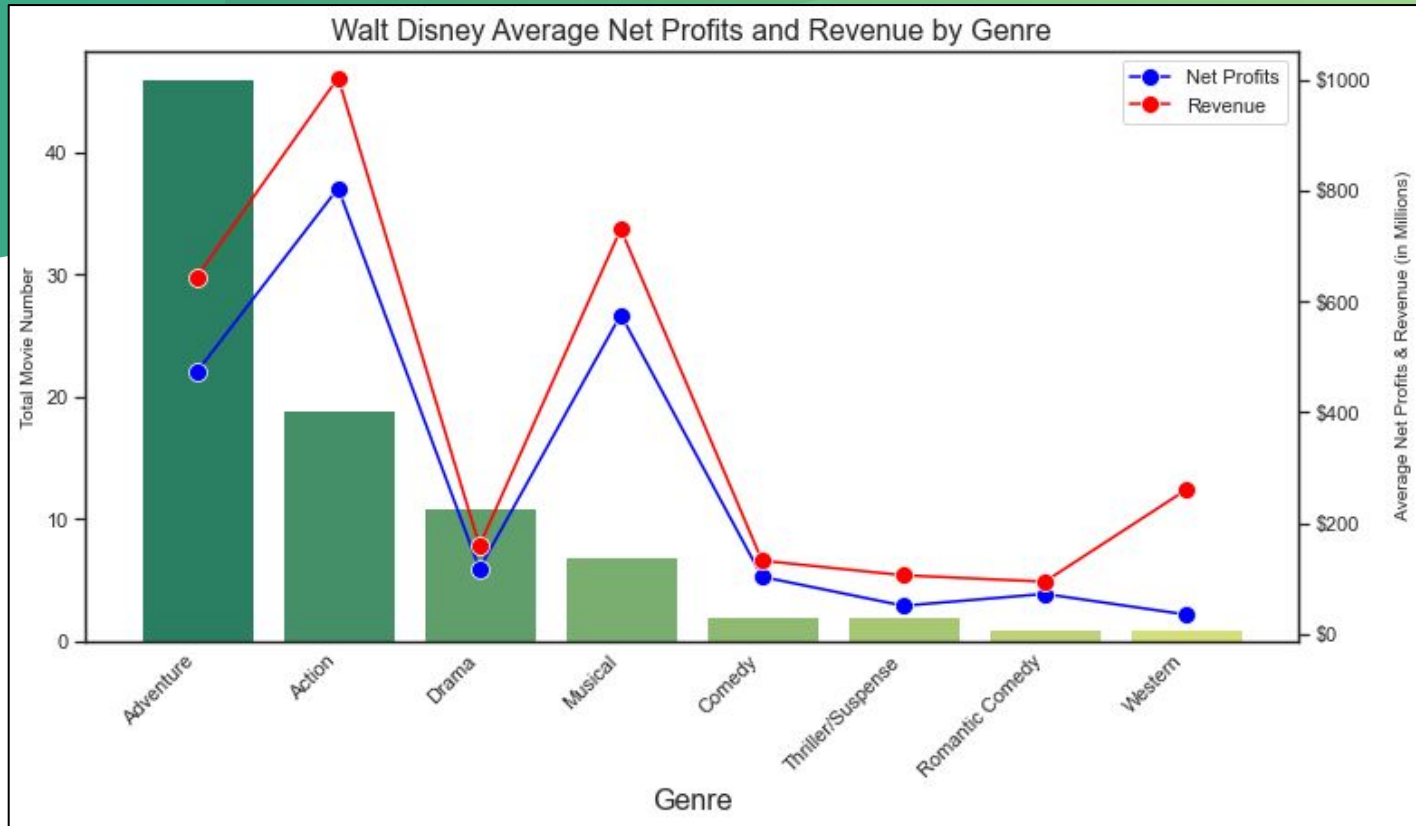
### Who is winning this strategy?

Walt Disney Studios and its subsidiaries: Walt Disney Pictures, Pixar Animation Studios, Marvel Studios, Lucasfilm, 20th Century Studios, Searchlight Pictures, Blue Sky Studios)



- Disney has shown that they know how to turn each of their films into high-profit ventures by focusing on high risk, high reward movies and putting them out less regularly; Universal and Fox Searchlight demonstrate great investment efficiency.

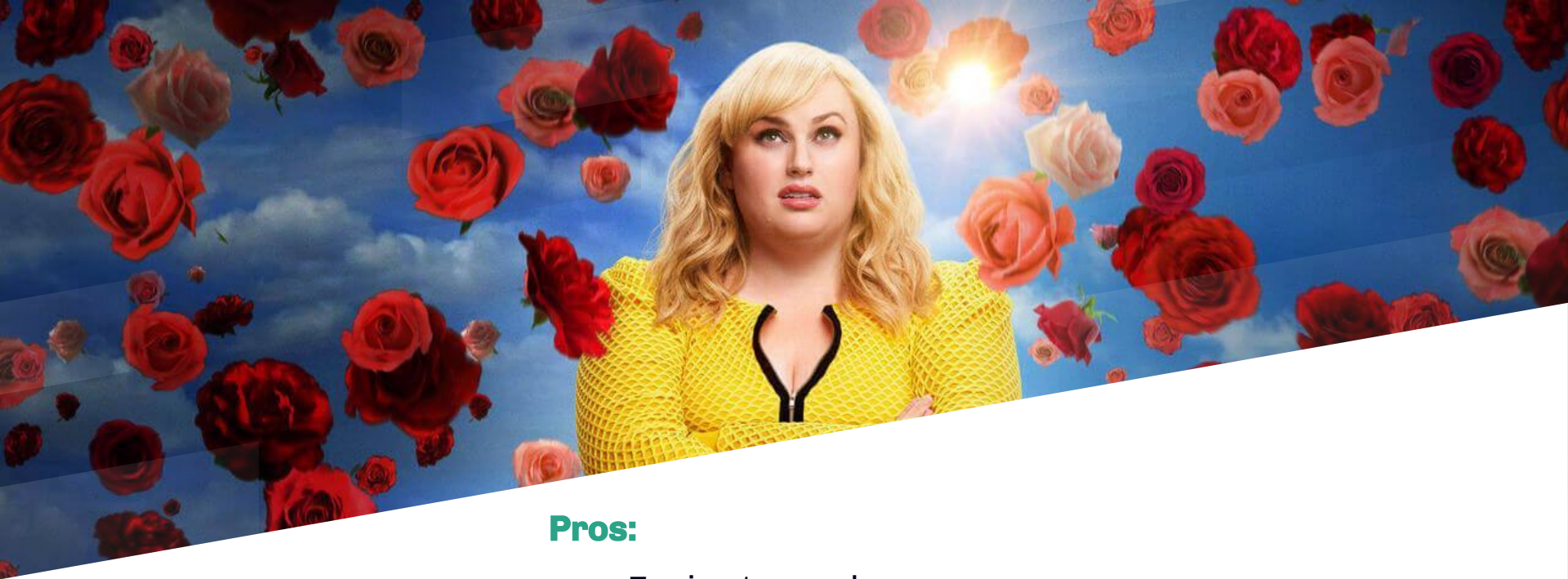




- We can see that in both revenues and profits that Disney produces on both Action films and Musicals are disproportionate to other genres.



**SLOW AND STEADY**  
Low Risk, Low Reward



## Pros & Cons

### Pros:

- Easier to produce
- Less upfront costs

### Cons:

- These films are more likely to “flop” and thus not achieve a return on investment



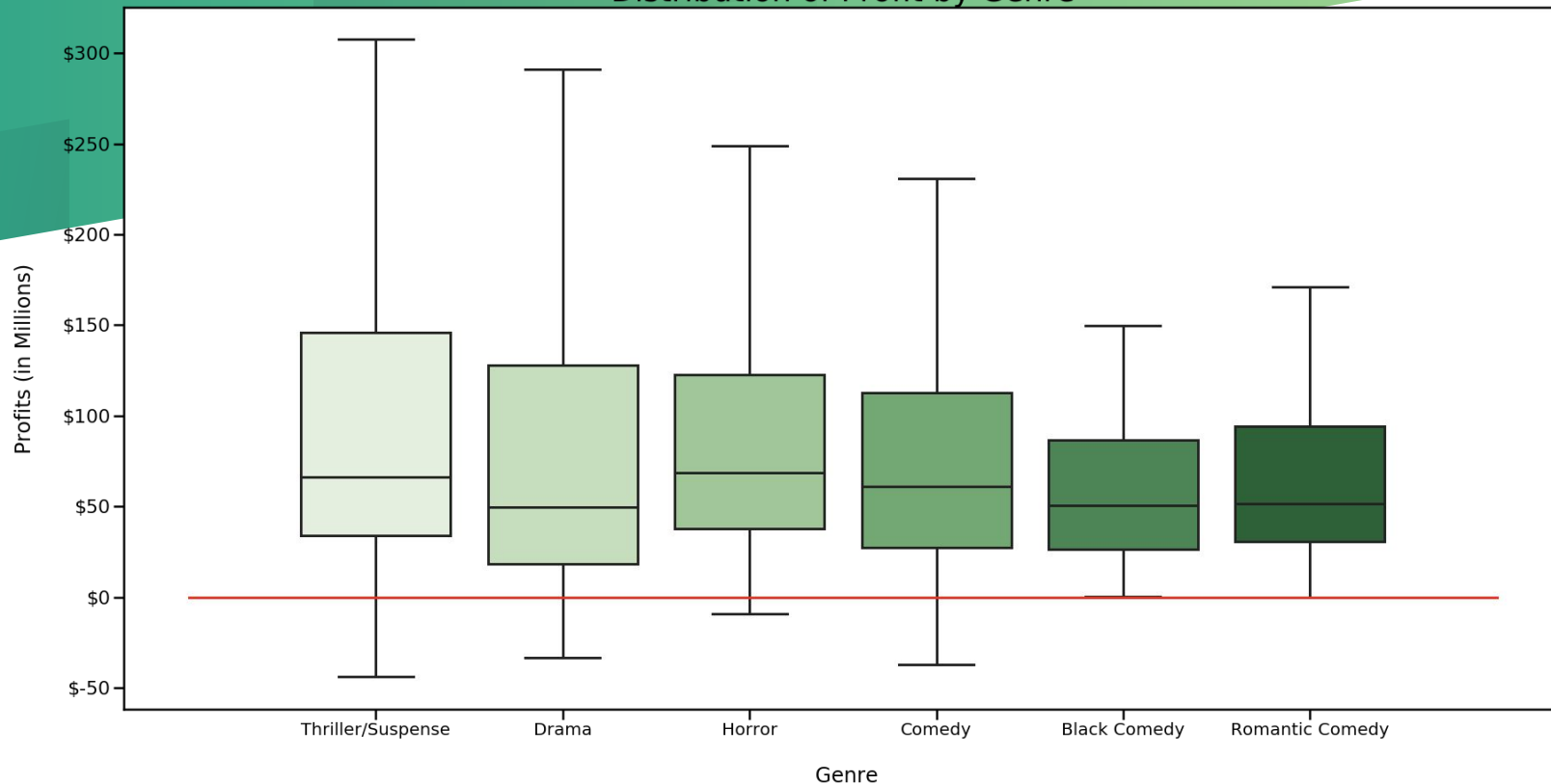


## Classification & Where to Invest

### What types of movies fall into this category?

- Comedy and its subtypes, Romantic Comedy and Black Comedy
- Drama
- Horror
- Thriller/Suspense

Distribution of Profit by Genre



- These genres usually produce small but predictable net profits, averaging around \$50 million per film
- Black Comedies & Romantic Comedies have very low risk for “flopping”

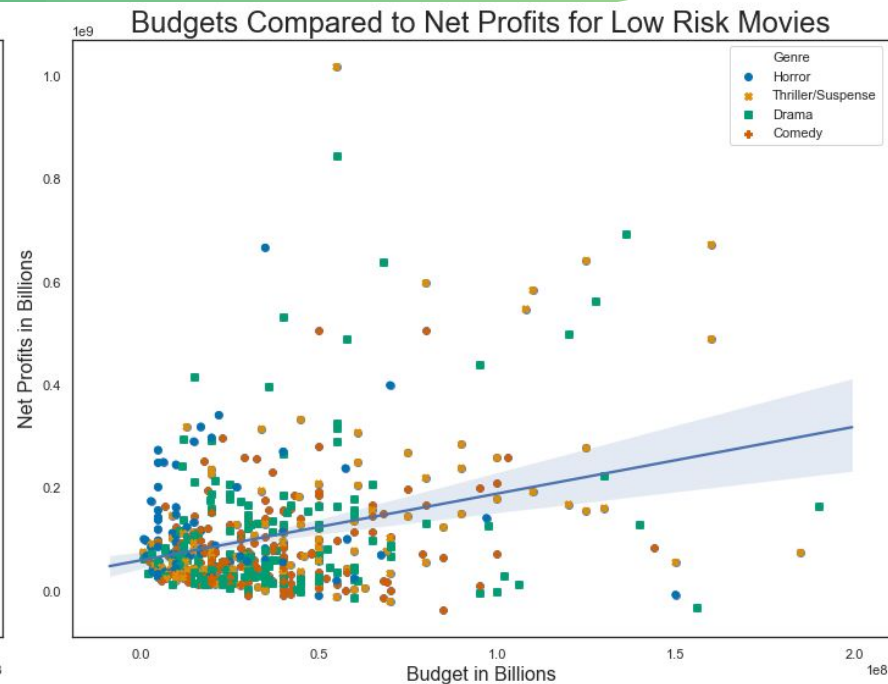
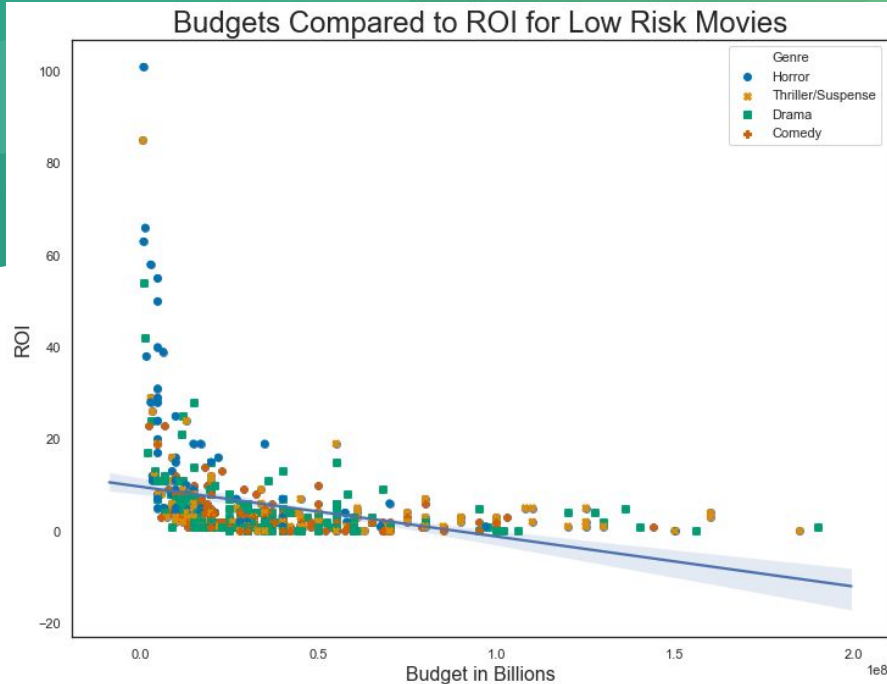


## How to Invest

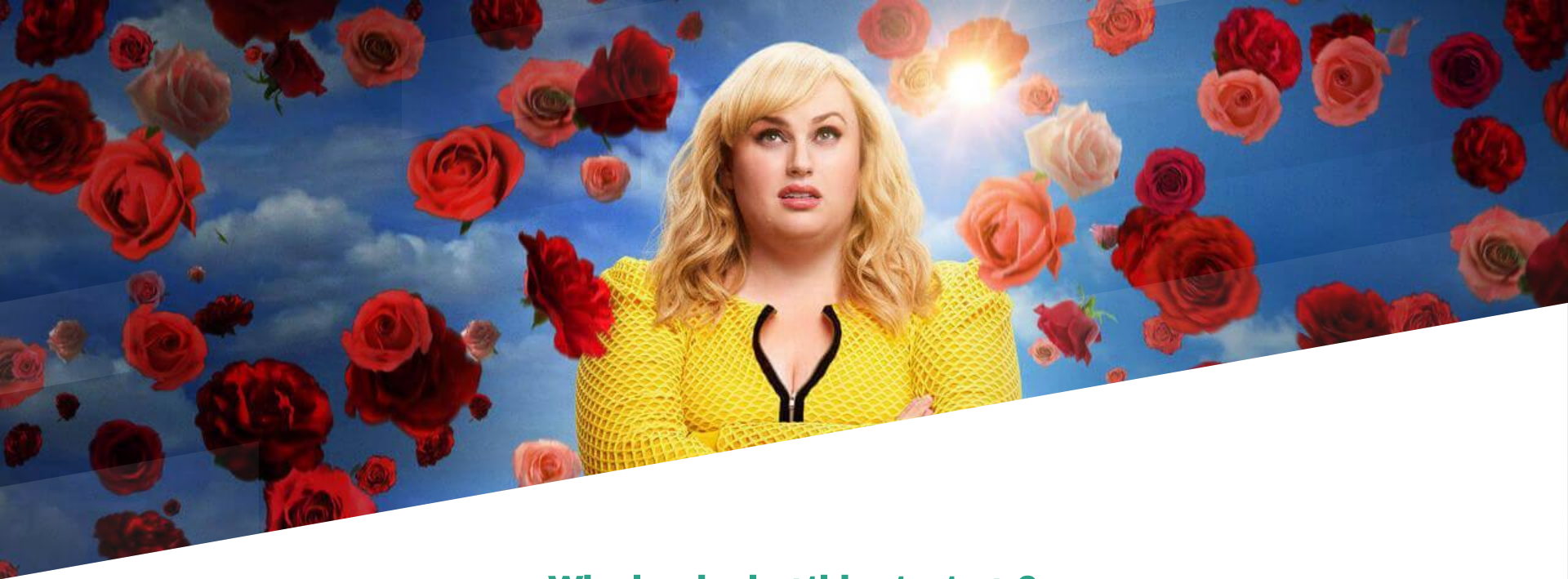
**As the foundation of the business, the best way to ensure profitability is:**

- Select projects within the 4 low-risk genres
- Keep budgets under 25 million to maximize ROI, and under 75 million to reduce risk of a “flop”
- Reduce project complexity to manage budget and increase volume





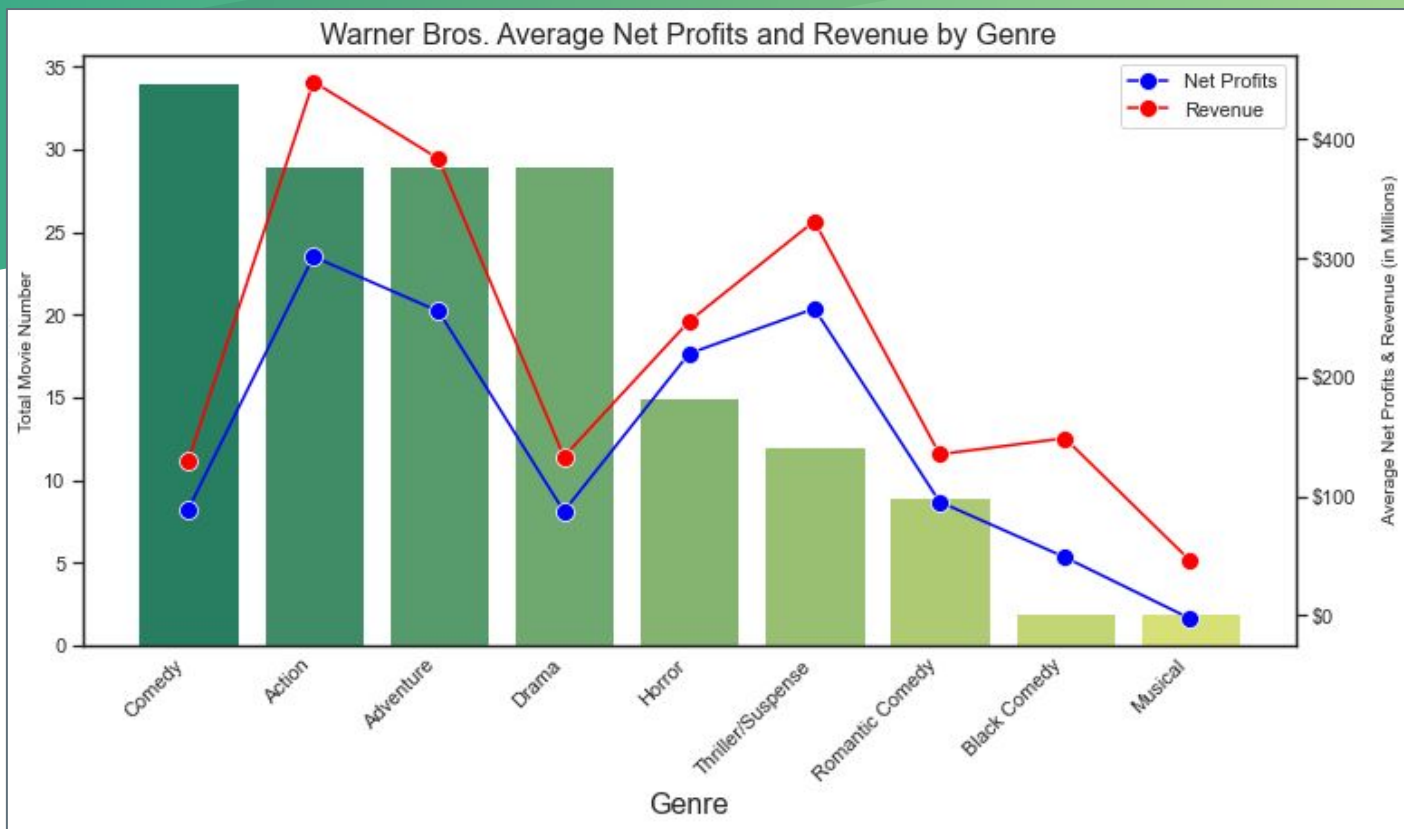
- Comparing Budget to Net Profit clearly shows that profit becomes less predictable as budget increases.
- Comparing Budget to ROI shows that ROI follows a nearly-logarithmic pattern with a majority of the films in the elbow.
  - A low budget more consistently produces an exponentially higher ROI
  - Budgets beyond \$25 million produce fairly uniform ROI.



## Strategy Leader

### Who is winning this strategy?

Warner Bros. and its subsidiaries: Warner Bros. Pictures Group, Alloy Entertainment, DC Entertainment, and Turner Entertainment



- These genres usually produce small but predictable net profits, averaging around \$50 million per film
- Black Comedies & Romantic Comedies have very low risk for “flopping”





**PROVEN SUCCESS**

What the Winning Formula Looks Like in Practice



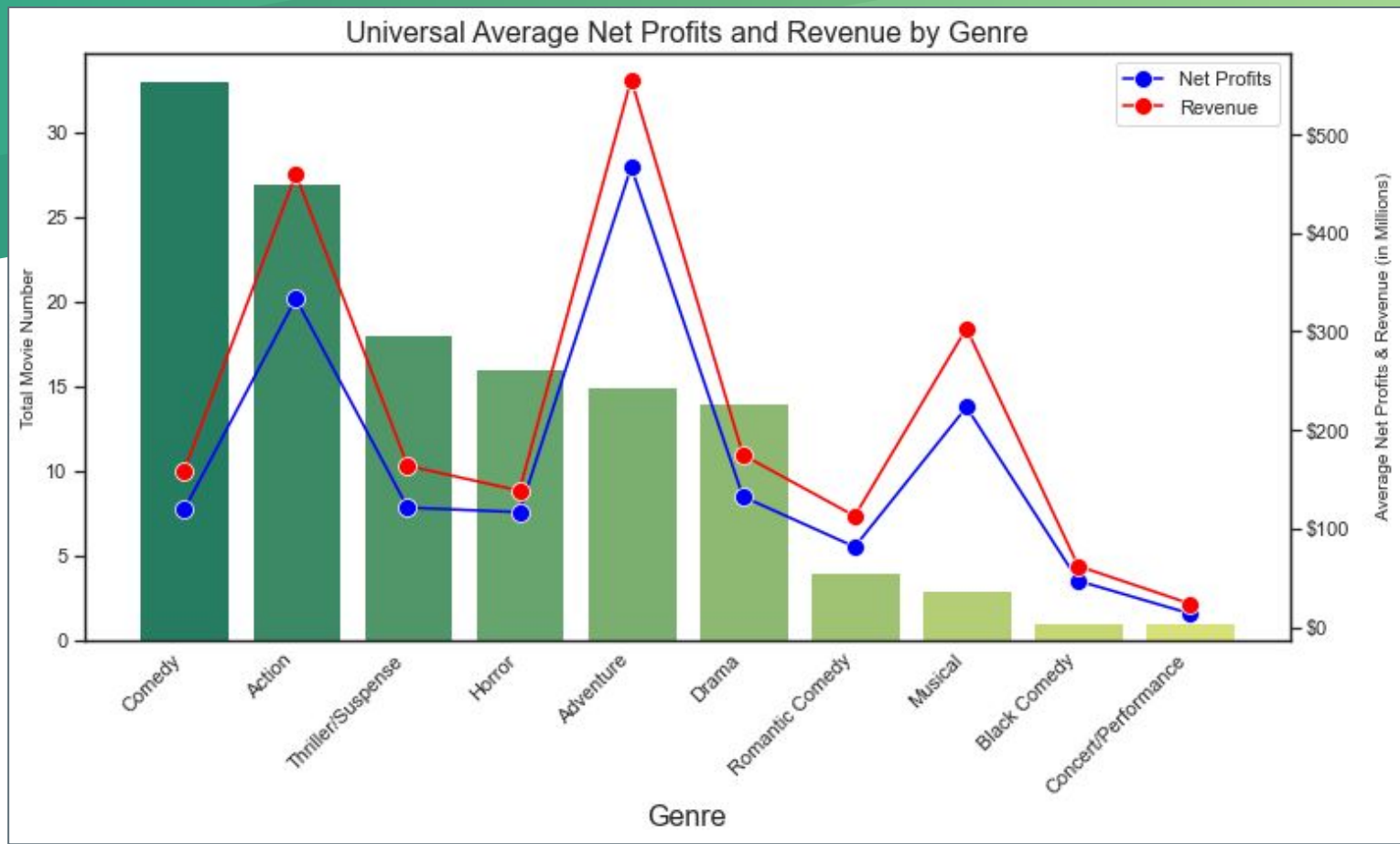
## Strategy Leader

**Who is mostly closely implementing the Winning Formula?**

Universal Pictures and its subsidiaries: DreamWorks Animation, Working Title Films, NBCUniversal Entertainment

**What is their portfolio breakdown?**

~35% High Risk films and ~60% Low Risk films



- ~60% of Universal's films are Low Risk, and they produce ~38% of their total profit
- ~35% of Universal's films are High Risk, and they produce ~62% of their total profit



# Future Work

What is the impact of “award-worthiness”?

- Do award-winning films turn more profit?
- What is the ROI on winning a major award?

What is the best way to leverage the international market?

- Is there ever justification to release only domestically?
- Are there opportunities for joint-ventures with international firms, similar to Netflix's model?

How do successful film houses pivot into television?

- Should we consider a separate television division?
- Do these firms start with TV or with film?



**Thanks!**