View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Royal Holloway - Pure

Any value in the chain?

A criticism on the suitability of using the value chain model for the motion-picture industry: a UK low-budget independent film perspective.

John Crissey MBA, BBA
Lecturer, School of Business, Newbold College and PhD Student Royal Holloway, University of London.
(KEY WORDS: value chain, supply chain, low-budget film, media economics and motion pictures.)

Despite its long-established use in business assessment, the 'value chain model' has only recently been applied to the motion-picture industry. Although this research has proved useful in opening the 'film value' discourse, the timing of its arrival and the nature in which it has been used highlight inherent framework-design limitations when attempting pure 'Porteresque' analysis on certain areas of the feature-film industry. These limitations relate to using the model in industry-wide analysis, measuring customer value and the non-monetary priorities of particular filmmakers. Bearing in mind that the original purpose and design of the value chain model is to facilitate corporate strategy selection through the identification of competitive advantages, these limitations suggest that certain film industry sectors might be better served through the use of other process-assessment models, such as a 'supply chain' framework. Therefore, this study weighs up the suitability of the value chain model in film industry analysis by first contextualising the contributing factors that have led to its recent use, how it is designed, what is its purpose and previous film value chain research. The limitations of value chain are then described through a comparison of the United Kingdom's low-budget film sector with other US-studio financed and independent film sectors. The study ends with a number of conclusions and suggestions for further media-business academic research.

Introduction:

Arguably the most prominent commercial analysis method to emerge in the global motion-picture industry over the last ten years is the value chain model. First achieving wide acceptance in the mid 1980s as a generic tool to assist companies with the assessment of their strategic options, the value chain is now used by a small, but increasing, number of public and private sector film-affiliated organisations.[1] Public-sector agencies, such as the government of the Province of British Columbia and the UK Film Council (UKFC), now routinely incorporate 'value principles' into their

[1] Originally popularised by Professor Michael E. Porter of the Harvard Business School, the value chain model has for decades been a vital tool in assisting organisations to assess their strategic options. Thousands of firms, from aerospace groups to zoos, small local companies to large multinational corporations, and service providers as well as traditional manufacturers, have contributed to a list of beneficiaries that is as diverse as it is long. Consequently, the model is now a major topic in business literature and the focus of numerous evolving strategies to improve corporate performance. It is this remarkable success in management analytics, combined with the current digital revolution gripping the industry, why certain motion-picture associations and scholars began to adopt value chain concepts.

© 2013 JC Crissey

policy statements and strategies.[2] While industry associations, too, are moving in a 'customer value' direction, for instance the British producers association (PACT) and the entertainers union (BECTU) both have for years alluded to value concepts in their stated positioning.[3] Some of this momentum can, undoubtedly, be attributed to academic endeavours. Prominent media business professors Lucy Küng, Jehoshua Eliashberg, and Graham Vickery have all recently published versions of a 'film value chain' model designed for motion-picture industry analysis, while the School of Cinematic Arts at USC and other respected centres of applied film management now include 'chain frameworks' in their degrees and producer-training curricula.[4] This eclectic group, uniting government, industry and academia, is likely to continue to expand as studio executives increase their use of business-analysis techniques in attempting to cope with an ever more complex market. Nonetheless, the timing and nature of the value chain's arrival in media-business research indicate fundamental framework-design limitations that prevent pure 'Porteresque' analysis on certain areas of the motion-picture industry.

The purpose of this research is to highlight the limitations of the value chain model in commercial motion-picture analysis and suggest why in certain industry areas, namely the United Kingdom's low-budget film sector, would be better served employing a supply chain framework. In order to facilitate the narrative of this research, the British film industry will be used as a situational case study and will be regarded as consisting of companies that fall into one of three sub-areas; the *large-budget* sector, in which movies financed by US studios are made and delivered, the *medium-budget* sector which deals with independent films, not financed by US studios, and the *low-budget* sector that handles independently produced features made for less than £2 million.[5] It is important to stress that these definitions are empirically classified in order to describe the very different activity processes and value-characteristics within the UK film industry, as distinct from being based solely on levels or sources of financing. Therefore this study forgoes the challenge of justifying what is or is not included in a particular film-industry category and uses generic terms to describe general characteristics where value chain analysis becomes problematic. Before the model's limitations can be addressed however, the nature and timing of the framework's arrival in commercial motion-picture analysis raises some immediate questions as to its suitability to the entire film industry. Specifically, what has caused its recent emergence in commercial film research and why did it not happen earlier?

Recent environmental factors and the 'commercial art form' nature of film:

As with other for-profit firms in a market-based economy, a film company always strives to improve its operating efficiency by manufacturing the best possible film at the lowest available cost. This perpetual need to improve is typically a major catalyst for initiating business analysis, yet for decades the value chain remained relatively absent in motion-picture industry assessment, which suggests that new forces must have been involved. The most plausible explanation for the stimulation of the recent pioneering of a film value chain is the present *digital revolution* engulfing the film

[2] Specifically, The government of the Province of British Columbia's Opportunities for Growth and Competitive Advantage for BC's Film and New Media Industries (IAC, 2006), the UKFC's UK Film: Digital innovation and creative excellence (2010) and routinely in their Statistical Yearbook (2010). In fact, the UKFC has even embraced this concept to the extent of creating a value toolkit called the Future Film Value Toolkit (2007).

[3] For example, PACT's report on the Independent production sector (2009) and their Submission to Digital Britain Review Second Phase (2009) and BECTU's Ofcom consultation (2007).

[4] For example, the USC School of Cinematic Arts (Producing Symposium), the Wharton School's Media Initiative, University of Pennsylvania (Media and Entertainment Field Projects course), the Film Business Academy at the Cass Business School (The film value chain and business models module) and the Edinburgh Skillset Screen and Media Academy, Edinburgh Napier University (MFA Advanced Film Practice course).

[5] The term large-budget should be considered synonymous with other terms used in this study, such as 'blockbuster film', 'Hollywood film' and 'US Film'.

© 2013 JC Crissey

industry. Digital technology has been used to make movies for decades, but in the early 2000s the long-held promise to digitise the entire 'shoot-to-screen' process finally began to be realised. What has followed ever since has been a seemingly never-ending string of unprecedented technical advances. In an attempt to adjust to these changes, movie executives have been forced, on a tactical level, to radically re-engineer many of their long-cherished manufacturing and distribution processes. One example of this is in principal photography where an inexpensive digital camera can now deliver a picture resolution similar to that of a conventional 35mm negative.[6] Digital images such as these can now be instantly reviewed and edited, special effects added and rendered into a final print without the use of a processing lab, often at a fraction of the cost of emulsion-based formats.[7] Though these new *production innovations* are used throughout the industry, their effect on the various industry sectors varies. Large-budget films, for instance, tend to employ technology advances in special effects, sound and picture to enrich their visual storytelling, while low-budget productions try to use these to meet cost constraints in their filmmaking processes as well as quality enhancements.[8] Allegedly producers are also gaining greater control over the entire production process by making films in a nonlinear rather than linear fashion (Eliashberg et al., 2006).[9] Not only have the effects from these advancements been in areas of product quality and producer control, but also in levels of manufacturing. In the UK the effects from new production innovations are resulting in filmmaking growth-rates not seen since the 'quota-quickie' was used to circumvent the 1927 Cinematograph Film Act.[10] Though initiated by a legislative act as distinct from technology changes, many of the repercussions experienced in the quota-quickie era are occurring again. Budget levels are falling, exhibition windows are conflating and the number of domestic movies produced is rising rapidly, especially among low-budget films.

The *Web 2.0 phenomenon* is the other major factor stimulating the reappraisal of traditional business methods, and therefore been an impetus to the exploration of a film value chain framework.[11] Like production innovations, the Web 2.0 phenomenon is derived from new technology advances and forms part of the wider digital revolution, but its impacts are in the *consumer behaviour* of those who watch movies and not in the filmmaking process per se. On balance, Web 2.0 innovations are considered to be improving the way in which society functions and interacts, but opinions remain mixed when taking a motion-picture viewpoint. For instance there is a growing use of web-connected devices that are creating new opportunities for producers, while at the same time threatening traditional exhibition. Even though every new laptop, iPod, game console and smart phone has multimedia functionality, it is the 'killer apps' they possess that account for their current popularity. These software applications are often supplied at no cost and deliver, or provide web access to, a wealth of services and experiences in areas such as communications, personal utility, social networking and gaming. The potential for producers to have their movies discussed, promoted and exhibited via these media are almost endless, but the

[6] For example, the Red One started with a 12 megapixel bayer pattern CMOS sensor, called the 'mysterium', has a "similar active area as a 35 mm film frame masked to the 16:9 aspect ratio, providing the same depth of field and angle of view as a Super 35 mm film format" (www.Red.com 2010). Higher range digital capture devices, such as the Phantom 65, are now claiming 65 mm capabilities.

[7] It is recognised that studies do exist which conclude that new digital processing tools and methods are increasing the costs of production. However this study takes the majority view that these new technologies are providing lower-cost solutions, with improved quality, for the low-budget film segment.

[8] For example, 3D presentation, THX and Dolby technologies.

[9] Digital technology can enable traditional sequencing of film-production activities to take place concurrently. For example, editing can be carried out while filming.

[10] The purpose of the Cinematograph Films Act of 1927 was to create a 'vertically integrated' film industry, similar to that in the US, through the establishment of an artificial market for domestically produced movies. A key aspect of this was that British cinemas should show a quota of domestic films. The legacy of the act is still controversial and passionately debated, but one consequence was the emergence of the 'quota quickies' which were low-budget, poor-quality films commissioned mainly by US distributors operating in the UK purely to satisfy the quota requirements (though numerous British opportunists also played an active part). In production terms the results were explosive in that the number of film production companies grew by fifteen-fold and films made increased by 223% between 1927 and 1935 (Baillieu, 2002).

[11] The 'Web 2.0 phenomenon' is the social impact associated with web applications that aid interoperability, user-centric functions, information sharing and collaboration.

© 2013 JC Crissey

threats to the traditional structure of the motion-picture industry are equally onerous. Many popular killer apps are designed specifically for the youth market, historically the most profitable group of cinemagoers, and several recent studies suggest that the time young people spend using new media is eroding the time spent on cinema going. Terrestrial broadcasters are already acutely aware of this shift in consumer behaviour as they have seen their advertising revenues plummet and as a result are paying less to film distributors for local broadcasting rights.

As if these disruptions to traditional revenue-recoupment models were not bad enough for exhibitors and broadcasters, the sinister effects from the Web 2.0 phenomenon is already contributing to an even worse situation. This trend involves an unprecedented increase in movie piracy from internet-based 'file sharing' applications. Not only are these activities illegal, but they also have the ramification of conditioning young consumers to believe falsely, that film content does not have a cost. As is often reported in the press, the rise in file sharing has had a severe impact on box-office and DVD revenue, to such an extent that the Motion Picture Association of America has made this problem its strategic priority for the next decade.[12] Indeed the impact of the Web 2.0 phenomenon is so far-reaching that governments are now attempting to enact legislation to alter, or at least restrict, some of the most worrying aspects of these developments.[13] Whether they will be as successful in altering consumer behaviour on the Web as they are in passing legislation is a matter for another study, but what is certain is the profound impact Web 2.0 is having on the film industry, both good and bad, is unlike any other event in its history. Although the impacts of the digital revolution on filmmaking and customer behaviour provides a credible explanation for the recent interest in a film value chain model, it still does not offer an answer to a more fundamental question. Film companies have always needed to improve the way they operate and the value chain concept has for decades helped other businesses achieve that need, so why has it taken so long for media business scholars to explore its potential for film? Since a lack of interest or ignorance in the model and its uses on the part of researchers and movie executives is improbable, the complex nature of the movie product itself may provide a more plausible answer.

The theatrical motion picture is *not* a typical product like a car or toothbrush, or even a DVD for that matter, and in some ways it is not a product at all. Lord Attenborough perfectly encapsulated this concept when he stated to the *National Heritage Committee* in 1995 that a feature film is more a 'commercial art form' than either purely art or product (NHC). Clearly a movie does have product traits in that it is manufactured, marketed and sold to customers who have a desire to buy entertainment. However it also exhibits many of the characteristics of a 'work of art'. While a commercial product is made to satisfy the needs of a customer, a work of art is often made to satisfy the needs of the artist and, as a consequence, customer requirements, traditional business attitudes in vanquishing the competition and providing a return on investment are frequently not considered relevant in these situations. The fact that all motion pictures exhibit *both* types of traits distinguishes a movie from most other industrial products. This unique aspect is important because the value chain model does not easily cater for the non-economic traits associated with art and this complexity probably contributed to film being overlooked by early

[12] The cost of piracy to the global motion-picture industry was estimated by the MPAA to be US$18.2 billion in 2005, while Oxford Economics calculated a £614 million cost to the UK in 2009. Although there is evidence that piracy is not the threat the film industry believes it to be (Peitz and Waelbroeck, 2003), however the majority of media economic evidence disputes this claim (De Vany and Walls, 2007).

[13] A recent example is the UK governments Digital Economy Act. Passed in April 2010 during the "wash up" period after a general election was announced, the act aims to regulate digital media, and essentially curb illegal file sharing, through a set of guidelines for how right holders and Internet Service Providers should deal with piracy.

© 2013 JC Crissey

media-management analysts when the framework first became fashionable. In fact the model has a number of limitations in its original scope that suggest it is not an ideal tool for the whole motion-picture industry. These limitations are especially evident when a contrast is made between the three sectors that constitute the UK film economy defined earlier. Before doing so however, it is necessary to review the basic elements of a value chain and how it has been used in previous film research.

The value chain and the value system defined:

Professor Michael E. Porter, of the Harvard Business School, first describes the value chain in his best-selling book, *Competitive Advantage: Creating and Sustaining Superior Performance,* where his principal assertion is that a firm's success is largely dependent on its capacity to achieve commercial advantages over its rivals (1985). These *competitive advantages*, as Porter labels them, come in the form of three generic strategies that an organisation can pursue: cost leadership, differentiation and focusing on a narrow segment of an industry. Linked to these alternatives is the process of selecting which strategy is most appropriate. Porter stresses that this cannot be accomplished by looking at a firm as a whole, but that it requires the analysis of the "many discrete activities a firm performs in making, delivering and supporting its product" (1985). He labels this collection of activities the *value chain* since the process of converting raw materials into products that customers desire is typically a sequence of activities. In order to assist the business executive in assessing these activities, or 'processes', as some prefer to call them, Porter provides a *value chain model* centred on the 'strategically important' processes within a single organisation. Observing that few firms in today's economy are able to perform single-handedly every task required to deliver their product, he suggests that a company's value chain is typically embedded within a larger *value system* of vertically aligned firms which, with its own unique value chains, work collectively towards a single purpose. A simple example of this framework is the Hollywood studio that attempts to gain DVD revenue from its latest blockbuster. Though the studio may have its own value chain for creating and exhibiting movies, it will probably need to secure agreements with other firms, such as blank DVD suppliers and retailers, to deliver its blockbuster to market and, ultimately, provide value to the customer. Hence, if Porter's terminology is applied strictly, the studio's internal activities constitute a value chain and the collection of all the value chains from other companies makes up a value system

Over time, however, alterations have been made to the way in which strategists use and express the value chain in analysis. Many of these changes are a consequence of shifts in employment practice and channel operation. These also, coincidentally, reflect the current employment trends of the motion-picture industry. They include the rise in non-traditional employment methods such as freelancing and subcontracting, and the emergence of e-business technologies in fulfilment processes. Changes of this nature have prompted contemporary management analysts to re-appraise the distinction between the value chain and value system and it is now generally accepted that a value chain encompasses all the stages of value addition, whether within one company or not. Indeed all the assessments of the motion-picture industry presented in this study represent this view. Despite this latest trend there are two reasons why a continued use of Porter's original nomenclature continues to be more suitable for attempting analysis of the film industry in its entirety. First, it is debatable whether the process 'system' in which a production company operates always works towards a

© 2013 JC Crissey

common purpose and secondly, the producer often has minimal influence over the other process chains in the wider system. Both assertions are key assumptions used in value chain phraseology and, for that reason, contrary to contemporary usage, this study will continue to draw a distinction between a chain and a system.

As previously emphasised, the value chain model operates on the principle that "every firm is a collection of activities that are performed to design, produce, market, deliver and support its product" (Porter, 1985, p. 36). Based on this theory, the model specifies nine generic value-creating activities that are categorised as either *primary* or *support* activities. Primary activities are those processes that enable the physical creation of the product or service and include logistics, operations, marketing and delivery services. Support activities, or 'overhead' as they are often called, provide the structure that enables the primary activities to take place through the provision of executive management infrastructure, human resource management, technology and procurement activities. All of these value activities, as well as the interdependencies they have in relation to each other, or rather *linkages,* as Porter prefers to call them, can provide potential sources of competitive advantage. Once individual examination of these takes place, coupled with an understanding of the impact they make on industry rivals, strategy can be determined. Since a firm's value chain may "differ in 'competitive scope' from that of its competitors" and each of its activities can contribute to its cost position, both of which are a basis for differentiation, each activity and linkage must be reviewed separately (Ibid., p. 36). On this point Porter stresses that the model will only reflect the total customer value generated if the analysis is set within the context of an individual firm's "histories, strategies and success at implementation", and as such the value chain model was not designed to assess an entire group of firms (Ibid., p. 34). (See Figure 1.)

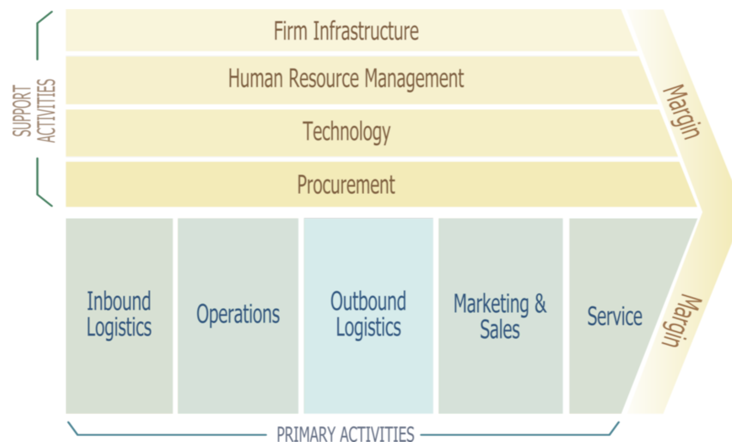

Figure 1, The Value Chain Concept (Porter, 1985)

In addition to these primary and support value activities, there is also a third element of the model called *margin*, which is not an activity per se, but an expression of customer value. Porter describes margin as the value a customer places on a product after paying for the primary and support activities, which in an applied sense means it is a tool for quantifying the benefits a customer believes he or she has received for a

© 2013 JC Crissey

price paid. This can be expressed more vividly by a simple formula in which customer value (V_c) equals customer benefits (β_c) over price (P) and may be stated as:

$$V_c \cong \frac{\beta_c}{P}$$

In certain instances, when assessing 'fast moving' consumer products like toothpaste, margin is not only easy to comprehend; it is also easy to calculate. In these instances specific costs tend to be readily identifiable and price (P) adjustments are almost always made in response to overt competitor reactions in the market. In other cases, such as dealing with entertainment services like purchasing a cinema ticket, customer value is more difficult to calculate quantitatively without using subjective data. Occasionally, producers of large budget films use opinion surveys to measure β_c, but these attempts tend to focus on narrative refinement and not on competitive advantage comparisons. The criticality of the margin component is brought into further focus when considering it is the only means the value chain model has for measuring and prioritising a firm's competitive advantages within its wider process system. Though this crucial element does not receive an abundance of explicit attention in Porter's commentary on the model itself, its importance is implied in every facet of competitive advantage theory; thus, to omit margin is to ignore customer value, and without customer value, the model's usefulness is severely weakened.

When a firm is unable to perform all the activities required to deliver a product or service to the customer, it has to form *vertical linkages*, or agreements, with other suppliers and or channel firms. As a result, these interlinked value chains become a value system, which in turn can be broken down into supplier value chains, manufacturer value chains, channel value chains and buyer value chains. The US studio again provides an example to illustrate this structure, where camera and film-stock-supplier value chains are considered *upstream value* to the studio because they create and deliver purchased inputs used in its own chain, while channel value chains perform additional *downstream value* activities that affect the buyer; examples include those provided by cinema owners and DVD retailers in different countries. From a Porteresque viewpoint, a firm's product in this situation eventually becomes part of a *buyer's value chain* where the needs of the purchaser are assessed and met. Whether or not this actually happens in the motion-picture industry will be commented on later but, at this point, the whole purpose of performing a value chain analysis again comes into focus because of the need to measure customer value, using the margin element. As with a physical iron chain, what is abundantly clear about the value system is that each link is indispensable to achieving and sustaining a competitive advantage. Under circumstances like these, a film company cannot simply rely on its own process chain alone but must manage the process system of which it is part. (See Figure 2.)

© 2013 JC Crissey

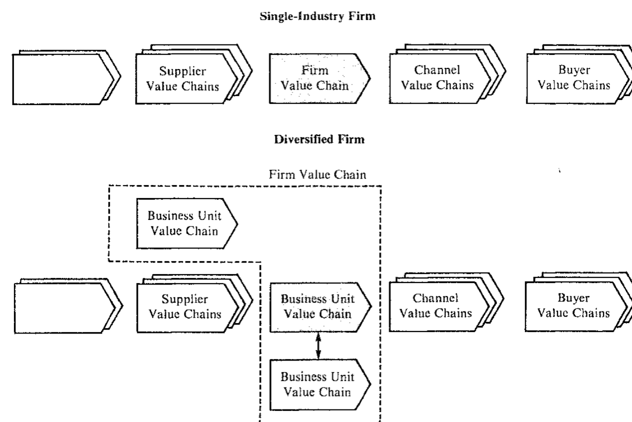

Figure 2 - The Value System (Porter, 1985)

Previous film value chain research:

Over the last ten years nearly a dozen major academic studies have attempted to use a 'film value chain' concept. The most notable of these works are: 'The Motion-picture Industry: Critical Issues in Practice, Current Research and New Research Directions' by Eliashberg et al. (2006), 'Remaking the Movies: Digital Content and the Evolution of the Film and Video Industries' by Vickery and Hawkins (2008), Küng's book, *Strategic Management in the Media* (2008) and Bloore's essay *Re-defining the Independent Film Value Chain* (2009). Even though all these studies incorporate a film value framework, their contributions to commercial motion-picture analysis vary. The earliest and most frequently cited of these works is the research conducted by Eliashberg and his colleagues. In this study, the value chain is used as a structure for the exploration of major issues in US film creation and delivery, such as those related to the 'green-lighting' of scripts for production, and breaks new ground by showing the impacts of the digital revolution on filmmaking processes and forecasting how traditional US studio power structures will persevere. Of particular noteworthiness is the case the study makes for a direct linkage between the needs of the theatregoer and those of the film producer. As important as these topics are however, what is pertinent to this research on the film value chain is that Eliashberg et al. neither ever attempt an assessment of customer value nor focus on the competitive advantages of the processes they explore.

Vickery and Hawkins (2008) and Küng (2008) follow on from the Eliashberg study by taking the value chain concept in several different directions. Their frameworks are used to contrast the process system of the film industry against other media-industry process systems, such as those seen in broadcasting and in music, while at the same time reinforcing the call for further process analysis in the movie business. Küng extends these concepts by describing how certain media industries are being impinged on in different ways by the digital revolution using examples where fragmentation, unbundling and non-linear sequences are emerging.[14] Moreover, both of these studies mark the first attempts to define customer value in a film activity process system; Vickery and Hawkins by including market research activities in the development stage and Küng by paying attention to general marketing activities after principal photography. However, the value chain models they use to explore these issues are

[14] The terms 'fragmentation' and 'unbundling' describe value systems that are increasing in corporate participants.

© 2013 JC Crissey

not representative of firms in the other film sectors. Like Eliashberg and his colleagues, their textual emphasis is Hollywood oriented and incorporates activities dealing with blockbuster marketing, sequels, franchises, product placement and other big-budget elements that are not prevalent in various British independent film sectors.

Peter Bloore attempts to address this imbalance in favour of US-studio focused value chain analysis in his revised model centred on independent films. Taking the perspective of only non-studio financed movies, his work illustrates how most films are created and delivered through a variety of disparate value systems, involving many specialist organisations. Bloore extends Küng's work by proving the impact of fragmentation and the fragility of linkages between the script-to-screen activities. In doing so he highlights specific challenges faced by medium to large independent film firms, such as income risk, recoupment flows, talent retention, the value of cast and crew reputations, investment levels and timescale issues. Unique among the studies already discussed, Bloore's work attempts to explore customer value by stimulating a new debate on the traditional description of a movie end-customer through the inclusion of critics as well as theatregoers and DVD / download consumers. In taking this approach, Bloore challenges long held perceptions of customer identity and inadvertently sets them within the context of today's Web 2.0 environment where film bloggers, social networking and other movie opinion sites can either make or break a film. His work also partially succeeds in distinguishing between the activity processes of independent and Hollywood-studio films, but is still weakened by the same generality of scope that plagues the studio-oriented work of Eliashberg et al., Küng, and Vickery and Hawkins. Furthermore, the independent sector, as interpreted by Bloore, considers films with substantial budgets, and for which many of the activities widespread in larger-budget films are still required, such as dealing with movie stars, library rights and licensing.

Each of these studies is groundbreaking, exceeds the original aim of its authors and significantly advances commercial motion-picture industry scholarship. However, when considering them as a whole, and when taking account of the majority of comparable 'film chain' work not included in this study, it is obvious that a true Porteresque model for the film industry has yet to be achieved in that none of these studies has been made on a company level. Aside from Bloore's sector-focused research, previous studies have only been attempted at an industry level of process description, which, with that degree of generality, makes it difficult to pinpoint customer-value enhancements and competitive advantages from analysing linkages in the movie delivery process. True, many of these studies do discuss 'customer' and 'value' concepts, but they never attempt to quantify them by using competitive advantage theory. This is not to suggest that their research is in any way compromised and indeed it has already been stated that this is not the case, yet this does emphasise that defining customer value was never an aim of these authors.[15] Both Küng and Bloore openly acknowledge this by confessing that their models are 'shorthand' for describing the activity flow of movie delivery instead of the competitive advantage tool Porter had originally designed. In actuality, media business researchers have always abandoned the value chain's true purpose and instead used it as a euphemism for collectively describing the script-to-screen process. Needless to say the fact that a pure Porteresque model has yet to be shown does not, in itself, disqualify it from being successfully achieved in the future, but it does raise the question as to whether

[15] In some instances their work directly correlates with the process stages outlined in many 'how to be a filmmaker' books that are on the market (Jones, 2003).

© 2013 JC Crissey

the model's original parameters prevent it from ever being used effectively to improve customer value and increase competitive advantage within the film industry. As already illustrated, one sector that provides an ideal case study on which to test these limitations is the UK low-budget film sector.

The extreme nature of the UK low-budget film sector:

Of all the effects the digital revolution has had on the UK motion-picture industry, the escalation in low-budget film production is possibly one of the most remarkable. From the beginning of 2000 to the end of 2007, the sector experienced a 94% increase in its share of domestic production (19% rising to 37%). Within this statistic was an 800% rise in share, from 2% to 18%, of movies made for less than a half a million pounds, which is all the more astonishing when one considers that the industry suffered an overall reduction in production spend during this time.[16] Despite these changes in production dynamics, however, the sector's contribution continues to be widely discounted by many of the movie business elite. Low-budget films have always been categorised as a whole host of things other than a 'real' theatrical movies but, aside from these aesthetic prejudices, there are more substantive arguments for this position. As its name implies, the sector is characterised by poor production quality, lack of 'star' power and minimal marketing spend when compared to larger budgeted films, so it is no surprise that the sector contributes less than four percent of total UK production spend and has only a four per cent share at the box-office.

The backdrop behind the current state of the low-budget sector is a larger national motion-picture industry desperate to find new approaches to achieve sustainability and diversity in production, which in itself provides two reasons why the future of UK low-budget films matters. In the first place, the British film industry has only limited financial resources for making non-US studio independent films, and as a result, its constituent firms are often undercapitalised and detached from profitable distribution channels. The economics of the situation leaves the industry with little choice but to exploit all its limited assets in its search for more sustainable business models. Put bluntly, the UK simply cannot afford to neglect over a quarter of its films in today's Web 2.0-based environment. This is not to suggest the sector will be a 'silver bullet' that solves the larger self-reliance issues that thwart the industry, but it does mean the sector could still play an important supporting role if its performance can be improved. The second reason why the expansion of low-budget film production matters to the wider UK industry relates to the advancement of *British cinema* in its home and foreign markets. After removing US studio and co-production films from the total, the sector is a major source for national film creation. The category portrays, almost exclusively, British citizens, telling British stories for British audiences. Although theatrical releases remain elusive, the festival circuit does provide an alternative form of distribution that allows an outlet for illustrating British culture. Evidence of this is shown by the fact that many low-budget films have achieved a level of acclaim by winning awards in some of the most prestigious film festivals in the world.[17] Besides this, many of the people involved in the making these films have gone on to enjoy distinguished careers in higher-budgeted movies and broadcasting.[18]

[16] This data has been extrapolated from UKFC data and the author's own analysis of the low-budget sector.
[17] Examples include, *The Football Factory* (2004) won at Dinard in 2004, *Kidulthood* (2006) also won at Dinard in 2006, *My Summer of Love* (2006) won at the European Film Awards in 2006 and *The Magdalene Sisters* (2003) won at Venice.
[18] Examples include, Pawel Pawlikowski (*The Last Resort* 2000), Michael Winterbottom (*24 Hour Party People* 2002), Shane Meadows (*Once Upon a Tim in the Midlands* 2002) to name but a few.

© 2013 JC Crissey

All of this suggests that if Britain wishes to promote its cultural identity through cinema, the low-budget sector is a logical and cost-effective place to start.

The potential importance of the low-budget sector to the wider British industry only partially warrants its inclusion in the film value chain debate. Aside from the absence of any previous academic value chain research on this type of film, further justification can be made from several other perspectives. First the characteristics of the sector, in comparison with the rest of the industry, provide an ideal opportunity to compare the value chain model in extreme circumstances. No industry, or even individual part of it, can be considered completely homogenous in its process system nature, but as Bloore demonstrates, it is possible to define sub-groups within the film production in which general similarities in its links and coalitions exist. The low-budget sector is defined, not only by a budget level, but also by the unique nature of the product it makes and the people involved. Secondly, as a consequence of the digital revolution, the process system in the low-budget sector is experiencing very different effects from those in the rest of the industry. These effects will be explored in greater detail in the next section, but what is important at this point is the different impacts of the digital revolution also justify separate analysis of the sector.

Limitations of the film value chain in industry-wide analysis:

It has been alleged that 'no two films are alike' and although this phrase is probably used out of its original context here, it does support the reasoning behind a key element in Porter's competitive advantage theory. As detailed earlier, in order for a firm to improve its financial position relative to a rival, any potential advantages it has, or can have, in costs, product differentiators or in taking a niche market focus must be identified first before being incorporated into strategy (Porter, 1985). The value chain model was designed as a tool for this purpose, but only in relation to assessing a single firm's processes. Apart from the occasional exception, such as in a monopoly, an industry is comprised of different sectors that tend to employ different, and often individually unique, approaches to delivering customer value. This is why industry-wide analysis is too broad a means to finding sources of advantage.[19] Be that as it may, the aforementioned body of film value-chain research suggests that industry and/or sector reference model analysis can be useful in providing an understanding of the commercial aspects of film delivery. It should be pointed out that there is no research-based reason why the search for competitive advantage must be restricted to single-firm analysis.[20] As long as value opportunities can be accurately identified, it is conceivable that the scope of the value chain could be expanded to include generic industry comparisons. Attempting this approach would necessitate the analyst to view the model's original design as more guidance rather than a restriction, yet even allowing for this broader interpretation, the model would still need further alteration in order to allow it to assess an industry that individually crafts each film it produces.

Unlike other entertainment industries, such as broadcasting and sports entertainment, filmmaking has no single assembly-line process that delivers a steady flow of films. All movies do indeed go through the same general set of actions to reach the screen but, from an industry-wide perspective, few consistencies are evident. Bloore does, however, suggest that mutual activities do exist at a sector level. Hence, if the low-

[19] For example, Tapscott (1996) and Yoffie (1997).
[20] Although the body of previous research has not demonstrated that a Porteresque film value chain is possible, it has not conclusively proven that it is not possible.

© 2013 JC Crissey

budget area could be accurately defined, it should be possible, theoretically at least, to propose a generic film-value-chain reference model that is still relevant to low-budget production companies. Unfortunately, even if the scope of competitive advantage theory and its single-firm focus could be broadened, other more testing limitations remain that severely limit the value chains effective use in film industry analysis.

Linkages and coalitions
Every studio and independent feature-film company follows the same basic set of procedures in creating a movie and delivering it to a paying audience. This sequence of activities generally includes rights acquisition, script development, production planning, employing cast and crew, filming, editing, print finishing, marketing, distributing and exhibiting. While some of these activities may be omitted, or the sequence in which they occur adjusted, the overall process system is, basically, the same for every film. The apparent uniformity of this set of actions is only superficial, however, and masks important variations in the approaches used. These dissimilarities occur at an activity level and happen primarily in the linkages required to ensure that the process chain, and/or system, works seamlessly. Large-budget films, for example, are delivered through either a process chain using a single vertically aligned conglomerate or a process system that relies on tightly established coalitions with media firms.[21] The studios, in these situations, have almost total control over the entire process system and, as a consequence, their films have a superior financial position to those of many independent films. This is because they are able to optimise all their upstream and downstream processes before filming commences, especially in linkages between finance, production, distribution and marketing activities.

In contrast, movies that are not studio-financed are usually forced to employ more fragmented process systems that are characterised by weaker vertical linkages. For the most part, low-budget film companies have a downstream attitude to their activity processes, in that they consider the next company in the process system as a customer, rather than concentrating solely on the eventual cinemagoer. This can be observed in 'all-rights no-upfront payment' transactions where a producer, agent and distributor are legally attached to the same film in a virtual process system, yet continue to pursue conflicting marketing and exhibition strategies. Take for instance the producer who sells their movie to a distributor, who then sells it to other distributors in different geographic territories, who in turn eventually sell it to local exhibitors and/or broadcasters. The individual firms in these process systems have little incentive to embrace activity-coordination attempts, optimise the overall system linkages and avoid pursuing conflicting business objectives. Even though a film is typically made for an audience to enjoy rather than for a distributor, the idea of who the customer is often becomes distorted in these situations since the producer has little if no incentive to consider the needs of the final audience. Few low-budget producers would ever admit that their end customer is anyone other than the movie viewer, but in reality they are often forced by their weak financial position to secure any revenue, no matter how meagre, including foregoing any future box-office revenue. Considering the inherent frailty in every independent film process system, combined with the reality that most UK films are made by independents, there can be little wonder why many British filmmakers often describe themselves as part of a 'cottage' industry.

[21] Porter places significant emphasis on the requirement for coalitions within the value system, which he defines as long-term alliances with other firms which share the common goal of delivering the same product or service to market, but fall short of undertaking outright mergers, such as joint ventures, acquisition of licenses and supply agreements (1985, p. 34). Unless a firm broadens its scope internally, it has to form these coalitions in order to serve the customer.

© 2013 JC Crissey

To the great relief of many British independent producers, not every film has this level of weakness built its system linkages. This is because medium-budget producers often strive to mirror the process systems of studio films by attempting to integrate all their process activities at the beginning of production. These attempts do occasionally succeed in establishing a level of coordination and optimisation similar to that found in larger-budgeted productions. Low-budget producers, on the other hand, usually make their films 'on spec' and tend to establish their process systems after production has begun using a 'one thing at a time' approach. In this scenario the establishment of a single-process system that works harmoniously, and in which every firm involved shares the same commitment to providing value to the customer, is practically non-existent. There will always be exceptions to these norms since budget levels do not form the only determinant for which type of process system is used, but the disparity in strength of the vertical linkages and coalitions used by British production firms illustrates why value chain analysis on the low-budget sector remains problematic.

The chain bundling opportunity myth

Although chain bundling is not a specific component of the value chain model, the occurrence of this phenomenon does provide a potent example of how the use of the framework is not always beneficial in film industry assessment. As indicated earlier, one of the desired consequences of evaluating a value system is the optimisation of a firm's discrete activities. This often occurs when a company seeks to improve its competitive advantages by increasing the number and control of the activities it performs in its process system. In the 1940s, the vertically integrated US studios were the only corporations large enough to deliver a film to the screen without involving other firms, but thanks to the digital revolution this capability is now potentially available to every film production company. Küng suggests that new technology and deregulated markets are contributing to a disintermediation of hitherto tightly linked value chains in large US studios (2008). While in the low-budget sector the opposite appears to be happening in that instead of a de-coupling of activities, there is evidence to suggest chain bundling is happening. The proof for this can be found in the sectors dramatic rise in the number of films produced and delivered by a single firm. Not only have British low-budget films such as *Powerless* (2004) and *Evil Aliens* (2005) been modestly successful with this approach, but many 'how to make a movie' books and seminars now tout script to screen approaches as the 'way to go' in productions with little financing. All this would initially suggest an opportunity for competitive advantage theory and justify the use of the value chain on the low-budget sector, since it would be conceivable for the producer to average value across an entire chain and avoid the aforementioned linkage issues mentioned earlier. In practice however, producers who attempt to 'do everything' often find they solve one set of process chain problems by replacing them with another set of problems.

Chain bundling may now seem an attractive option for the low-budget producer, but any benefits from this approach still remain elusive. The reason for this relates to the ever-increasing level and sophistication of quality demanded by consumers. Even though, to take an extreme example, it is now possible to use a digital camera and a home computer to produce and distribute a feature film, the final product of such an endeavour rarely matches the needs of a film watcher. Consumers are continually increasing their requirements as technology advances, and as a result they want to experience movies in ever more sophisticated and expensive formats. Low-budget film producers have tended to be unable to keep up with these requirements and have

© 2013 JC Crissey

ultimately found it necessary to outsource various activities in order to meet higher quality demands. When cost constraints prevent the outsourcing of work, the producer is forced to ‘make do’ with inferior product elements. Therefore any advantages gained in bypassing traditional process systems are usually lost in completing every activity required. The issue or rising quality standards is also related to perceptions of customer value and identity, which are both rooted in the measurement of margin.

The margin element

The imperative to obtain and measure ‘margin’ is another design element in the value chain model that causes difficulties when attempting low-budget film sector value chain assessment. Margin is more than just the difference between cost and price; it is the difference between the “total value and the collective cost of performing value activities” and provides the value chain model with its only means of measuring customer value (Porter, 1985, p. 36). Therefore, the margin element directly relates to the profit requirement of companies. With few exceptions, the primary reason ‘for-profit’ companies to exist are to generate and maximise profit. Competitive advantage theory does not overtly discuss this fundamental business requirement but, by including the assessment of margin, it does provide for it within the value chain framework in a subtle and indirect way. Obviously Porter’s description of margin does not directly equate to financial profit in an accounting sense, but it does equal customer value, on which profit is greatly dependent. The logic for this is based on how differentiation and lower costs provide the means to achieving customer value, which in turn generates competitive advantages that ultimately results in profit. This reinforces what has been stated earlier in that it is impossible to exclude margin from the value chain model without also dismissing the model’s original purpose and how most corporate practitioners use it today.

While the margin element is fairly straightforward to apply in commercial industry scenarios, it proves much less straightforward when applied to the film industry. To illustrate this point, consider again the simple formula in which customer value (V_c) equals customer benefits (β_c) over price (P). For low-budget film companies, the main difficulty arises in estimating the customer benefits (β_c) portion of this calculation because the ambiguity described earlier often occurs in identifying the real end customer and the complexity of defining customer benefits. Vickery and Hawkins, later quoted by Bloore, outline this issue when they state:

> “The unique economic features of the film and video industries stem from the ‘experience goods’ characteristics of these products, whose market performance depends on complex interactions between psychological, social and cultural factors… The realisable value of a film is determined largely by intangible assets that have very special characteristics. Consumer perceptions of the personality and talents of individuals associated with a film can play a crucial role in determining the value of the film.”
>
> Vickery and Hawkins (2008), p. 106 and p. 59.

Here the concept of cost differentiators – a major source of competitive advantage, if seen from the traditional Porter point of view – has no direct part to play in this estimation. Vickery and Hawkins assert that strong customer value is not created in feature films by providing ‘good value for money’ for the end consumer, but through differentiators to which the low-budget manufacturer usually has no access. When the theatregoer has the choice of watching two films with the same ticket price, one a US blockbuster and the other a low-budget film, customer value cannot be generated for

© 2013 JC Crissey

the low-budget film by discovering ways to reduce its screening price. In this case, customer value must be generated from the emotional response the customer receives after the purchase has been made. Differentiators such as 'stars' and special effects, as with many other variables, do indeed come into play, but not in the low-budget sector.

Even if the subjectiveness in determining customer benefit could be overcome, the concepts of customer value and profit are not always considered a top priority in the low-budget sector. One reason for this can be attributed to the wide variety of people and organisations investing in British films. Venture capitalists, media conglomerates, US studios, government agencies, charities and philanthropists are all involved and this naturally leads to a wide variety of organisational structures, finance approaches and business model objectives being adopted by the firms to which they give support. Hollywood studio-backed UK film companies and medium-budget independents firms linked to larger media organisations, such as Working Title, for instance, have reliable cash flows that enables them to operate traditional business models predicated on proven profit methods and commitment to customer value. These businesses are required by their investors to have long-term strategies that include both downstream and upstream perspectives in their process systems. Moreover, profits are more readily achieved from the synergies and 'economies of scale' that are made possible through the portfolio production of medium-to-large budget films, while customer value is proactively attempted by targeting specific audiences that have been 'market tested' with well-known actors and genres.

In contrast, low-budget independent film companies do not have access to dependable cash flow and this inhibits their ability to achieve a profit or consider customer value. These firms tend to be precariously 'single-project' focused, often legally defined within 'single-purpose' limited companies, and produce their films on spec, a situation which regrettably limits opportunities for economies of scale. It is fortunate that the managing directors of these firms often have investors who are not always driven by profit motives or market requirements. In fact, some of these companies have no interest in profit or customer value in any business sense whatsoever. Often in these cases, budgets are determined by production requirements instead of profit or ROI potential, pre-production planning rarely incorporates the requirements of target audiences or distribution channels and tried-and-tested approaches, such as using genre, are commonly ignored. Occasionally these firms are 'tax vehicles' or 'cultural experiments' that satisfy the esoteric needs of their investors instead of any specific business requirements that would be measured by margin in a value chain model. Every British film company that is professional in its operations is likely to share a desire to drive down and control costs of production, distribution and marketing, but such firms are not always preoccupied with the need to address the requirements for maximising the margin element. This industry-wide ambivalence to customer value, in a margin element calculation, also relates to the artistic aspects of the film product.

Works of art

In a broad context it is often very difficult to discern the differences between products and works of art. For many in the general public, what constitutes a work of art is largely a matter of personal opinion. Clarity from pertinent academic material is also vague in a business context, in that there is a lack of consensus on definition and, as a consequence, many examples exist of films that can be categorised as either products or as works of art, depending on the meaning of the terms (Wollheim, 1980). That

© 2013 JC Crissey

being said, this general ambiguity is less relevant in attempts to conduct value chain analysis on the British film industry, since the primary intentions of the filmmaker are of key importance. In this study, therefore, a *commercial product* is defined as something manufactured, for the economic benefit of its maker and/or seller that satisfies a buyer's need, whereas a work of art is said to be something primarily created to satisfy the artistic needs of its creator. Since a movie is a commercial art form, this proves problematic for conducting a value chain analysis, especially in cases where a film is considered more art than product, because a major premise of competitive advantage theory is that a firm's success depends on its market position.

As already stated, no doubt all British producers and directors strive to create value throughout the filmmaking process system with the aim to delight their audiences, but the search for competitive advantages in cost, differentiation and focus so that profit can be increased, is not always their main intention. Obvious illustrations can be found in the firms who make and distribute 'art-house' films. As the name suggests, these movies tend to be more 'art-like', in particular, the creators of an art-house film rarely begin their script development process by specifying customer needs. They may have a particular audience in mind, but this rarely dictates the way in which they design and craft their film. Motivation here originates in the personal creative desires of the producer and/or director rather than any market requirements per se. Therefore art-house films are rarely created to provide a profit, even if profit is always desired. Although there is no specific public data to support this claim and profitable art-house films do exist, the very low release rates and the types of investors who normally back these productions provide a strong basis for the position.[22] In addition to the investor types mentioned above, relatives of the filmmakers and other private 'first-time' financiers typify this group. All probably have profit-share clauses in their contracts but whether they consider their investment any more than a gamble would be surprising. The list of those who do invest in these films is perhaps even more notable for those who are not on it - the established film investors who have consistently made profits from films for many years. There will always be exceptions to this generalisation, but again, this suggests that traditional business attitudes in beating the competition and providing a return on investment do not generally exist in the art-house film genre. Indeed, this situation is pervasive throughout the low-budget film sector, where production motivation is often more esoteric.

An alternative - the supply chain methodology:

Thankfully there are other more effective reference-frameworks for commercially assessing the UK low-budget film sector. These approaches are all variations on the often forgotten and less trendy titled *supply chain* concept, which emerged in the 1980s in tandem with the value chain. Originally named by Keith Oliver when outlining an integrated inventory management process for a London-based client, the supply chain has also become a common term in corporate offices around the world.[23] Initially more a concept than a specific model, the term encompasses "every effort involved in producing and delivering a final product or service, from a supplier's supplier to the customer's customer" (Supply Chain Council, 2009). Even though there are variations of the concept, all of them tend to focus on the linkages between "organisations involved in the delivery of products or services required by the

[22] Extrapolated from UKFC data.

[23] The supply chain management concept cannot be attributed to a single person because many of its elements can be linked to earlier usage or innovators, such as the arrival of the assembly line in the early 20th century and as far back as Adam Smith's views of manufacturing efficiency in his 1776 book *The Wealth of Nations*.

© 2013 JC Crissey

customer" (CSCMP, 2010). As with the value chain approach, these linkages are critical because they facilitate the flow of raw materials, products, services, finances and information between suppliers and customers and when an organisation is unable to perform all the activities on its own, the supply chain caters for collaboration with a whole host of potential partners. These partners can include suppliers, intermediaries, third-party service providers and even the customers themselves, all of which can easily be mapped onto a film industry scenario. This description may at first appear comparatively simpler to Porter's model, but the actual process of coordinating the flows of supply and demand between linkages can often be very complex and has given rise to the *supply chain management* profession that specialises in ensuring these connections work as efficiently as possible. Hence, supply chain managers' focus on the costs and efficiency of the supply and the flow of materials, from their source to their final end customer, which is almost identical to the project management responsibility of film producers. (See Figure 3.)

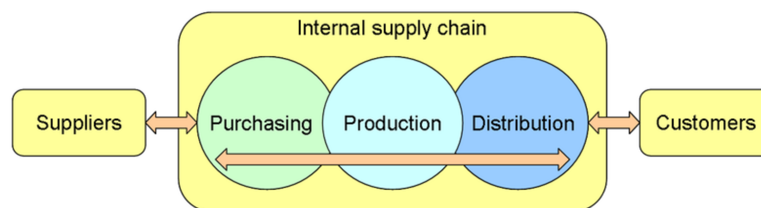

Figure 3 - The Supply Chain (Chen and Paulraj, 2004)

Leading operation management theorists have, for some time, challenged the view that the modern supply chain concept is only focused on the costs and efficiencies of supply. Professor Nigel Slack of the University of Warwick represents the majority view of those holding this opinion when he states that the supply chain's primary objective is to satisfy the end customer. In his book, *Operations Management (5th edn)* Professor Slack stresses that all stages in a supply chain "must eventually include consideration of the final customer, no matter how far an individual operation is from the end customer" (2007). Some business practitioners extend this view such as Mike Eskew, former CEO of United Parcel Service, by describing the history of supply chain management as one based on "cost optimisation", but its future is based on "customer intimacy" (1998, quoted in Feller et al. 2006). This description reflects the evolution of the supply chain concept and synchronises value with the flow of supply, therefore blurring the modern distinction between a value chain and a supply chain. These views may ultimately result in a total convergence between the approaches in practice, but until then they continue to be used for different purposes by different groups of people.

Essentially the difference between a value chain and a supply chain is one of focus. Both concepts examine the same basic set of activities and flow in resources, attempt to identify the same inefficiencies in the production process and consider quality and cost requirements, but the reasoning behind these analyses can be very different. The supply chain focuses on "the integration of the upstream and downstream processes in order to improve operational efficiency and reduce waste, whereas the value chain focuses on downstream activities in order to create value in the eyes of the customer"

© 2013 JC Crissey

(Feller et al., 2006). Whereas the supply chain aims to improve process and reduce cost and waste without compromising the desired quality level, the value chain aims to increase customer value. Obviously this difference in focus does not have to equate to mutually exclusive business aims, but from a commercial assessment perspective, the difference is acute in that a supply chain focuses on identifying areas of efficiency, whereas a value chain helps to identify areas of competitive advantage. Aside from the aforementioned revisionist definitions that suggest convergence, the traditional distinction between cost and value focus continues to persist in that marketing executives tend to use the value chain, while manufacturing executives tend to use supply chain methodologies. As with the frequent omission of the margin element in film value chain analysis, these important distinctions are often ignored, or even muddled, by strategists who inappropriately use the wrong approach for their desired intent. In selecting the best approach for commercially analysing the film industry these distinctions become critical and necessitate careful consideration when analysing the processes of the low-budget sector. (See Figure 4.)

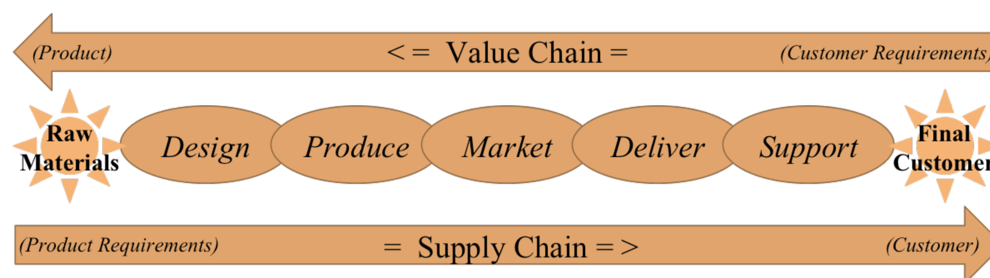

Figure 4 - Value Chain vs. Supply Chain comparison (Feller et al., 2006)

From the perspective of the commercial film analyst there are several reasons why the supply chain is more appropriate for the low-budget sector. To begin with, the limitations that restrict the value chain's utility in film industry assessment don't occur in supply chain analysis. Hence, there are no theoretical requirements to assess discrete linkages against a particular rival since supply chain frameworks are structured to accommodate both firm and industry-aggregate assessments.[24] Moreover, conventional supply chain frameworks are flexible enough to cater for works of art and primarily focus on finding cost efficiencies, not necessarily on customer value maximisation where margin is emphasised. The focus on cost and efficiency in delivery, perhaps above all others, makes the supply chain a more ideal approach to conduct commercial analysis on the low-budget film sector, because cost and efficiency are precisely the main issues producers in this area are most concerned about.[25] Many British 'how to make a film' books and producer biographies confirm low-budget motion-picture companies are preoccupied with delivering a quality film on budget.[26] Hence, it is this paramount desire by low-budget producers to achieve efficiency within a preset, and often shrinking, budgets and the basic 'downstream activity process' focus of their firms, that makes the supply chain method more suited to the non-commercial elements of the low-budget sector.

[24]Numerous examples of where the supply chain concept has been used at both industry and company level exist. For instance, industry level supply chain analysis has been conducted on the US aviation industry, the steel industry and the entertainment industry. At company level, Ford, IBM, Walt Disney have are noted case study examples.
[25]NPA study 'Producer Concerns' (2007). [Online results no longer available. Need new source.]
[26]Any of the filmmaking books listed in this study provide evidence for this assertion.

© 2013 JC Crissey

Conclusions: where is the value in the chain?

There is little doubt that the value chain model has been, and will certainly continue to be, used in generic motion-picture industry-level assessment for some time to come, since it has been proven useful in graphically portraying the activities and relationships involved in delivering a film. As such, many unique business issues concerning the idiosyncrasies of film delivery, as well as some of the organisations involved, would probably not have been explored without the use of Porter's model in this manner. Unfortunately however, this trend has effectively shifted the common use of the value chain from a clearly defined methodology for indentifying a firm's competitive advantages to a more ubiquitous concept. This is regrettable because the commercial benefits of improving performance through customer value remain largely untested in modern film-management analysis, with the result that movie executives remain unaware of the financial potential Porter's original model could provide their businesses. However, neither this trend nor the underlying limitations of the model necessarily disqualify the value chain from ever being used appropriately in the film industry. Aside from its use as a general *reference model*, Hollywood studios, especially those that are vertically integrated media-conglomerates, have upstream focused systems that provide attractive possibilities for pure value chain research.[27] Future study in this area that includes the estimation of margin and customer value could prove valuable to the studios analysed. While large and medium-budget independent film sectors could also benefit and yield exciting research opportunities, since they share many of the process systems of large-budget films.

Conversely the companies that constitute the low-budget sector do not generally provide a suitable area for value chain use, since these firms do not share the same requirements and/or objectives other firms have in the rest of the industry. The need to uncover competitive advantages in cost, differentiation and focus, so that customer value and ultimately profit can be increased, are not always the main goals for low-budget films. Naturally every producer would profess a desire for profit, but low-budget producers often consider the quest to 'just make a flick' more realistic and important, which in itself discounts the reason to investigate competitive advantage. Of course the low-budget sector is not itself a homogenous arm of the industry; it is comprised of a whole host of different firms with different aims, making different commercial art form products as diverse as culture, art-house and genre films. While some low-budget firms do indeed have a real financial focus, many others do not. Since Porter himself questions the need for analysing industries with low economic attractiveness, and given the poor release rate and unprofitable history of the sector, it cannot be an ideal candidate for pure value chain analysis.

Low-budget producers do however share the desire for cost efficiency in the delivery process and more often than not this is their primary goal. This makes the supply chain methodology more suitable to the low-budget film company than it would be otherwise, but not from a customer value perspective. It is efficiency in production within preset, and often shrinking, budgets that is vital for low-budget producers. Crucially, the traditional supply chain does not entail a provision for generating a pre-determined customer value, and as such, its downstream activity focus is suited to the non-commercial elements of the low-budget sector. From a research perspective, the potential applicability of the supply chain also offers exciting and new areas for

[27] The term 'reference model' in this study signifies a model that embodies the generic industry-level outline of a process.

© 2013 JC Crissey

further investigation within a low-budget film sector context and where the impacts of government policy and television broadcaster involvement could be tested. Results in this line of research could significantly enhance the possibilities of improving the efficiency of the low-budget sector in a way that is conducive to its unique characteristics. This in turn could help facilitate the sustainability of the wider British motion-picture industry, so often a topic with the British government, because if more profitable business models can be used in today's Web 2.0-society the chance for its long-term viability is increased.

In conclusion the value chain model has been, and always will be, a clearly defined framework within which a firm may select an appropriate corporate strategy through the understanding of its competitive advantages. As such, it is not concerned with elements relating to the reputations of famous actors, release deadlines or with levels and types of 'soft money' investment; nor is it concerned with how box-office recoupment is achieved or with library rights. As relevant as these are to the way film companies generally operate, they are business model issues not directly relevant to increasing competitive advantages over industry rivals. While Porter's original model still provides Hollywood executives with a powerful tool for assessing their firms, for the low-budget company the search for business improvement, however the producer may define it, must lie in supply chain concepts or other more suitable methodologies.

© 2013 JC Crissey

Bibliography:

Aris, A. 2005. *Managing Media Companies: Harnessing Creative Value* (Chichester, West Sussex: John Wiley)

Baillieu, B., and J. Goodchild. 2002. *The British Film Business* (Chichester, West Sussex: John Wiley)

Berend, W. 2006. *Motion-pictures: Consumers, Channels, and Intuition* (Marketing Science)

Bloore, P. 2009. *Re-defining the Independent Film Value Chain*. Discussion document. UK Film Council

Government of British Columbia. *Opportunities for Growth and Competitive Advantage for BC's Film and New Media Industries*. A report to the BC Competition Council

Chen, I., and A. Paulraj. 2004. 'Towards a theory of supply chain management: the constructs and measurements' *Journal of Operations Management*

Council of Supply Chain Management Professionals. 2009. *Supply Chain Management Definitions* Online at: http://cscmp.org/ [Accessed 6 December 2009]

De Vany, A. and W. Walls. *Estimating the Effects of Movie Piracy on Box-office Revenue* Online at: http://www.springerlink.com/ [Accessed 2 January 2010]

Elberse, A. and J. Eliashberg. 2003. 'Demand and supply dynamics for sequentially released products in international markets: The case of motion pictures.' *Marketing Science* 22, no. 3

Eliashberg, J. 1998. 'A critical problem for movie marketers' *Financial Times* 2 November p. 5

Eliashberg, J. ed. 2007. From Story Line to Box Office: A New Approach for Green-Lighting Movie Scripts. *Management Science* 53, no. 6

Eliashberg, J. A. Elberse, and M. Leenders. 2006. 'The Motion-picture Industry: Critical Issues in Practice, Current Research, and New Research Directions' *Marketing Science* 25, no. 6

Evans, P. and Wurster, T. 1999. *Blown to Bits: How the New Economics of Information Transforms Strategy*, illustrated edition (Cambridge, MA: Harvard Business School Press)

Gloor, P. 2006. *Swarm Creativity: Competitive Advantage through Collaborative Innovation Networks* (New York, NY: OUP-USA)

Glyn, W. 2004. 'Uncertainty and contractual hazard in the film industry: managing adversarial collaboration with dominant suppliers' *Supply Chain Management* 9: 5, 20

© 2013 JC Crissey

Gooch, M. and A Felfel. 2009. *Characterizing the Ideal Model of Value Chain Management and Barriers to its Implementation*. Online at: http://www.vcmtools.ca/pdf/Theidealvaluechain080409.pdf. [Accessed 17 December 2009].

Jones, C. 2006. *The Guerilla Film Handbook 3rd edn* (London. Continuum)

Khan, Urmee. 2009. 'Tackling film piracy would generate £614m for UK economy' *Daily Telegraph* Online at: http://www.telegraph.co.uk/ [Accessed 19 January 2010].

Küng, L. 2008. *Strategic Management in the Media: Theory and Practice: Theory to Practice* (SAGE Ltd)

Maylor, H. 2002. *Project Management, 3rd edn* (Financial Times/ Prentice Hall)

Motion-picture Association of America. *Who Piracy Hurts*. Online at: http://www.mpaa.org/piracy_WhoPiracyHurts.asp [Accessed 19 January 2010]

National Heritage Committee evidence. 1994. *Richard Attenborough Interview Transcript*. British Government

Peitz and Waelbroeck. 2003. Op. Cit.

Porter, M. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press)

Swami, S. 2006. 'Research Perspectives at the Interface of Marketing and Operations: Applications to the Motion-picture Industry' *Marketing Science* 25: 6

Silver, J. and J. McDonnell. 2007. 'Are movie theatres doomed? Do exhibitors see the big picture as theaters lose their competitive advantage?' *Business Horizons*

Slack, P. et al. 2008. *Operations Management,* 5th edn. (Financial Times/Prentice Hall)

Jockel, S. and T. Dobler. 2006. 'The Event Movie: Marketing Filmed Entertainment for Transnational Media Corporations' *The International Journal on Media Management* 8 no 2

Wollheim, R. 1980. *Art and its Objects* 2nd edn. (Cambridge: Cambridge University Press)

© 2013 JC Crissey

Acknowledgements:
The author would like to thank Professor John Hill, Dr Margaret Whidden, Dr Rod Rosenquist, Dr Mike Pearson and fellow colleagues Marinko Markek and Ailson Moraes. I would also like to thank the kind library staff at Newbold College and both the Department of Media Arts and the School of Management at Royal Holloway University of London for their support and assistance in the production of this work.

© 2013 JC Crissey

ABOUT THE AUTHOR:

JC Crissey

Lecturer in Marketing and Management Strategy, Newbold College.

MBA Marketing (Rollins 90),
BBA Management (Andrews 87),
DipM (Chartered Institute of Marketing 92),
FCIM (Fellow, Chartered Institute of Marketing 98).

John Crissey is Lecturer in International Marketing and Management at Newbold College, Binfield, UK. Additionally, he routinely lectures on the producing, management, marketing, financing and general industry related issues of feature-film making at Royal Holloway, University of London, the British National Screen Academy in Edinburgh and at numerous practitioner events and film festivals around the world. Complementary to his teaching career JC is also CEO and Producer for London Pictures Limited (since 1999) and has been involved with bringing to the screen over ten feature-films. From 2002 to 2003 he served on the Chancellor's Court of Benefactors at Oxford University and since 2002 has been a lifetime member of the British Academy of Film and Television Arts (BAFTA).

Although JC has a strong association with motion-picture production, after completing his MBA in 1988, he began his extensive professional business career with the IBM Corporation as a Marketing Representative for their PC Division. Through the next twelve years he was consistently promoted through various sales and marketing positions, where in 1999 he ultimately became IBM's EMEA Global Business Intelligence Solutions Sales Director. It is this 'corporate experience' he credits as providing him with a unique business perspective on movie production and delivery.

JC also has a strong academic research interest in the multimedia arts as they pertain to low-budget feature film production. Currently he is a PhD student in the Media Arts Department at Royal Holloway, University of London under the supervisorship of Professor John Hill.

He is married with two lovely daughters and four naughty longhaired miniature daschunds.

© 2013 JC Crissey