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Essay 2: Pequod The Hypothetical Motion Picture Project

I estimated the budget for this hypothetical motion picture project (code name: *Pequod*) using existing data. The average annual marketing and negative cost data listed in *Entertainment Industry Economics*¹ allowed me to extrapolate average costs in today's numbers (see *Figures 1-3*). The estimated average negative cost will be \$93.4 million in 2016. The estimated average prints and advertising cost will be \$52.1 million in 2016. The total budget for *Pequod* is approximately \$148.5 million. The target demographic for *Pequod* is Generation Z — anyone born after 1994. This whale represents 25.9 percent of the population and controls \$44 billion in spending.² Influence over parent's spending has been estimated at \$200 billion.³ Due to the unique needs of this demographic, the development of *Pequod* will require three distinct phases.

To understand how this vessel should be configured, *Pequod* will go through an extensive research and strategy phase budgeted at \$1.5 million. During this phase, the aim will be to find direction on the film itself, alternative narrative structures as well as marketing strategies specific to Generation Z. Generation Z is generally described as extremely creative, more comfortable with one-to-one media interactions (e.g. Snapchat or WhatsApp), and keenly averse to advertising and commercial content.²

Next, *Pequod* will be outfitted with tools necessary to capture its Moby Dick. This phase will include preparing the film, developing digital properties, creating digital / social content, and identifying partners to produce merchandise. This phase will be budgeted at \$3 million. Additionally, in this phase, it will be critical to identify Generation Z influencers to enroll in the process. This early interaction will build authentic community and begin generating community around *Pequod*.

¹Vogel, Harold. *Entertainment Industry Economics*. New York, NY, Cambridge University Press. 2011. Print.

²Oster, Erik. *This Gen Z Infographic Can Help Marketers Get Wise To The Future*. AdWeek, 21 Aug. 2014. Web. 25 Oct. 2015. <<http://www.adweek.com/news/advertising-branding/gen-z-infographic-can-help-marketers-get-wise-future-159642>>.

³Schawbel, Dan. *10 New Findings About The Millennial Consumer*. Forbes. 20 Jan 2014. Web. 25 Oct. 2015. <<http://www.forbes.com/sites/danschawbel/2015/01/20/10-new-findings-about-the-millennial-consumer/>>.

Lastly, marketing and community development activities should be considered as important as the film itself. Because Generation Z is largely still in school, *Pequod* will be released in late June right as summer begins. At \$2,000 per print, the total cost of theatre prints is estimated at \$4 million. *Pequod* should emphasize both theatrical and video-on-demand release of the film. A summer release also provides the opportunity to capture back-to-school clothing and accessory revenues in August and September.

Marketing will begin with the prior school year and will be foundationally built on “snackable” video and gif content that can easily be shared. Community development activities like these will be budgeted at \$10 million. This could also include sponsored tools for popular apps like Snapchat; sticker keyboards that can be used to share content; tools for editing photos and gifs to the style of the film; and video shorts. All of this content should be easy to share on the platform of choice for the user. While beginning to introduce the characters and narrative to the audience through content marketing, *Pequod* will leverage the film’s stars to build communities. This could include growing followership on Instagram, posting and sending “Snaps” in Snapchat or making personal connections in chat apps like WhatsApp. Next, outreach to influencers will unlock much of the demographic because they will share content associated with the project through their networks. These influencers exist on Snapchat, Instagram, YouTube and other popular services.

With the right messaging focus and emphasis on mobile, more traditional marketing efforts can also drive community growth. The remaining P&A budget will be put to this purpose — \$31.1 million. *Pequod* will rely on pay-to-play marketing that is not dependent on network participation. This includes ads that run alongside popular content (e.g. television commercials, ads content-on-demand networks like YouTube, Spotify and Pandora). Additionally, *Pequod* will invest in banner ads that run on popular mobile apps (e.g. Clash of Clans). *Pequod* will also be a great fit for contests and promotional tours.

I estimate that *Pequod* will net \$155 million in revenue (see *figure 4*). I based the domestic and foreign theatre rental return off of a similarly budgeted worse case scenario — Warner Brother’s *Pan*.⁴ To date with a budget of \$150 million, *Pan* has grossed just \$29.9 million domestically. It did slightly better internationally, grossing \$63.8 million. *Pequod* is estimated to gross \$30.9 million domestically and \$68.2

⁴N.a. *Pan*. Box Office Mojo. 25 Oct. 2015. Web. 25 Oct. 2015. <<http://www.boxofficemojo.com/movies/?id=pan.htm>>.

million internationally based on 0.45 percent of the world's Generation Z population viewing the film at an average price of \$8.34 per ticket.⁴

Given the highly mobile nature of *Pequod's* demographic, I have generously modeled domestic video-on-demand on the 2014 release of *The Interview*⁵, which grossed \$40 million domestically. *Pequod* is estimated to gross \$57.5 million domestically and \$126.6 million internationally from VOD viewers based on three percent of the world's Generation Z population viewing the film for an average rental price of \$1.99.

It seems unlikely that this mobile demographic would choose to purchase home video so I estimated saturation of only 0.5 percent of the domestic and foreign populations. Additionally, I modeled domestic and foreign output deals on data from *Entertainment Industry Economics*.¹ All of these returns have been calculated factoring in contractual obligations to the distributor as well as other entities like theatre owners and VOD platforms. According to *Entertainment Industry Economics*, domestic distribution is subject to a 30 percent distribution fee as well as contractual obligations that can consume up to 40 percent of gross revenue. Additionally, international distribution is subject to a 40 percent distribution fee as well as contractual obligations.¹ Lastly, I estimate that *Pequod* will have merchandise and mobile app tie-ins that should generate \$12 million in revenue. I estimate the profit of *Pequod* at \$6.6 million before participation.

⁵The Deadline Team. '*The Interview*' Headed To Netflix As VOD Sales Pass \$40M - Update. Deadline. 20 Jan 2015. Web. 25 Oct. 2015. <<http://deadline.com/2015/01/the-interview-vod-sales-sony-1201353855/>>.

Figure 1: Negative Cost

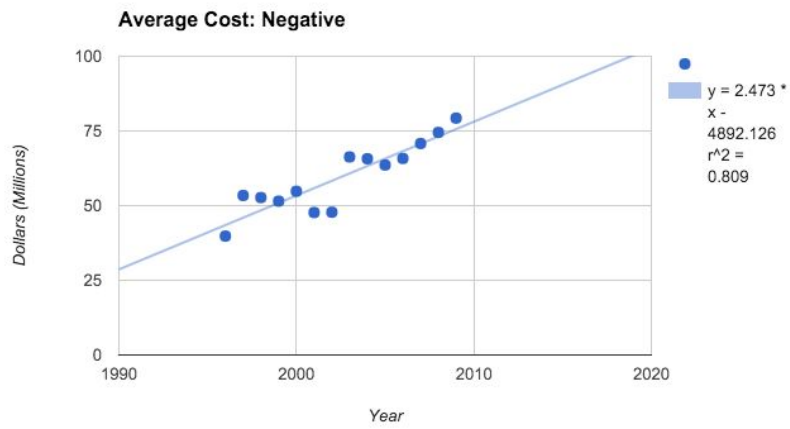


Figure 2: Advertising Cost

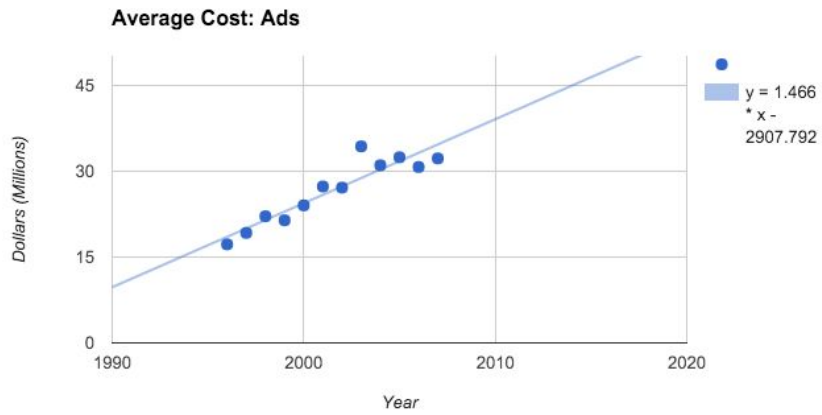


Figure 3: Prints Cost

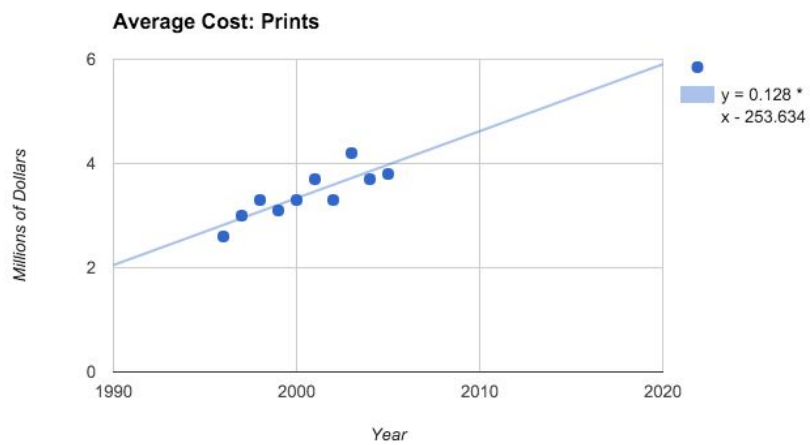


Figure 4: Budget Worksheet

	Gross	Net	Based On	Sources
Negative Costs				
Production Cost		(93,400,000.00)	2016 projected average production cost (Vogel)	Vogel
Interest (3.25%)		(3,035,500.00)	Wall Street Journal Prime Rate	WSJ
Prints and Ads				
Market Research and Strategy		(1,500,000.00)		
Product, Content, Property Development		(3,000,000.00)		
Community Development		(10,000,000.00)		
Prints		(4,000,000.00)	\$2,000 per print for 2,000 theatres	Vogel
Advertising		(32,100,000.00)		
Contests		(500,000.00)		
Promotional Tours		(1,000,000.00)		
Prints and Ads Subtotal		(52,100,000.00)	2016 projected average combined print and ad cost	Vogel
Costs Subtotal		(148,535,500.00)		
Domestic Distribution (subject to 30% distribution fee)				
Theatre Rental (60% retained)	30,984,584.10	13,013,525.32	.45% of US Gen Z population of 82,595,100 at \$8.34 / ticket (for Pan)	Marketo, Box Office Mojo
Video On Demand (60% retained)	57,502,698.72	24,151,133.46	3.5% of US Gen Z population of 82,595,100 at \$1.99 rental price (for The Interview)	Marketo, Deadline
Home Video (20% retained)	41,279,755.00	5,779,165.70	.5% of US Gen Z population of 82,595,100 at \$10.00	Marketo
Output Deals (TV, Cable, Syndication)	10,000,000.00	7,000,000.00	Estimated at \$10M	Vogel
International Distribution (subject to 40% distribution fee)				
Theatre Rental (60% retained)	68,207,205.90	24,554,594.12	.45% of rest-of-world Gen Z population of 1,817,404,900 at \$8.34 / ticket (for Pan)	Box Office Mojo
Video On Demand (60% retained)	126,582,251.29	45,569,610.46	3.5% of rest-of-world Gen Z population of 1,817,404,900 at \$1.99 rental price (for The Interview)	Marketo, Deadline
Home Video (20% retained)	90,870,245.00	10,904,429.40	.5% of rest-of-world Gen Z population of 1,817,404,900 at \$10.00	Marketo
Output Deals (TV, Cable, Syndication)	20,000,000.00	12,000,000.00	2x domestic output	Vogel
Other Distribution				
Merchandise Sales (7% retained, subject to 15% distribution fee)	200,000,000.00	11,900,000.00	.1% of US Gen Z controlled spending (200B)	Marketo
Mobile App Sales (70% retained, subject to 15% distribution fee)	475,000.00	282,625.00	.025% of world Gen Z population at average \$1.00 in-app sales	
Revenue Subtotal		155,155,083.47		
Net		6,619,583.47		