Article

Organisational shifts in the feature film industry: implications for South Africa

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Abstract

The last few years have proved turbulent for the international film industry. A wave of merger and acquisition activity has allowed the large entertainment companies to exert influence over the film value chain and raise entry barriers. At the same time there has been an organisational shift away from hierarchical production to a looser network structure wherein companies act as financing and distribution hubs, mobilising resources from outside. Although this has meant greater flexibility and lower overheads, it has also made assembling resources more problematic. These trends have important implications for South Africa, both threatening and opening up opportunities for the local film industry. This article looks at the current status and structure of the sector in an attempt to determine the implications of the international trends. It suggests that in this new arena, competitiveness is increasingly reliant on ease of contracting; audience development and effective distribution. As such, it reviews ways in which both the public and the private sector can help develop the responsiveness necessary for long-term growth.

Introduction

The term 'film' industry is often used to describe any activity related to the production of feature films, commercials, stills[1] and television products. This includes pre-production, post-production, distribution, exhibition and film financing. (It generally does not include broadcasting, a convention adopted by Statistics South Africa.) Pre-production refers to the planning phase of a production and involves finding the location, planning and scheduling the shoots, budgeting and employing casting and crewing agents. Postproduction refers to the editing process where the production is edited, and special effects and sound are added. The subsectors of film, features, commercials, stills and television are interlinked, with many production houses, crew and film professionals working in a number of areas. This is especially true in South Africa, where skills and expertise are honed in the production of commercials and, together with the money earned in this subsector, used in the production of features. Although this article focuses on the impact of international trends on feature films, the interrelation between the subsectors means that all areas of the film industry are affected.

The total film industry plays an important role in the South African economy, bringing in valuable foreign exchange, acting as a conduit for technology and skills transfer. It is estimated to generate over R5.5 billion in economic activity annually and is a significant employment creator. It directly affects companies involved in production, post production, casting, crewing, equipment-hire, set design and property supply, as well as stimulating further jobs in the transport, catering and hospitality industries (Tuomi 2005).[2]

Although South Africa has the competency to become a significant player in the international film market, the local industry faces a number of external and internal obstacles. Most foreign governments with domestic film industries have recently increased the provision of financial incentives and tax breaks.[3] Such subsidised competition puts developing countries like South Africa at a considerable disadvantage. This situation is compounded by the secondary pricing system evident in economies like the United States, where films and programs are sold at a discounted price to other countries. The increasingly competitive international arena has also given rise to a number of influential organisational trends. On a global scale, the major film studios have been consolidating influence through merger and acquisition activity (Cultural Industry Growth Strategy 1998). This has resulted in a concentration of power and raised entry barriers for new players. There has been a concurrent shift, especially in the smaller production houses, away from hierarchical production to a looser network production structure. Though this has increased flexibility and lowered costs, it has also made success dependent on effective resource management (Lampel and Shamsie 2003).

The above trends both threaten and open up opportunities for the local film industry. The adverse consequences of these trends can be mitigated if the sector remains aware of these global movements and develops the flexibility to remain competitive at all times. This article will analyse the local implications of the changing industrial landscape. In particular, it will focus on how the South African film industry and public support structure can ensure sustainability in the face of these changes.[4]

Organisational change in film

Developed country film sectors have recently experienced increased levels of merger and acquisition activity, with a resultant concentration of power. Legislative deregulation in the United States in the late 1990s allowed levels of integration that had not been permitted since the 1950s, when the production studios were forced to sell their exhibition venues. As a result, entertainment companies such as News Corporation (which owns Twentieth Century Fox, a major film and television company, and the US Fox Broadcasting network) were able to recoup production costs though a greater number of channels including box office ticket sales, merchandise, video, Digital Video Disks (DVDs) and pay television.

Integration activity has been a feature of the industry since the beginning of cinema and was shaped by early industrial developments in the United States. Kerrigan and Culkin (2000) emphasise how the creation of the 'Trust' in 1909 helped entrench a number of current practices. The Trust, officially the Motion Picture Patents Company, was an association formed to constrain other players in the American motion picture industry. As a survival strategy in this cartel environment, the independent sector began to establish vertical distribution links, setting the standard for the contemporary industrial forms of the large studios. The US industry continued to expand and was able to achieve significant economies of scale through the production, distribution and exhibition processes. As Grey (1999) notes, releases were (and still are) coordinated to make maximum impact in different territories at the same time.

The recent wave of merger activity is different to the standard vertical and horizontal integration of earlier years. It is more an entrenchment of influence than a straightforward concentration of ownership and has occurred in response to an increasingly competitive and precarious global environment. The aforementioned shift toward networking among the smaller production houses has put pressure on the large studios. As a result they have been forced to both adopt some of these flexible modes of operation themselves, and to continue securing influence through acquisitions. Currently, ten (mostly US-based) conglomerates dominate the global media. These include Disney, Time Warner, Viacom, Universal, Sony, Polygram, MGM and New Corporation (Cultural Industry Growth Strategy 1998). The increased consolidation and resultant ability to spread risk should theoretically have encouraged film production in the big studios. The output of large studios has remained relatively stable. Furthermore, it has resulted in higher entry barriers for new and small players, who are unable to achieve the financial leverage and access to distribution channels enjoyed by the dominant studios. The scale advantages and substantial marketing budgets commanded by the large entertainment companies ensure that their ‘big budget’ products provide steady returns to distributors. As such, distributors are less willing to take chances on smaller ‘independent’ films (Cultural Industry Growth Strategy 1998).

The organisational shift toward a network structure requires further examination. As noted, it began in the smaller production houses in an attempt to compete with the large studios. The advantages of this contractual, flexible mode of operation forced the large studios to follow suit. Lampel and Shamsie (2003) have conducted interesting research in this area, focusing on the role of organisational forms in the reshaping of the Hollywood industry. Their work provides useful lessons for industries elsewhere, especially as it appears that most film sectors follow the industrial evolution of Hollywood.

The authors maintain that success in creative industries is determined by long-term access to a superior resource base. During the 1950s and 1960s Hollywood underwent a major organisational transformation, moving from an industry dominated by integrated hierarchical organisations, each owning their own resource base and distribution network, to a network structure, where companies became financing and distribution hubs that mobilised resources from outside (Lampel and Shamsie 2003). This trend continues to be a driving force in film. In an earlier paper co-authored with Lant, Lampel and Shamsie (2000) indirectly suggest a reason for this change. They note that the success of most firms in ‘cultural industries’ (where product value is often based on aesthetics rather than on monetary measures) depends on their ability to find, develop and maintain creative resources. The problem is that most of these industries face unpredictable demand and variable production processes. In particular, the resources of value are often ‘embedded in individuals and groups over which the corporation has limited control’ (Lampel et al 2000: 266). The key to sustainability is attracting and retaining these resources, while at the same time encouraging their creativity and freedom. They refer to it as ‘striking a balance between the imperatives of creative freedom and commercial imperatives’ (Lampel et al 2000:266). This need for both greater control and greater flexibility is a motivating force behind the observed organisational shifts.

Scott (2004) holds a similar view. He describes the major Hollywood studios as ‘system houses’ – a term used in the high-technology industries to refer to organisations where the total number of products is small, but where each unit of output requires significant inputs of capital and/or labour. He notes that these systems houses are often part of wider production networks incorporating many smaller firms. They therefore play a particularly important role in the finance and distribution of independent production (Scott 2004).

Scott goes on to state that 'production activities in the cultural economy are typically carried out within shifting networks of specialized but complementary firms. Such networks assume different forms, ranging from heterarchic webs of small establishments to more hierarchical structures in which the work of groups of establishments is coordinated by a dominating central unit' (Scott 2004:7). This range is certainly evident in most countries with a sizeable presence in film. The aforementioned merger activity has resulted in industries characterised by a few large conglomerates and numerous smaller firms. As noted earlier, both these forms tend to operate in a contractual, flexible manner. This is especially evident in the employment relation where part-time (temporary and freelance) work is the norm. In this environment, social networking activities are particularly important in ensuring that creative workers remain aware of opportunities (Scott 2004). As such, successful cultural industries often display evidence of clustering or local agglomeration. Kotkin and Friedman (1995) reinforce this point, citing the density of the craft industries in Southern California as a core reason for the success of Hollywood. They equate the Hollywood turnaround with the responses of Silicon Valley and the US automotive industry to foreign competition in the 1980s and 1990s. In particular, they note how the Silicon Valley companies learnt to work together to produce highly specialised systems and components. Likewise, the US automakers shifted from in-house mass production to sourcing over 80 per cent of total car value from independent vendors, allowing greater responsiveness to customer demands. These two industries were able to operate in this flexible manner because of the unique concentration of specialised firms in their immediate vicinity. The film industry networking structure and project collaboration approach are similarly dependent on the expert Los Angeles talent and support industry.

Scott (2004) notes that 'this logic of agglomeration and increasing returns effect suggests that one globally dominant centre will often emerge in any given sector, but even in the case of the motion picture industry, which is currently overridden worldwide by Hollywood, it can be plausibly argued (above all in a world of monopolistic competition) that multiple production centres will continue to exist if not flourish. In the same way, different cultural products industrial agglomerations around the world are increasingly caught up with one another in global webs of co-productions,[5] joint ventures, creative partnerships, and so on' (Scott 2004:13). He feels that the demand for indigenous television production, evident in most countries, will ensure some measure of local production capacity. This can be used as a base to expand into other film products and markets. Hong Kong action films, Japanese anime cartoons, Chinese dramatic features and Latin American telenovelas are used as examples where niche markets have been successfully captured by local film sectors. He suggests that this will lead to an increasingly 'polycentric' global production system for film. Moreover, he predicts that the networks that link these dispersed centres will become increasingly important and interactive (Scott 2004).

Kotkin and Friedman go so far as to call the new Hollywood structure 'the world's best example of network economy' (1995:64). They claim that this structure was the efficient response to a changing external environment. Shortened product life-cycles and an increased number of distribution channels translated into demand for faster product development. This was compounded by steeper global competition and rising consumer expectations, all of which necessitated greater flexibility. Like Lampel and Shamsie, Kotkin and Friedman (1995) trace the decline of studio power and the rise of independent filmmakers back to the 1950s and 1960s. Small independents have continued to grow in number and popularity. In southern California, the majority of the industry workers work as freelancers or for companies with fewer than ten staff members. Kotkin and Friedman (1995) also emphasise the response of the big studios, noting the shift toward a coordinating role where advertising, financing and distribution support is provided to elite freelance production teams. This means that projects can be staffed with the most suitable talent, instead of trying to adapt in-house staff to particular jobs. As such, this network system allows both an improvement in product quality and a reduction in personnel and overhead costs. As noted earlier however, these efficiency gains are only made possible by the concentration of specialists in Hollywood area.

It is therefore understandable that this industrial shift has coincided with the recognition that film is in essence about effective project management. Lampel and Shamsie (2003) noted that much innovation focuses on developing practices and routines to oversee the actual process of making a movie. This is important in film because the decision to move into production represents a practically irreversible commitment – movies are rarely stopped in mid-production. The main problem in pre-production is ensuring that key resources are ready for use. Studios generally do not give final approval to a project unless it has a basic script and a commitment from a producer, director, and most of the principal cast. The probability of any movie project making it to this stage is extremely small. (One estimate is that out of the thousands of scripts that are in development in the US film industry in any single year, only 450-500 make it into production (Cones 1996).) The new organisational structure is intended to ensure that only films with sufficient potential are produced.

Despite the greater flexibility and lower overheads, the shift has also made assembling resources more problematic. According to Lampel and Shamsie, film projects require ‘simultaneous interconnected bargaining with a range of individuals and firms’ (2003:9). Open competition for this commercially proven talent creates strong pressure for effective resource mobilisation. They therefore maintain that although this organisational evolution has increased the success potential of film projects, it has also slowed development initiatives within the industry as all capital is required to compete for and coordinate scarce resources. In particular, training and apprenticeships have been substantially curtailed. Risk aversion has also resulted in less experimentation and innovation in actual movie production.

To summarise, it is apparent that the changing landscape is defined by the following trends:

- attempts by the large media houses to entrench market dominance through mergers, acquisitions and an extension of influence into linked industries, and
- a shift to a more flexible, contractual mode of operation, where companies and media houses *own* less of the required resources.

These in turn have led to:

- an increase in entry barriers to mainstream markets,
- less innovation in film, with producers adhering to ‘safe’ formulae, and
- a decrease in training and development initiatives.

Before determining the extent to which these factors are influential in the South African situation, it is constructive to begin with a brief overview of the South African feature film sector.

Overview of the feature film sector

Few South African films are commercially successful. As is evident from Table 1 below, only the slapstick-humour Schuster films have commanded reliable box office profits. The state of the sector is a product of a number of internal and external factors.[6] There is general industry consensus that access to training, funding, and distribution facilities is limited, especially for previously disadvantaged filmmakers. This is compounded by the small domestic market, rising support industry prices, inadequate audience development and heavy foreign subsidisation of foreign films (Tuomi 2005). It is therefore understandable that the financial services industry remains cautious about the film industry as a viable investment. Film financing facilities are still emerging and broadcasters have not yet developed sophisticated finance and funding models (Botha 2004).

Table 1: South African Box Office Takings

Title	Number of Prints	Gross Ticket Revenue in Rands (life to date)	Year of Release
Mr. Bones	87	33 029 024	2001
O Schucks I’m Gatvol	106	23 484 567	2004
Tsotsi	21	still on circuit	2006
Stander	50	1 956 593	2003
Yesterday	24	1 550 130	2004
Story of an African Farm	20	602 981	2004
The Flyer	35	403 925	2005
Lumumba	2	348 432	2002
Forgiveness	7	333 792	2004
Max and Mona	32	270 210	2005
Red Dust	15	318 282	2005
Promised Land	5	307 974	2003
Amandla	7	298 522	2003
The Great Dance	1	288 690	2000
Hijack Stories	5	172 019	2003
God is African	4	115 905	2003
Cosmic Africa	5	107 692	2003
Sophiatown	6	90 818	2005
Malunde	10	86 907	2003
The Long Run	16	84 684	2001
Mama Africa	2	31 734	2002
Yellow Card	4	28 672	2002
Born into Struggle	2	13 608	2005
Boesman and Lena	2	8 805	2001

Sources: Nu Metro Film Distribution and Ster Kinekor Film Distribution

Industrial stagnation is not a foregone conclusion, however. For one thing, an expansion in media outlets (cinema complexes, film festivals and DVD/video rental shops) and the growth of satellite and digital technology are expanding the platforms for local products. Moreover, South Africa has the capacity to play a significant role in the world film market. The country offers an elite skill base in the area of film production and post-production, as evidenced by the increasing willingness of international filmmakers to use South African personnel on facilitation projects. South Africa is also renowned for its variety of locations; accommodating weather; high standards of copyright protection; a well developed distribution and exhibition infrastructure; a cosmopolitan, professional pool of talent; and a shrinking but still tangible cost advantage over developed countries. Despite a doubling of production costs over the last five years, filming in South Africa is still 20 per cent cheaper than filming in Europe and the United States, and 15 per cent cheaper than filming in Australia (Cape Film Commission 2005).

Furthermore, the South African government is starting to recognise both the growth and employment potential inherent in the film industry and the unique challenges that it faces. It has recently proved willing to support and accommodate the sector. Apart from local content quotas and co-production brokering, a number of public bodies exist which deal with or incorporate film-related programs. Financial aid and incentives are offered by the National Film and Video Foundation (NFVF), the Department of Arts and Culture (DAC), the Department of Trade and Industry (DTI), the Industrial Development Corporation (IDC) and the South African Revenue Service (SARS). The NFVF in particular, places strong emphasis on the need for empowerment and cultural focus. Tomaselli and Shepperson (2002) explain this, arguing that content and representation can help foster culture and restore balance to an industry skewed by past attempts to entrench racial and class divisions.

As is evident, there *are* a few public support avenues for film. However the state of the feature film sector suggests that this support is not achieving an optimal impact. Certainly it does not appear to be adapting to the changing organisational nature of film. How then is the change reflected in South Africa?

The consolidation of influence by the large global entertainment companies has definitely raised entry barriers for local products. As noted earlier, both local and international distributors seem less willing to take chances on smaller 'independent' films. As a result, local products cannot rely on foreign sponsorship and distribution. There is also evidence of a concentration of power within South African borders. Two large conglomerates, Johnnic Communications and Primedia, are beginning to operate in a similar manner to the large US media houses.

Primedia is one of South Africa's biggest media companies, spans a number of different divisions and is listed on the Johannesburg Stock Exchange (JSE). The Advertising division includes broadcasting, the internet, home stores, commuter media, cinema and print (in particular CineMark) and sport. The One-to-One Marketing Division basically refers to database marketing ventures. Filmed Entertainment is the largest division, comprising about 66 per cent of the company, and includes Cinema Exhibition (Ster-Kinekor Theatres, Ster Kinekor Europe and Ster Kinekor Middle East), Film Distribution (Ster-Kinekor Pictures) and Home Entertainment (Ster Kinekor Home Entertainment). Ster-Kinekor is the biggest distributor and exhibitor in the South African market and includes a film branch, Primedia Pictures, which focuses on international distribution of local content. They also own a 46 per cent stake in VWV, a video production company. Ster-Kinekor Pictures and Ster-Kinekor Home Entertainment both secure rights to distribute film content through exclusive and non-exclusive agreements with international film producers, while Ster-Kinekor Theatres exhibits movies through its various cinema sites across the country. Ster-Kinekor Home Entertainment is the exclusive supplier of Sony PlayStation products in South Africa (Primedia 2006).

Johnnic Communications (a subsidiary of Johnnic Ltd) is another significant stakeholder listed on the JSE. It owns large shares in the media (including a few major newspapers), retail (Exclusive Books), music firms (the Gallo brands), home entertainment (DVD, videos and computer game companies), and most importantly, controls the Nu Metro and IMAX Movie Theatre chains. It also has significant stakes in M-Net (Johnnic 2006).

The concentration of power becomes evident when one views how films move through the distribution chain. Most films debut at the local box office. Distributors (Ster Kinekor and to a lesser extent Nu Metro and United Independent Pictures) buy films from independent producers either by bidding for them at markets, or by private solicitation. They usually also purchase the rights to theatrical release, home video, and pay/free television. The distributor has to pay an upfront non-refundable minimum guarantee and is also liable for all advertising and print costs. Although the risks related to an independent production are therefore greater than for a major contractual release, the distributor can potentially enjoy a greater percentage of the movie's income. Distributors may also conduct a limited screening to the public to assess their reaction. About 5 to 10 per cent of the movies bought from independents go straight to video, although occasionally the distributor may still screen these at cinemas in order to boost video sales (Cultural Industry Growth Strategy, 1998). As noted, the distributor pays the print and advertising costs of local films. A print normally costs R10,000, although subtitled prints can cost about R30,000. Advertising expenses often account for another 10 to 15 per cent of the total print cost. Poor box office patronage, compounded by a recent cinema ticket price-war has meant that most South African films net large distribution losses. For instance, a recent release, *Max and Mona* opened on 32 subtitled prints, costing about R960,000. Advertising costs would have taken this total up to at least R1,000,000. Since the film only made R319,000, Ster-Kinekor's 60 per cent 'take' translates into a loss of about R681,000 (Kriedemann 2005).

After the film has been exhibited in the cinema, the distributor will then sell it to television, taking a 15 to 30 per cent commission. M-Net, a local pay television station, pays between R100,000 and R400,000 for once-off licensing fees, while the SABC pays between R30,000 and R240,000. Generally the distributor also handles video and DVD sales, taking a 70 per cent commission on average. (Few local films have been in circulation long enough to estimate average sales, but both *Forgiveness* and *Promised Land* have already made more on DVD and video than they did at the box office.) Films can also be sold to airlines, universities, hospitals, military bases, and charity organisations (Kriedemann 2005).

The influence of vertical integration is evident, especially control over the local distribution. With regard to international distribution, the US studios have a near monopoly on lucrative international sales. Most companies rely on foreign international sales agents (who charge a 10 to 30 per cent commission), although a few companies are trying to independently handle their international sales.

As Table 1 shows, however, poor audience development and a lack of marketing expenditure have meant that the large conglomerates rarely make substantial profits off the local box office. As more films with international appeal are produced, however, international sales can help offset this trend. There are about 40 real film buying 'territories',[7] and small sales in a number of these can add up to substantial revenue. (*Stander* had pre-sales and minimum guarantees for about 30 territories and *uCarmen eKhayelitsha* has been sold to 15.) As such, the influence Primedia and Johnnic Communications have in the international distribution chain will become increasingly important.

With regard to the organisational shift to contractual production, the South African industrial structure seems to be following Hollywood's lead, although various bureaucratic and scale obstacles are preventing it from achieving the equivalent network depth. The majority of South African production companies are small firms, who act as flexible coordinators, contracting out for most of their requirements. There are few hierarchical production houses who own their own resources and distribute their own products. Although the Johnnic and Primedia conglomerates are increasing their influence over the film value chain, they still outsource large sections of it, often finding a contractual relationship more lucrative than an ownership one. This is especially true with regard to production activities. South Africa also needs to be careful that it avoids the negative trend effects observed by Lampel and Shamsie (2003), especially the reduction in training initiatives. Furthermore, as the industrial changes become more entrenched, competitiveness will entail both a shift in policy and a refocus in the sector itself.

Recommendations

Policy can play an important role in helping the industry adjust to international trends and will be addressed shortly. Before doing this, however, it is important to note that private industry players have a more decisive impact on the future of film. Communication and cooperation between industry stakeholders is crucial to ensure that flexibility is maintained. The consolidation of power in the large media houses and the resultant raised entry barriers, obviously imposes constraints on South Africa. The entry barriers highlight the obstacles posed by South Africa's small domestic market. In general, a larger domestic market enables larger average budgets and a greater financial investment in film (Cultural Industry Growth Strategy 1998). As noted, South Africa cannot rely on foreign sponsorship and distribution. Despite the size constraints, the local industry needs to build up a loyal domestic base and invest heavily in audience development and training. In particular, alternative domestic and international distribution channels need to be researched and developed. Although this is one of mandated goals of the NFVF, progress in this regard requires multiple initiatives on an industry-wide level.

The local industry has few strategies in place to develop audiences, a result of poor business training on the part of local filmmakers (especially relating to marketing and target market research), and lack of funding. Although some initiatives have been launched in this area, it is important that more are fostered. Activities that have proved successful abroad include: negotiation with the public broadcaster for early television release of particularly promising local films, the use of other forms of media (radios, newspapers and television) to foster consumer awareness, and educating filmmakers about pricing, the value of exhibition-sell through retail, and marketing. (It is necessary to build awareness of films long before they are available for screening). Filmmakers also need to be encouraged to attend networking events, and to think about innovative distribution solutions – such as screenings at clubs, universities and house parties, and the intensive use of DVDs (Broderick 2004). Fostering the practice of audience sampling to get a better understanding of what is attractive about films is also useful as is maintaining tight controls on pirate videos and DVDs to ensure stable demand for legitimate local products (Kuun 2004).

With regard to training, the lack of basic business skills is particularly problematic. Local filmmakers need to be schooled in investment terminology and basic business development skills, including management, marketing, accounting and entrepreneurship. They also need to be aware of industry-related laws, including appropriate copyright and intellectual property laws. A successful industry requires people trained in finance and distribution, as well as the prominent activities such as direction and performance (Tomaselli and Shepperson 2002). Addressing this requirement involves greater interaction between training providers and the industry. This is both to ensure that training caters to industry needs and that trainees of all levels are able to secure placements in suitable positions (Film and Video Training Institution Survey 2004). In this regard, more focus could be placed on internship and mentorship programs, effectively linked with relevant funding from the skills levy system. These are crucial in an industry whereby familiarity and networking are means to attain and secure work.

In relation to distribution, the South African film industry differs from other successful film producing nations in that it remains production-led and fragmented, compared to the more successful film producing nations such as the US and to a lesser extent India, which are distribution-led and integrated. As noted by Michael Dearham of the Film Resource Unit, ‘this represents a fundamental structural weakness, which lies at the root of the industry's current problems. So our filmmakers have continued to make films that are: an incoherent jumble of widely diverse projects, lacking continuity with heavy reliance on local and international film festivals circuits for exposure' (Dearham 2002). The insignificance of South African product distributors in the global arena, coupled with poor international marketing strategies further restricts the access local films have to global markets (Botha 2004). This was highlighted by Botha in his review of NFVF policies, where it was suggested that incentives be created for local broadcasters to promote South African films, and that new media be involved in marketing and distribution strategies. It is vital that filmmakers become more 'distribution-driven' and consider alternative distribution options and film marketing before production begins. In particular, Botha (2004) stresses the need for aggressive marketing of South African films in home communities and the generation of local media enthusiasm around promotion of local product.

It may also be useful for the local industry to research why the large media houses have managed to remain successful. South African filmmakers need to learn the value of marketing and merchandising their films, reducing the risk associated with new releases. If this translates into increased industry consolidation, it is important that it occurs in a manner beneficial to indigenous film. Lampel et al (2000:267) note that:

> The coordination and scale advantages of integration have to be balanced against their potential disadvantages. A highly integrated firm would tend to reduce the creative freedom of its different units by pushing for greater coordination. Firms in the cultural industries thus need to balance this need for integration by some attempts at specialization. To the extent that a firm is able to specialize, it is able to use its greater focus both to reduce overhead and to increase creative flexibility.

They refer to a paper by Mezias and Mezias on the motion picture industry, where it was demonstrated that specialist feature producers and distributors were more likely to create new genres than the integrated studios. They note however, that the integrated studios still benefited as it allowed their distribution outlets to expand their product offering (Lampel et al 2000). Moreover, since commercial success in film often occurs through marginal differentiation rather than revolutionary change, the industry can progress even if the level of innovation is relatively minor. As yet it appears that the South African media houses, Johnnic and Primedia, are retaining the requisite flexibility. However there may still be scope for further risk diversification through increased levels of marketing and merchandising activity.

Effective policy can help supplement efforts undertaken by the industry itself. Prior to making policy prescriptions, however, it is useful to explore the role of policy in the context of film. International sentiment seems to be in favour of a cautious market-orientated approach. The United Nations Development Program (UNDP) suggests various film policy guidelines for countries, according to their production capacity and market size. In particular, they recommend that high volume film economies with large domestic markets utilise mechanisms such as tax incentives for independent production and market-based distribution and exhibition support. Co-production facilitation is suggested for medium-size film economies with weaker domestic markets (such as South Africa). Lastly, they advise that small film economies focus on new technologies (such as digital production) that allow for the capture of specific niches (UNDP 2004).

Scott (2004) agrees that the creation of an enabling environment is important. He notes that if policy intervention is feasible it needs to 'stimulate the formation of useful agglomeration effects that would otherwise be undersupplied or dissipated in the local economy and to ensure that existing external economies are not subject to severe misallocation…Policy makers need to pay special attention to promoting (i) high-trust inter-firm relations to mobilize latent synergies; (ii) efficient, high-skill local labour markets; and (iii) local industrial creativity and innovation' (Scott 2004:18). He stresses further that agglomerations are generally only successful if they have an adequate marketing and distribution infrastructure.

These proposals are particularly important for small firms. As noted by Scott and Rigby, small firms rarely have the resources effectively to gather information, advertise and develop markets. They suggest institutional support in the form of regional marketing, export incentives and networking events (1996).

Local policy makers are also beginning to realise the significance of flexibility and global responsiveness. A recent Department of Trade and Industry (DTI) report emphasises the importance of global awareness. It holds that: 'A crucial responsibility of the state lies in designing domestic film policies which give explicit consideration to current international opportunities and trends which present opportunity to the country, given its current state of development' (DTI 2005:15). They stress that success in film is due to content creation and that the high degree of fragmentation in the skills required to produce this content requires institutional innovation.

Translating these observations into actual policy prescription requires streamlined policy focused on the areas most critical to development. The obstacles facing film generally fall into three categories: access, affordability, and consistency. The role of the public sector is most pronounced in the last category. In many areas the government is making significant strides to support film. South Africa has already adopted the UNDP recommendation, and has negotiated co-productions with Canada, Italy and Germany, and Memoranda of Understanding with India and the French film commission, the Centre National de la Cinématographie. Memoranda of Understanding are being negotiated with Britain and Ireland. As noted earlier, the IDC, DTI, NFVF, SARS, DAC and local governments all have initiatives aimed at film. These range from loan financing (IDC) and training grants (DAC) to rebates (DTI) and tax incentives (SARS). The NFVF is also mandated to promote development of South African film and television audiences, and facilitate the export of South African film and video product talent.

It is clear that the government is taking some steps to ensure an improvement in training and assistance in production financing. These may not be sufficient to create the requisite ‘enabling environment’ however, especially as legislative changes instituted by the Department of Labour (DOL), the Department of Home Affairs (DHA) and the South African Revenue Service (SARS) are proving problematic to the industry. The motivation behind the legislation is often sound, attempting to reduce exploitation and improve working conditions. However, lack of communication between policy makers has meant that the unique structure and needs of the film industry are not being taken into account (Tuomi 2005). Although these are not the sole reason for any industry inertia, they may prove the most costly in preventing rapid adjustment to the international organisational shifts.

In order to capitalise on the benefits of the organisational shift toward flexibility, it is important that the local authorities minimise the bureaucratic hurdles relating to contracting. In particular, labour legislation relating to this area should be kept as simple as possible. The afore-mentioned legislative changes introduced by the DOL, the DHA and SARS are proving particularly contentious. The increasing foreign competition and organisational shifts means that competitiveness is becoming increasingly dependent on flexibility and ease of contracting. As a result, a number of pieces of legislation require review.

For instance, SARS has 'tightened up' on strictures relating to independent contractors and crewing agents. However, there is substantial confusion as to the definition, employment status and tax liability of crew members, independent contractors,[12] crewing agents and production companies.[13] The cost and operational implications of enforcing this could prove prohibitive. Encouraging film will require a reduction, not an increase in the liability and administrative burden currently facing production companies who employ large numbers of contract workers.

There is also a need for clarification regarding tax issues relating to foreign crews. South Africa has double tax treaties with a number of countries but foreign artists are often excluded from this concession. Furthermore, there are an onerous number of laws relating to topics such as royalty payments and the various category of employee. A simpler, fixed rate of tax when dealing with foreign talent would be highly beneficial.

The recently passed Sectoral Determination in Terms of the Basic Conditions of Employment Act of 1997 has additional competitiveness ramifications. A permit from the DOL is now required prior to employing a child under the age of 15 years old. If permits are not received timeously, entire shoots will be forfeited. This is likely to be the case as it is rare that production houses can select the children that directors require, sufficiently far ahead of actual shooting. Furthermore, if a child gets sick or is unable to make a shoot, they will be forced to make a substitute casting and reapply for a permit. These bureaucratic hurdles will weaken South African competitiveness. Similarly, co-production and international facilitation work is being hampered by confusion regarding new work permit strictures embodied in the Immigration Amendment Act (Act 19 of 2004). It is vital that the government address these bureaucratic obstacles relating to contracting, provide clarity on status and tax liability of independent contractors and crewing agents, and levy a simple, fixed rate of tax on foreign talent.

Streamlined policy is also necessary with respect to policy incentives targeted at other countries. For instance, the recently introduced film and television rebate scheme has been viewed with caution by local and international stakeholders. As noted by the DTI in their latest report, the international community requires transparency, a clear set of guidelines, minimal bureaucracy and confidence that payouts will actually occur (DTI 2005). To reduce the costs of this cross-border contract, the government should ensure that no withholding or repatriation taxes are retained and that the rebate is paid out prior to departure from South Africa. As with the internal issues, the organisational shifts in the global film industry intensify the need for an effective government response. With the international trends, it is important that competitiveness is maintained through an environment where red tape is minimised and contracting is effortless.

Conclusion

It is evident that film industries worldwide are facing a complex set of obstacles. Global trends in industrial structure are having a particularly important impact. Led by Hollywood, success in film is becoming increasingly reliant on market responsiveness. Merger and acquisition activity among the large media houses has led to a consolidation of power and higher sector entry barriers. The shift toward a looser network mode of operation has meant greater flexibility and lower overheads. However, it has also made competitiveness dependent on contractual ease and supportive policy. The literature suggests that these two organisational developments are the efficient response to an increasingly demanding consumer base and heightened global competition. The ultimate success of the film industries facing this changing environment depends on three factors: the density and quality of the support network, the awareness and flexibility in the sector itself, and the level of public sector accommodation.

With regard to South Africa, a reorientation by both the public and private sector may be necessary if the country is effectively to respond to the trends. The private initiatives entail greater focus on marketing and distribution with an emphasis on training and audience development. The policy suggestions do not require extensive changes in industrial policy or government funding but rather involve simple incentives, improved information provision and the removal of restrictive bureaucracy. These small measures should help promote sustainable development in the local film sector.

Notes

1. Stills production is a special offshoot of the core film industry that specialises in photographic images for advertising and media. Stills production companies are not photographers, however, and many skills and techniques used in stills production are the same as those used in the core film industry.
2. Including broadcasting, current employment estimates stand in the region of 30,000. In 1997, the International Producers Organisation estimated employment in pure production to be in the region of 3,925. Although some of these jobs are formally defined as part-time, it is important to note that in the film industry the term 'part-time' may be misleading. Most 'part-time' film workers work the same hours as a full-time employee, but only part-time for any one production

house. In other words, they work on a number of different shoots during a season. ‘Season’ can last up to nine months, during which time the employee will work on a more or less ‘full-time’ basis. Working hours during season are extremely long, and many employees accumulate sufficient income to support themselves for the year.

3. See Appendix for an idea of the range of schemes offered by other countries.
4. In the interest of brevity, this article does not attempt to explain the historical and political basis for the current industry structure. For more on this topic, see: Blignaut and Botha (eds) 1992, Tomaselli and Shepperson 2002, Tomaselli 1988.
5. When a co-production treaty is signed between South Africa and another country, a film that is made here can qualify for the other country’s tax breaks and incentive schemes.
6. Leon Schuster is a South African producer famous for his slapstick comedies about South African life.
7. Very little formal statistical research has been conducted on South African film and the industry is both unfamiliar with and reluctant to participate in surveys. Therefore the following observations were the result of a process whereby available data was analysed, checked for accuracy and amalgamated with opinions from individual interviews. Interviewed stakeholders included numerous production companies, directors and film schools, the South African Association of Stills Producers, the Commercial Producer’s Association, the Independent Producers Organisation and most public bodies with film related programs.
8. *Max and Mona* is a comedy about a village boy with ‘mourning skills’, who travels to the city of Johannesburg to become a doctor.
9. *Forgiveness* tells the story of a white former-policeman who, feeling guilty about the crimes he committed under apartheid, tries to approach the families of his victims. *Promised Land* is a film about a young man who was born in South Africa but raised in England, who returns to the country of his birth to scatter his late mother’s ashes. It deals with the suspicions of the small town community he returns to and its struggles to adapt to a post-apartheid South Africa.
10. The worldwide market for the sale and use of feature motion pictures is divided into ‘territories’ and ‘media’. The territories include areas such as Europe, ‘Australasia’, Latin America, Eastern Europe, Israel, the Middle East, South Africa, Turkey, and North America (excluding Mexico).
11. *Stander* is a true-story film about the life of a South African policeman-turned-bank robber in the 1970s.
12. *uCarmen eKhayelitsha* is the South African film version of the opera *Carmen*.
13. The industry has traditionally classed the crew and cast as independent contractors/ ‘freelancers’. SARS, however, is quite firm that the majority of these crew members are ‘employees’. As a result, production companies are

liable for all statutory government taxes and any tax underpayment. Many film industry members maintain that in a strict legal definition, production companies and crewing agents are not ‘employers’. They hold that the relationship between a production company and a freelancer is not an employment relationship, but a business contract.

14. The confusion with respect to the legal status of crewing agents is problematic. Although SARS allows crewing agents to make payments on behalf of production companies, the production company is still legally responsible. It would be useful if the government allowed crewing agents to act as labour brokers, which would reduce the liability and administrative burden currently facing production companies who employ large volumes of contract workers.

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Appendix: Incentives Offered by Other Countries

Country	**Incentives**
United States	• A bill is currently under discussion that would lower the income tax rate on domestic production activities from a maximum of 35 per cent to 34 per cent through 2006, 33 per cent through 2009, and 32 per cent thereafter. • Companies can write off their entire production cost within a year, provided their budget is below $15 million and they spend 75 per cent of that in the United States. • 41 states offer further incentives. Most offer an 8-10 per cent tax credit on productions and a 15 per cent credit on productions using local labour. Some states also offer 'sales and use tax exemption' for production equipment and waive hotel taxes for stays in excess of 30 days. A number of loan guarantee programs also exist.
Canada	• The federal government offers a tax credit of up to 16 per cent of the value of resident's salary and wages. • Telefilm Canada has an annual budget of $21 million to support feature films. • The provinces offer additional tax credits valued between 11 per cent and 40 per cent of production outlay.

Australia	• $27.6 million in public funding went to the Australian Film Commission to promote local productions and to facilitate international co-productions. • A 12.5 per cent refundable tax offset exists for feature films, telemovies and miniseries. • The Film Finance Association provides investment-matched private funds and receives public funding of $48.5 million.
New Zealand	• Grants of up 12.5 per cent are offered to productions that spend between $15 million and $50 million in New Zealand.
France	• The Centre National De La Cinematographie (CNC) allocates subsidies for the production, distribution and exhibition of films. • Screen quotas for French films amount to about 38 per cent of screen time. • US films are subject to import restrictions.
Italy	• Screen quotas for Italian films amount to about 28 per cent of screen time. • Italian films are eligible for a production subsidy of 10 per cent of gross box office revenue, with an extra 8 per cent if judged to be of artistic merit. • Dubbed imported films are taxed and this revenue is made available for Italian film production at low interest rates.
Germany	• €4 million annually is made available for the production and distribution of smaller, innovative films. • The German Federal Film Board (FFA) has an annual budget of around €76 million and raises additional funds through a film levy from exhibitors and video distributors. From this, funding is made available to producers of feature films, scriptwriters, distributors, exhibitors, training programs, video distributors, film research and development initiatives, and promotional measures. • Sale and leaseback tax incentives are currently being introduced.
United Kingdom	• Limited government assistance in the form of grants, loans or guarantees is offered to local productions. • A Development Fund with an annual budget of £5 million a year supports commercially attractive screenplays.

	• A Premiere Fund with an annual budget £10 million facilitates mainstream British films. • A New Cinema Fund with an annual budget of £5 million supports 'radical' filmmakers. • A Training Fund with an annual budget of £1 million supports training initiatives. • European co-production support amounts to about £4.2 million a year. • Lottery funding with an annual budget of £1 million supports low budget short films. • The British government provides £200 000 per annum to Eurimage, the Council of Europe's co-production fund. • Expenditures for the production/ acquisition of film can be written off for tax purposes during the period over which the value of the film is expected to be realised.
Ireland	• Investors can obtain tax deductions equal to 80 per cent of the amount of their investment.
Argentina, Brazil, Korea, Mexico, Portugal and Spain	• Among other incentive measures, all these countries enforce screen quotas for local films.

Sources: Motion Picture Association of America, Country Film Commissions, 'About Canada Publication Series', British Film Council, Terra Media, German Federal Film Board.