

Cartoon Finance

MAKING ANIMATION AN IP AND BRAND BUSINESS

Viborg (Denmark), 28, 29 & 30 June 2011

More than 110 people attended this Master, co-financed by the MEDIA Programme of the European Union, The Animation Workshop, Shareplay, Midt Region Midtjylland, Region Nordjylland, Film Kopi, Animation Hub, Danish Film Institute and NFTF.

In the opening speech, **Morten Thorning**, Director of The Animation Workshop and **Frederik Villumsen**, Creative Producer at Norlum, presented the business links between The Animation Workshop and the surrounding companies of the region, in particular the micro-company network Imagine33. The Animation Workshop created an incubator to help the former students of the school to create their own business. The incubator helped the creation of Imagine33, a network of micro-companies and freelancers situated in the environment of The Animation Workshop in Viborg. The aim of the network is to take on any assignment possible related to visual communication. The staff of the companies shares a background in character animation, but specialises in different areas, going from preparing, producing and finalising content for film, TV, Internet, games and illustrations. The companies are economically independent from each other, but work together towards building a strong team of talented individuals. The companies use the facilities of The Animation Workshop and can take advantage of the network of tutors that are invited in Viborg by the school.

In the second speech of the day, **Susan Newman-Baudais**, Film Industry Analyst at the European Audiovisual Observatory presented a panorama of public funding and tax incentives in Europe. The Observatory has developed a very useful instrument to know the public funds available in Europe: the Korda database. Korda brings together in one place 108 public funds as of June 2011. Korda provides basic information, financials and contact info in English and can be considered as a starting point when talking to potential co-production partners. According to the Observatory analysis, film funds had around EUR 2.1 billion at their disposal in 2009. Seventy seven per cent of these funds are national funds, whereas 33% are regional. Fund income grew by 29% between 2005 and 2009 and regional fund income grew faster than national funds. The Observatory noticed a significant slow-down in overall growth in 2008 and 2009. Televisions are very present in the financing of the film industry, as an estimated 28% of total fund income in Europe came from broadcasters in 2009.

Peter Gustafsson, Commission Editor at Sveriges Television presented the editorial policy of the kids' public Swedish television channel, BSV. The channel is broadcasting 5,000 hours a year. Thirty per cent of the programmes are produced, whereas 70% are acquisitions. The target group is 3-11 years old and the channel is girl dominated. Other children' channels, except Disney Channel, have a preponderance of boys. The channel launched also a web site, www.svt.se, which became the first children's web site in Sweden. SVTB increased its share of total TV viewing year after year during the period 2009-2011. The largest increase occurs in the age group 3-6 years old. Peter highlighted the fact that, as in other European countries, licence fees and investments from broadcasters are decreasing. The SVTB acquires

a minute of animation between 40€ and 60€. The channel pre-buys Swedish content approximately 100€ per minute and enters in co-productions for a maximum of 20% of the total budget of a series.

Maïa Tubiana, Senior VP and Executive Producer at Moonscoop, presented her company and the way the studio manages Intellectual Properties around the world. The output capacity of the studio is 4 to 6 series of 26 episodes of 26 minutes per year. Each series has a budget comprised between 4 to 7 M€. The production timeline is between 16 to 24 months. As Maïa declared, the company's motto is "Property never sleeps". All the Moonscoop's activities are closely integrated, from development to distribution. The studio is very active in the new media, creating cutting-edge multimedia children entertainment platforms: interactive TV, VOD, Internet, mobile and MMOG products. TV series are now only one of the formats Moonscoop is producing. Nowadays, all producers have to re-think their right chain value and business models. Also confirmed groups like Moonscoop have to re-structure their models, as Maïa recalled: "I have to re-do my basis and learn how the business is evolving".

In the next session, **Bernd Conrad**, Head of Licensing at m4e explained how his company developed successful licensing and merchandising strategies. M4e bought a textile company, Tex-Ass, specialised in the production and distribution of licensed textile products and accessories. The acquisition allowed in house development of customised collections and seasonal programmes. Branding extends the life-cycle of the properties, creates and maintains a consumer demand and allows diversification of products. Properties like films or trend properties have a limited lifetime, with a pick at the moment of the launching followed by a rapid decline. With brands, the revenues are constant over a much longer period of time. Bernd explained that the royalty rate is generally 12% of the net wholesale price. Only in 2010 the global commercial sales of licensed products reached EUR 185 billion. Bernd presented a case study, *Mia and Me*, where he explained that the most important phase for the creation of a brand is the increasing of awareness over the property. In this phase, companies must appoint licensees for supporting categories, create and launch retailer promotions, launch cross-promotions with key partners and advertise massively through TV, online and print.

The Master had been an occasion to discuss how young producers succeeded in producing low but successful series. **Tim O'Sullivan**, Creative and Studio Director of Karrot Entertainment and **John Rice**, CEO of Jam Media, presented the strategies of their companies to diminish cost expenditures and develop brands with international appeal. Karrot Entertainment produced with a very low budget *One minute wanders* with very young professionals that had just finished the animation school. The young professionals have been coached by the confirmed professionals of the studio. After this first experience, the studio did not get further funds to pay the staff. The company decided to continue to pay the whole staff without paying the directors of the studio for six months. The animators received a part of the rights of the properties they were working on. **John Rice** explained the development of his company, which followed a similar path. The studio has been able to

create a very recognisable graphic style. JAM employs 22 animators. (104 x 5') was the first successful show to reach international audiences followed quickly by *Funky Fables* (26 x 11'). JAM has recently completed the production of *Roy* (13 x 28') which has been screening on BBC1. Currently, the studio is in development with *Tilly and Friends* (52 x 11') and is producing a range of short form content for mobile devices.

Torsten Jacobsen, Senior Director at the LEGO Group explained how his organisation looks at brand building. As he recalled, many companies continue to look at marketing in conventional ways -- from a mass-market point of view. Branding today is not about the media; it's about the idea. "You need to dismiss the conventional way of thinking and start with an understanding of the value of each communication channel and how -- or whether -- it will engage people", Torsten explained. The idea should be the organising principle, and it should inform everything the company does to help consumers grasp your brand promise in whatever channel you're reaching out to them: the television, the blogs, the banner ads or the word of mouth.

Steven Posner, Managing Partner at Vodka Capital explained how his company established brands with multiple partners. In 2008 Steven created Vodka Capital with 3 more people to produce cross-media brands for kids. The partners created an internet company, an animation studio and a videogame production company. The idea was to create, finance, produce and globally manage audiovisual properties capable of becoming international cross-platform entertainment brands. To achieve these objectives, the studio has managed to control all the production and development stages: the company invests in development series bible and pilot, raises finance from finance co-production partners and pre-sales, supervises all aspects of production and manages global brand distribution and licensees for all categories. The financial model for each series is based on the idea to own 100% of the IPs. Fifty per cent of the financing is provided by Vodka and the other 50% is provided by private investments (generally 50% are co-productions, 25% MGs and licences and 25% pre-sales).

Carlos Antón, MPGF Manager at EGEDA-Audiovisual SGP, explained the workings of the MEDIA Production Guarantee Fund, endowed with 8 M€ from 2010-2013 by the MEDIA Programme. The Fund is aimed at facilitating access to private sources of financing by guaranteeing part of the loan given by financial institutions. It is expected that a total amount of credit up to 100 M€ will be concerned. IFCIC in France and Audiovisual SGR in Spain will each administrate the Fund with the European Commission. Since its creation in 2005, Audiovisual SGR has formalized guarantees for more than 100 M€ in more than 500 projects in Spain. The MEDIA Guarantee Fund is addressed to independent European companies and it guarantees for loans to cash-flow film productions against discounted contracts. The Fund is not a gap financing mechanism. Applications should be sent to Audiovisual SGR, which will then decide whether the project can proceed to the due diligence phase. The financial viability of the project will be based on receivables (future grants, subsidies, exploitation contracts, etc.).

Eric Anselin, General Manager of Luxanimation, presented the “CIAV” tax certificate system, a successful tax shelter in application in Luxembourg and available for European producers. The CIAV supports the production, co-production and distribution of theatrical and television creation in Luxembourg. The Fund distributed some 170 M€ since its creation. In 2010, the CIAV had a budget of 16 M€ and financed two thirds of live action movies and one third of animation works. To be eligible, European producers must work with an approved Luxembourg producer. The CIAV Net Value is calculated by multiplying by 30% the total budget of the audiovisual work by the number of points the work can have according to a specific grid. The Maximum Net CIAV is 2.5 M€. The Luxembourg Government provides the producer with a certificate that can be sold to a bank or another company that pays taxes in Luxembourg. This company can then use the certificate to reduce the taxes he pays in Luxembourg.

Olivier Nomen, Consultant Business Affairs at Studio100 Animation, presented the case study *Maya the Bee*, a 10 M€ 3D TV series co-produced between Studio100, ZDF and TF1. The series has 78 episodes of 13 minutes. *Maya* is a book by Waldemar Bonsels, published in Germany in 1923, a very known property in several European countries. An adaptation of *Maya the Bee* has already been produced in 1975 with 52 episodes. The creation of the new series has been possible thanks to a mix of different factors: all the rights were owned by a multimedia group; there were financial and human resources available; two big broadcasters, ZDF and TF1, in 2 key territories were ready to invest in a worldwide brand. Studio100 started the production with a Canadian co-producer. During the development of the scripts, and after the signing of the co-production agreement, Studio100 and the Canadian co-producer realised that there was a completely different understanding of the target group. The Canadian producer wanted a pre-school series whereas Studio100 and the European partners wanted to address 5-7 years old kids. Studio100 decided to stop the Canadian co-production and re-localised in France the Canadian and of some Asian expenses. In doing so, the series lost all the Canadian revenues that were partially replaced by French subsidies, French tax credit and regional subsidies. The gap was covered by Studio100 own resources.

Kristian Bang Norgaard, Manager of Shareplay and **Bente Margrethe Nielsen** from the Region Midyland presented Shareplay, the new Fund launched in Central and Northern Denmark. The Fund is aimed at financing development activities, such as research, experiments, new knowledge and share learning. As Kristian and Bente explained, Cross Media is the next step in the digital media revolution. As the name indicates, Cross Media is a cross-disciplinary collaboration between players from different media businesses. It brings together computer games, film, animation, visual communication to form innovative synergies. The Central Denmark Region and the North Denmark Region have together with four consortium partners seen the great potential in Cross Media and as a result launched the initiative Shareplay.

Jérémy Fajner, Consultant at FJ Management, shared his experience in structuring budgets and financing plans. According to Jérémy, it is always better to produce a large number of episodes. Shorter episodes can be proportionally more expensive and sometimes even longer to produce. Longer episodes are harder to write and require a stronger concept. As broadcasters have less and less money, the 26 minutes format is less frequent as it was

some years ago. Jérémy talked about the difference between adaptation and original concepts. Adaptation offers an increased market value, a better relevance and better chances of success with networks and audience, but producers have to share revenues and rights with underlying rights holders. With original properties, rights and revenues remain in the producer's hands, but the development and financing phases are longer and time consuming. As other speakers underlined, Jérémy confirmed that pre-sales are now really difficult to obtain. Public broadcasters buy to national producers and producers must try to have a sales agent to have a sales strategy and sales projections. Working with a sales agent, on the other side, implies losing direct contact with some of the broadcasters.

Philippe Soutter, President and Owner of PGS Entertainment, presented the way his company distributes animation series and different distribution deals. Founded in 2008, PGS Entertainment is an international TV distribution company that handles high profile programmes for the children and family market. Key worldwide representations include series such as *The Little Prince* of Saint Exupery from Method Animation, Award Winning *League Of Super Evil* from Nerd Corps, *Iron Man: Armored Adventures* from Method & Marvel, *Marsupilami* and *I.N.K.* from Samka Productions. PGS Entertainment has rapidly established itself as a key provider for networks around the world of quality kids' entertainment with a catalogue of over 500 half-hours. With the transformation of the distribution business, the policy developed by PGS has been to create tailor made strategies to achieve the best international exposure in all fields: TV, Video, New Media, Licensing and Merchandising. As Philippe explained, "for each specific show, we need to understand the specificity of the project and the level of potential international sales".

In the last session of the Master, **Michael Benzon**, International Licensing Manager at Egmont Serieforlaget, explained the evolution of *Petzi*, which has grown from 5 to 60 licensees and which strategy Egmont is now pursuing to build the licensing and merchandising of its Intellectual Properties. Twenty million copies of *Petzi* have been published in more than 20 countries since he saw the light of day on 17th November 1951. The characters needed to be revitalised through licensing agreements, so that children could meet the little bear on a series of new platforms that are not exactly Egmont's traditional core market - such as organic biscuits, rubber boots, lunch boxes and wallpaper for the children's room. At first Egmont focused on Denmark and the Nordic countries. The concept has been then developed in other markets where *Petzi* already exists. In 2010, Egmont build a huge attraction with the *Petzi* characters in partnership with Tivoli, Denmark's most visited attraction and the third most visited amusement park in Europe. "We believe that *Petzi* and Tivoli fit together well: both brands are internationally recognized, and both have entertained Danish children for many generations", concluded Michael.