

CROWDFUNDING – A VIABLE ALTERNATIVE SOURCE OF FINANCE FOR THE FILM INDUSTRY?

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Abstract

Crowdfunding has emerged as an alternative source of finance for companies or projects with insufficient resources, which are ineligible for traditional funding. The paper discusses the impact of crowdfunding in film industry projects and presents several financing methods in the film industry and the crowdfunding experiences from a selection of countries. The research consists in a content-based study performed on the active Romanian crowdfunding platforms and places crowdfunding within the context of the traditional local film funding method. The results illustrate the dimension of crowdfunding for the Romanian film industry and the adequacy of resorting to this source of finance.

Keywords: crowdfunding, creative-cultural industries, film industry, communities, film production & distribution

JEL classification: G23, O33, Z11

1. Introduction

In recent years, crowdfunding has emerged as an alternative financing source for projects that cannot be supported via traditional funding instruments. It has been particularly designed to support either start-up companies with little financial power or projects in various fields but usually involving a high level of risk and uncertainty: research and development, innovation and technology, creative-cultural industries, social causes, etc. The case of creative-cultural industries is of particular interest in the current crowdfunding debate due to the precariousness of future revenues to be obtained in such an area, the common bank loan ineligibility owed to

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inconsistent revenues, and an uncertain target audience, all of which being especially faced by young artists and creators.

Crowdfunding implies an online platform where project initiators post their projects, and funders pledge certain amounts of money for projects. Thus, the crowdfunding platform acts as an intermediary between the two parties: on the one hand, the demand-side of funds, and on the other hand, the supply-side of funds. In countries where this alternative to traditional finance is no longer in its early days, crowdfunding has evolved into more types, falling within one of the following categories: donation (a philanthropic act), reward-based crowdfunding (funders financially support a project and do not receive any financial return, but are promised of a future reward – a product or a service – once the project succeeds, raises the required amount of money and is implemented), equity-based crowdfunding (the funder becomes an investor into the company or project) or lending-based (the funder becomes the creditor of a company or project and expects an interest). In Romania, crowdfunding has not yet been enacted, which only allows for this financing tool to be used as a means to pool donations or reward-based contributions, the latter being still assimilated to donations from a legal and fiscal point of view.

2. Literature review

Creative and cultural industries have experienced diminished public financing in the recent post-crisis period (Fernandez, 2014) and, therefore, alternative fundraising schemes have been sought. In such a context, crowdfunding alongside a better use of European co-production opportunities supplement public and private top-bottom funding (Papadimitriou, 2017). Despite the obvious advantages of crowdfunding, its popularity has not reached a high level due to the lack of awareness of filmmakers insofar as it is concerned. To exemplify, a study conducted among Polish filmmakers indicates that expert opinions, views and attitudes towards crowdfunding differ, which is mainly explained by the novelty of crowdfunding and impossibility to estimate the role of this fundraising method and to have a clear perspective about its impact (Swierczynska-Kaczor, 2016). A study performed on Kickstarter for the years 2009-2014 reveals that projects in creative categories (art, film&video and dance) are more likely to succeed as opposed to other categories of projects (Stofa, 2016). However, it is claimed that there are certain key predictors of crowdfunding success, and that in order to succeed, these online campaigns to raise funds need to be seriously considered in terms of investment of resources (Hobbs, 2016). Creative-

cultural industries, and film production in particular, constitute an area requiring the reconsideration and flexibilisation of certain key features of the traditional crowdfunding model (Roig, 2017). In the case of film industry, crowdfunding becomes a form of more complex collaboration between the project initiator and the crowd. The collaboration exceeds the level of a simple financial relationship created as a result of donations because for such projects the public experiences a high degree of emotional involvement. In addition, the contributing crowd acts as a partner due to the connections established via the internet, social media and the global screen, and is no longer a mere consumer but, to some extent, a producer – prosumer (Casquino, 2017). The commitment of the audience has revolutionised the role of the viewer, turning the latter from a passive one into an active one, with contributions in the production process (Fernandez, 2014). Drawing the attention of the donor and building a community may prove to be a time-consuming process – sometimes it may take years to prepare the audience. The example of *The Iron Sky* (a Finnish-German-Australian motion picture directed by Timo Vuorensola, released in 2012) is illustrative in this respect: it took seven years of collaboration with the community of fans to raise EUR 300,000 under the form of donations and another EUR 900,000 under the form of equity-based crowdfunding (Baranova, 2013). The film director, Timo Vuorensola, had prepared the ground by making a first film with a low budget, which was downloadable for free on the Internet (it was also available on commercial DVD). By making his film accessible he was able to create a community around his ideas and projects, which later on was the key to the successful crowdfunding campaign. A dedicated crowdfunding platform was created in order to finance *The Iron Sky*, called *Wreck a Movie*. According to the film director, three are the most common mistakes that can be made in crowdfunding, which he managed to avoid: not paying enough attention to the community, making a complete and interesting presentation of the project for the community to be well-informed, and not depending entirely on donations (showing the public that the project initiator has some resources to start with and actually starting the preproduction and showing the public palpable results) (Baranova, 2013). However, it is argued that mostly short films and documentaries open financing calls on crowdfunding platforms, because it is more likely to raise smaller amounts for smaller projects in a short amount of time. The role of the sharing economy, collaborative consumption or participation economy is also explored in the context of filmmaking by Martinez-Polo (2016). Other authors go even further arguing that, in addition

to being a financing tool, crowdfunding can help accomplish social and political ends, such as creating communities of support, drawing media attention or building a reputation of independence (Kocer, 2015). Funders (the community) usually get involved more than just in terms of monetary contributions. They keep in touch with the producer and/or director throughout the making of the film and may have additional contributions to the project – they can offer their contribution in kind or in services, such as: making certain locations available for shooting free of charge, offering suggestions as concerns the plot, helping at different stages based on their technical skills etc., or they can help distribute the film via social media or other platforms (including word-of-mouth), inform the producer about film festivals or contests that may be of interest to build an image, and last but not least, they are definitely among those who will pay to see the final outcome of the entire endeavour. Such contributions that exceed the sphere of donations or reward-based crowdfunding are called crowdsourcing – outsourcing some of the tasks to the community. Needless to say, the crowd either expects nothing but to see the project succeed (pure philanthropic acts on their behalf) or expects some reward in exchange for their inputs. However, the contribution is not of financial nature, but rather of symbolic nature. Upon successful completion of the project, funders receive either goods (copies of movies, invitations, souvenirs) or an experience (their name is mentioned, they are invited for various events related to the film, etc.).

3. An overview of the filmmaking process

According to Goodell (2008), the filmmaking process encompasses four main stages: 1) Development. The first stage involves finding or creating the screenplay. The screenplay is the yardstick for estimating the time and money needed to make the film. This step includes the crew hiring process for: director, producer and screenwriter (Levy, 2001); 2) Pre-production. The second stage comprises: arranging locations for the film shooting, deciding the cast and crew, as well as script development continuation. A storyboard is created – with the shot sequence – to better plan time and the budget; 3) Production. The third stage includes mainly the shooting part, but also the involvement of more crew members (camera operator, light manager, sound operator, assistants, etc.); 4) Post-production. The last stage of the filmmaking process contains the technical operations related to the creation and editing of the film, adding sound and special effects. The very last part of this fourth stage is the distribution of the film – broadcasting the film and using various

advertising methods to promote the film. The promotion is made both in the offline and in the online environment, the latter gaining impetus in the last years (Baranova, 2013).

Independent producers are film producers not belonging to film studios, and they are particularly experiencing low budgets but also full power of decision regarding the crew composition, which may be tailored as required by each specific project. However, resorting to the industry financing for covering costs related to studio development production, distribution or talent agency may come with additional costs: obligations and restrictions (Goodell, 2008). This is the main reason why crowdfunding is an appealing solution to supplement their budgets.

4. Examples of financing models for the film industry and benefits of film crowdfunding

Each country follows a specific model of financing filmmaking. In the UK, films are commissioned and fully funded by networked TV broadcasters, the latter being allowed to show the film twice on their network. After the two shows, the rights to the film go to the producer. The model used in the US is the deficit-financing, which means that a network pays a studio that creates a film a licence fee in exchange for the right to air the show (Doyle, 2002). In Europe (Denmark, Norway) or Canada, national film boards and councils act as co-producers, covering 50% of the cost of production (Sørensen, 2012). In Romania, the duties related to the coordination of public financing are performed by the Romanian National Film Centre. Crowdfunding has greatly impacted on the film industry because it has managed, in several cases, to reverse the traditional funding chain, at least in the case of UK-produced films. Filmmakers fund the production of the film online and then distribute it online as well. Additionally, they are then able to sell it to broadcasters.

Sørensen (2012) investigates the most successful film crowdfunding campaigns of British producers on Kickstarter. The first film ever to be crowdfunded was *The Age of Stupid*, for which an amount of GBP 1.5 million was raised. The success of the filmmaker Franny Armstrong is mostly explained by the film topic, climate change, which at that time was newly brought into public debate (Caetano, 2011). Her success inspired other filmmakers immediately after. Sørensen (2012) argues that their success is partly due to previous successes of producers, such as: winning previous awards (notoriety, brand name) and building the story around interesting, not well-trodden topics at the time of the production. Also, the author explains the

success of the crowdfunding campaign through the promotion of the film and the building of a community around it. Sørensen (2012) claims that a major benefit of crowdfunding is that film projects promoted online are not subject to the legal framework imposed by the traditional industry established by broadcasters, such as contractual and ethical adherence, and legislation and regulations. Thus, this loose framework allows the flourishing and promotion of certain inconvenient points of view or alleged alternative truths. Raising the necessary amount online to finance the film offers filmmakers independence and freedom, as opposed to the typical case of financing provided by the broadcaster. In this case, the rights to the film are retained by the filmmaker. The only disadvantage of not having a broadcaster retain the rights to the film is that the filmmaker should also be in charge of the promotion and distribution of the film, a costly and time-consuming process, but also a matter of business sense and skills, which filmmakers may or may not have (Sørensen, 2012). Furthermore, broadcasters also take advantage of crowd-funded films – they do not have to cover production costs, nor face the risks associated with production – the only expenses they incur are those related to the rights to broadcast the production.

5. Traditional filmmaking financing in Romania

The Romanian film industry is governed by the Cinematography Law no. 328 dated July 27th, 2006, as subsequently updated (The Parliament of Romania, 2006). According to the law, The National Film Centre and the National Film Archives are the public administration authorities in the industry. The National Film Centre fulfils various tasks, such as: develops policies and strategies in the film industry, proposes bills, issues regulations and rules, initiates and negotiates international conventions and agreements in cooperation with the Ministry of Foreign Affairs, regulates the operation of the Film Registry, is involved in the classification of films through the Film Registry, organises film contests, finances film projects, offers awards, issues film-related statistics, determines the levels of fees and taxes, provides counselling, etc. (<http://cnc.gov.ro>). The National Film Archives is involved in: film record keeping, research, building or developing collections, preservation, restoration and exploitation of the film heritage, as well as in the organisation of events and promotion of the Romanian film culture. The institution fulfils the role of legal and voluntary trustee for all types of films and for other materials and documents concerning the history of national and world film industry (e.g.: photographs, posts, scripts, scores, collections of

documents and other goods related to the history of film) (<http://www.anf-cinematca.ro>). The law provides several ways of supporting the film industry: direct loans for certain film projects as well as grants (non-reimbursable funds) for specific activities such as: the distribution of Romanian films, the organisation of film festivals, book publishing, support for artistic quality of films, and support for the operation of arts cinemas. The National Film Centre organises film selection contests in order to choose the projects to be financed.

In terms of film production in Romania, in the period 2012-2016 both the total number of feature films and the total number of short films fluctuated, the general trend being, however, an ascending one. Fiction films are the most prolific type of feature film, followed by documentaries and a less numerous production of animation films. In terms of short films, fiction is again the most numerous, followed by animation and documentaries, the latter starting to develop in the year 2016. As concerns the financing sources, a large majority of the films is being supported by the National Film Centre every year. All animation (both feature and short) films received financial support from the National Film Centre and all short animation films were also the recipients of funds from the same authority. Co-productions revolve mostly around feature films: fiction and documentaries, whereas statistics indicate that there are very few co-productions in short films, mostly fiction film and to a lesser extent, documentaries (The National Film Centre, 2016).

Given that the majority productions are partially financed by the National Film Centre, it is legitimate to argue that only a small number (and rate) of the total projects are financially independent. For this reason, I argue for the importance of the recent advent of alternative Internet-based funding schemes, namely crowdfunding. Besides the advantage of money contribution, posting the project on a crowdfunding platform may bring other additions benefits, as explained in sections 2 and 4 above: building community, looser regulations, image creation, product testing etc.

6. Crowdfunding in the Romanian film industry

A content-based study of the active crowdfunding platforms was performed. Nine platforms were investigated in this respect. Table 1 below indicates the total number of film or film-related projects existing on Romanian crowdfunding platforms, both financed and not financed.

Table 1: Total number of film or film-related projects existing on Romanian crowdfunding platforms, financed and not financed

Crowdfunding platform	Total	Financed	Not financed
crestemidei.ro	10	4	6
multifinantare.ro	2	0	2
potsieu.ro	0	0	0
we-are-here.ro	10	5	5
bursabelui.ro	0	0	0
kazuu.ro	0	0	0
sprijina.ro	3	3	0
startarium.ro/crowdfunding	0	0	0
http://crowdfunding.alumni.ubbcluj.ro/	0	0	0

Source: Own findings using data from the crowdfunding platforms under scrutiny

The main finding of the investigation is that film industry projects are not very popular across crowdfunding platforms. Thus, five out of the nine platforms do not display any film or film-related project, while the other four do include such projects. Unlike other types of projects (software, technology, education, civic campaigns, etc.), the film industry is represented by very small numbers of projects. Out of the total number of 25 film projects posted, only 12 campaigns were successful, the remaining 13 failed to raise the necessary amounts.

I further present a good practice example of a recent successful film project, *Capra cu Trei Iezi* by Victor Canache, an abridgement of a popular Romanian tale written by Ion Creangă. The project initially raised USD 7,075 on Kickstarter, and a net amount (after paying all fees and commissions) of USD 6,400. This budget was aimed at financing pre-production operations. Additionally, the film received free of charge material support: accommodation, meals, two ATVs and a power generator, and the producer, director and screenwriter worked pro bono. The campaign posted on the Romanian crowdfunding platform was meant to raise the necessary funds for the remaining operations. The call for finance was very specific: construction materials and wood, Romanian folk objects, and any other useful objects or money. Besides the huge impact of the leading actors, Maia Morgensten and Constantin Florescu, in convincing the community, the most interesting reward was the promise to plant a tree for every donation made. Also, the producer promised to name all contributors in the credit titles of the film. Moreover, rewards included: DVDs, posters, autographs, specific Romanian hand-made souvenirs, invitations at the opening, allowing the donors to

participate in the shooting process or to be part of the production process. Upon completion of the project, the producer provided the Internet address and password to show the community their work in progress (<http://crestemidei.ro>). The project initiator managed to avoid the three main mistakes mentioned in section 2 of this paper that could have led to the failure of the project: 1) the community was paid attention to, being involved in the production process, 2) the project used other financing sources and did not depend entirely on this specific campaign, and 3) full details of the project were clearly presented to the public. In addition, the notoriety of the leading actors strengthened the public confidence towards the success of the project.

Conversely, *Prețul libertății*, by Simo (Balint) Ibolya is an example of a failed crowdfunding project. The project presentation does not include any reference to involving the public into the production process, the rewards being quite common: invitations, DVDs, autographs, and mentioning the name for larger contribution in the credit titles etc. Furthermore, one possible cause of the failure was the lack of interest in the story of a couple of musicians. On the plus side, the project had already raised some money, so the campaign was meant to finance just post-production operations. Although the director had won several awards, the cast was not presented, so the project did not benefit from the renown of a prominent actor (<http://crestemidei.ro>).

7. Conclusions

The present study builds on the extant literature on traditional funding and crowdfunding of the film industry, drawing valuable conclusions as concerns their benefits and shortcomings. After scrutinising several financing systems and good practice examples from other countries, I explain the traditional financing methods through public funds in Romania and present the evolution of the film production for the years 2012-2016. At the end of the study, I argue that crowdfunding is not a very popular form of financing films, as proof standing the very small numbers of film projects posted on crowdfunding platforms. Finally, the paper presents two case studies: a successful film project and an unsuccessful film project and discuss the determinants of their financing status.

Further research is necessary and relevant in order to reveal the specificities of the Romanian crowdfunding systems for the film industry, by which both public financing institutions and projects initiators alike can benefit.

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