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The structure of Finnish film production at enterprise level

The production of films in Finland has, over previous years, been on the increase, at least in terms of quantity, but maybe also when it comes to quality. No attempts have even been made to study the economic scope of this increase in Finland.

One reason for the lack of research could be that the interpretation of statistics on film production is very problematic. In this article I will attempt to unlock some of the statistics regarding the industry's business operations.

On the basis of these statistics I aim to present at least some preliminary analyses of the structure of the industry in Finland. Particularly important would be an international or Nordic comparison, but there are no possibilities for this either, at least not for the time being. There is not really a great deal of comparable statistical data on the film production of the small European countries, in particular, but the same is also true for the large European countries. Instead there are, in fact, a lot of comparable data on the exhibition of films and the market share of Finnish films. However, the consumption and distribution of films will not be dealt with in this article.

Structure of production companies

The production of fiction films and TV films has, for a long time, been a very international sector. Models of the production structure in different parts of the world can be categorised on the basis of at least four characteristics: the degree of the sector's market drive (Miller 2005), concentration according to the size of the company (oligopolywatch.com 2004), the degree of specialisation in the sector (Scott 2005) and also according to how significant the role of contentual and artistic focus is in relation to pure business (Lorenzen 2007). Furthermore, the fifth important structural feature is the degree of involvement, in one way or another, of international co-production.

Globally we can reduce this to at least two film cluster models, the Hollywood-Bollywood and the European. The major companies in the industry in the USA have had a significant role, both globally and on home soil. The structure of these US production companies can be illustrated with the help of a triangle. Large, major companies dominate the production of so-called blockbuster films. Alongside these are a large number of independent companies. A third group can be considered to be a growing group of different types of sub-contractors.

Previously the major companies controlled the vertical chain making up the entire production phase in the USA. This chain has clearly become looser and the major companies currently assign more minor productions to their subsidiary companies. Only the so-called box office hits are produced by the major companies.

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In Europe and particularly over here in Finland we can talk about only a few medium-sized companies and a large number of small, independent companies, and also a large number of sub-contracting companies. Therefore, the system over here is, if anything, bipolar.

In the case of specialisation, the same issue can also be presented as the trisection of development in the USA (Scott 2005): mass production, large, specialised production studios and flexible specialisation by small companies. Here in Finland there is a tendency towards the direction of the two latter categories, even though the low population size serves as a limiting factor.

In this article I deal with the nature of the production structure in Finland only to the extent that there are available statistics.

The film industry as a form of business

The nature of the production of feature-length films, in particular, is to such a degree a specialised form of economic operations that actual economic research has been relatively insignificant in the industry.

78% of American fiction films make a loss. 35% of the profitable films produce 80% of the profit. In other words, 6.3% of films are responsible for 80% of all of the profit made from cinema exhibition. An increasing amount of the companies' profits is actually generated elsewhere and not from cinema exhibition, i.e. from videos, etc. Therefore, according to De Vany, the motto for this industry could be "nobody knows anything" (De Vany 2005). Interestingly, De Vany also explains the effect of the famous post-war Paramount Decree (1948) for the prevention of monopolies on the concentration of film production. According to him, the Decree has not had any real impact on this because the CR-8 scale, i.e. the market share of the top eight film production companies in the USA, is still 95% as it was when the Paramount Decree was enacted.

If it is the case that "the winner takes it all" in the USA, the assessment of this sector is completely different from that of the other economical sectors, because in most sectors something is also left over for others, not just the winners. On the basis of this, the role of the funding policy and success, particularly in Europe, is very understandable. But, even in the USA, the industry is provided with a lot of support, for instance through education. But the major companies are not, after all, responsible for the education.

Baumol's disease and film

The economist, W. Baumol (Baumol 1987), presented his famous theory on the uneven growth of the productivity of different industries. The arts-related industries often belong to the sectors in which the productivity of the work (of perhaps a performer of Mozart) cannot be increased, even with the help of new technology.

In basic terms, film production can be made more productive by reducing the amount of labour force or working hours, and at the same time the standard of quality. On the other hand, it is possible to improve the quality with the same amount of labour force and working time.

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The raising of the productivity of the content production of films, i.e. the reduction of the labour force, is difficult to implement without a decrease in the level of quality, irrespective of digitalisation. Instead, the situation is probably different in the case of post-production, distribution and exhibition. Because we know that for many years the number of days of filming per film has been significantly lower in Finland than it has been elsewhere, that route is excluded.

The study of Baumol's disease can be used in the economy of films to justify the need for public funding or to analyse the development of the different sections of the film industry value chain. There has been no research in this area in Finland.

Just like a building project

The production of films and videos is a complicated process. Most of the time is spent at the beginning developing the idea and acquiring the basic funding. It is only after that that the actual pre-production phases, such as scriptwriting, etc., can be launched. These preceding stages are, by nature, partly artistic, and partly the operations of those sectors serving normal business life. For instance, the work of an architect can easily be compared to the work of a screenwriter. In the case of copyright issues and during other preparatory stages, the input of lawyers and accountants is required.

The actual production phase is also more similar to construction than manufacturing, whereas the copying of the finished product is certainly small-scale manufacturing.

The carrying out of several separate forms of construction requires project organisation and the delivery of the equipment and labour force to the construction site, which is also the case when shooting a film. Once the building has been constructed, we pick up our stuff and move on to the next site. Film studios also carry out operations which are more similar to an industrial process, in the same way that buildings are nowadays manufactured into finished components in factories. In Finland it is only the traditional studios which play a rather minor role, apart from when it comes to filming indoor shots.

For animations, the relationship of the production of films and the programming sector is obvious: they are partially the same thing. But even in the post-production of traditional feature-length fiction films, digital data management is used increasingly, even outside of sound production. The international competitiveness of the operations of Finnish film production may well be strongest in the areas akin to digital animation.

Industry has been relatively successful

The production of moving pictures as a form of business has traditionally been a relatively small industry in Finland. It has about 1,700 full-time equivalent employees, and there are over 600 production companies. However, the increase in turnover has been reasonable enough, though this growth has been in selective areas.

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Table 1 Film and video production 1993-2006			
	Estab-lishments	Employ-ees	Turnover
	No.	Full-time	EUR mil
1993	369	848	62
1994	378	724	66
1995	398	842	75
1996	398	817	86
1997	435	1001	121
1998	460	1259	109
1999	444	1174	116
2000	455	1218	121
2001	527	1 282	116
2002	550	1 377	119
2003	581	1 275	120
2004	589	1 330	122
2005	607	1 300	136
2006	638	1 452	149
			Table 1

Source: Business Register

Table 1 presents the growth of the film and video production industry at the establishment level over the years 1993-2006. The data on television production companies are not included in the table. When you compare the growth of the film production industry in terms of turnover or total production indicators with that of all business services, the growth of film production has been reasonable this decade. Turnover in the industry has risen by about 5% each year and employment has correspondingly risen by about 4% each year.

The average size of the companies and establishments, expressed in terms of providing employment, has remained surprisingly constant over the entire reference period, i.e. 2.3 full-time equivalent employees. Turnover per company and establishment has risen very moderately, as has turnover per employed person.

The employee figures are expressed as full-time equivalents, even though employees in this industry tend to have temporary contracts, as it would not otherwise be possible to compare the annual figures. The corresponding figures at the company level are developing in the same direction, albeit slightly lower in absolute terms. The main branch of operations of only a few of the establishments in the industry is in another sector.

Bankruptcy risk small

Despite the turbulent nature of the industry, the companies in the film production industry in Finland have had moderate success in recent years, when measured on the bankruptcy risk scale (Table 2). Companies in this industry are more likely to be set aside while other work is carried out and then reinstated when the situation is more favourable, rather than go bankrupt.

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Many are involved in more than one company in the industry and carry out work for the company that is successful at any given time.

The bankruptcy risk has been fairly moderate during previous years, at around 1%, when discounting the spike in 2003. There was a similar spike at the peak of the recession in 1991 when 16 companies went bankrupt. Though, one might ask to what extent even such a low number of bankruptcies as this have had on the role of the unpaid employees that are usually employed in this industry.

Table 2 Bankruptcies in the film production industry

	Bank-ruptcies	% of compa-nies
1993	9	2.4
1994	5	1.3
1995	8	2.0
1996	8	2.0
1997	2	0.5
1998	4	0.9
1999	6	1.4
2000	7	1.5
2001	1	0.2
2002	6	1.1
2003	14	2.4
2004	5	0.9
2005	5	0.8
2006	8	1.3
2007	5	??
		Table 2

Source: Basic data from statistics on bankruptcies

Television dominates

Feature-length films, which are usually referred to as simply 'films', are responsible for only 10% of the entire turnover from film production in Finland. This is evident from the closer analysis that I carried out in 2006 (Table 3). I left out 36 companies operating in different industries from the 9,211 companies in the film production industry and instead included 17 of the 922 companies operating in the radio and television production industry which should actually belong to the film industry. I classified all these included establishments into six groups, depending on their main branch of operations. Though, of course, many of the companies in the industry were operating in more than one of the groups mentioned.

Table 3 Film production by type 2006

	Estab-lishments	Full-time equiva-lent em-	Turnover, EUR mil.

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		ployees	
Feature-length film	32	256.0	17.0
TV+documentaries	117	350.5	34.5
TV TOL 922	17	391.3	41.2
Animation	14	54.5	4.9
Advertising	35	192.4	28.3
Video	188	259.7	23.8
Record-ing+post-production	63	142.4	18.0
Tot. classified	466	1646.8	167.6
Unclassified	153	70.2	5.5
Total	619	1717	173.1

Table 3

Source: Writer's own calculations

Table 4 Nature of film production as a %
2006,%

	Estab-lishments No. %	Employees Full-time equivalent %	Turnover EUR mil. %	Turnover /establishment EUR 1,000	Turnover /employed	Employ-ees/ establish-ment
Feature-length film	5.2	14.9	9.8	531	66	8.0
Docu+TV	21.6	43.4	43.7	565	101	5.6
Animation	2.3	3.2	2.8	352	90	3.9
Advert	5.7	11.2	16.3	808	147	5.5
Video	30.4	15.1	13.7	126	91	1.4
Recording and post-prod.	10.2	8.3	10.4	285	126	2.3
Tot. classified	75.3	95.9	96.8	360	101	3.5
Unclassified	24.7	4.1	3.2	36	78	0.5
Total	100.0	100.0	100.0	280	100	2.8

Table 4 presents the breakdown into percentages of film production establishments according to the nature of their operations. Feature-length films make up only 10% of the entire turnover of film production in Finland, but provide a higher percentage of employment. The percentage of people employed by feature-length films is already greater, i.e. 15%. The businesses filming primarily for television make up almost half of the businesses. Here, it is also possible to discern the dominant role of television in the production of moving pictures.

The businesses filming primarily for television contribute to 44% of the turnover, and 43% of the employees, for the entire industry.

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The turnover of companies concentrating on post-production and advertising films per employed person was clearly greater than it was in other companies. The lowest turnover per employed person was, as expected, in companies focusing on feature-length films, as the average number of employees is clearly greatest in these companies.

Video production and the unclassified had the smallest average size of establishment when measured by employees - they are usually run by one person.

Concentration of the sector

It is well known that in the USA the film industry is dominated by seven major conglomerates, which also have a significant role globally. The same conglomerates have dominated the US film industry for the entire post-war period. The situation is completely different in Finland. Over here, the situation is more like a small market area. Therefore, there has not been a great deal of scope for many entrepreneurs when it comes to the production of feature-length films. The contribution by the ten largest establishments making up the industry's production and provision of employment in 2006 has been calculated in Table 5. The degree of concentration is greatest in the production of feature-length films and the smallest, as expected, in the production of videos. The degrees of concentration in the different genres cannot be fully compared because there are such significant differences between the total numbers of establishments between the genres.

Table 5. Film production in 2006
Contribution of the 10 largest establishments, as a %

	Employees	Turnover
Feature-length film	65.2	89.9
TV and documentaries	64.4	59.9
Advertisements	70.5	77.4
Video	40.4	46.6
Post-production+recording	64.5	80.3
Unclassified	14.2	18.9
Total	24.7	31.8

If we think in terms of size, there were eight establishments producing feature-length films and eight producing advertisements with a turnover greater than EUR million. However, this number was clearly higher in the production of television, i.e. 18 establishments. There were five companies focus-

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ing on post-production with a turnover exceeding the EUR million mark. There were only three establishments within video production and two within animation with a turnover exceeding EUR million. In all, there were 44 establishments in the industry with a turnover exceeding EUR million.

More applicants, less funding

Film production companies operate in Finland in chiefly the same way that they would in any industry practising varied project work, if financial support is not taken into account. Finland's small population also increases the pressure on public funding. It is almost impossible to make feature-length films or documentaries, in particular, without this funding. The situation for videos and advertising films is, of course, different. They rely more obviously on solvent demand whereas the financial success of companies producing television programmes is dependent on the financial situation of the television broadcasting companies.

Indeed, over the previous years no feature-length films have been made in Finland without the support of the Finnish Film Foundation. Nevertheless, the share of advance support out of the total budget of feature-length, fiction and documentary films has, on the average, clearly fallen over recent years. At the turn of the century, it still made up, on the average, well over 40% of the budget of each film. However, it made up only 22% in 2006 and 33% in 2007.

The reduction in the level of funding is to a large extent explained by the rise in the number of films seeking funding. The so-called post-release support granted by the Finnish Film Foundation does, indeed, increase the final share of the support for the successful films measured in terms of audience figures.

Finnish films made quickly

The need for funding becomes obvious when you compare the total number of days of filming in Finland with the rest of Europe.

Finnish films are currently made with, on the average, about 30-35 days of filming. In Sweden filming can last about 50 days and in the rest of Europe, filming generally lasts about 60-70 days.

It is therefore impossible to further increase the productivity of film production in these conditions. And this situation does, in fact, pose quite a number of challenges for public film policy.

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