



FUTURE OF INVESTMENT IN AFRICA – *A CASE OF THE ENTERTAINMENT INDUSTRY*

6th African Film and TV Programmes EXPO: BOBTV 2009

ALTERNATIV

Fresh thinking.

OUTLINE OF PRESENTATION

- Who Are We?
- Introduction to the Global M & E Industry
- Nigerian Film Industry
- Recommendation
- Resolution / Outlook

Vision

***Promote economic development by
creating wealth opportunities for
businesses***

Mission

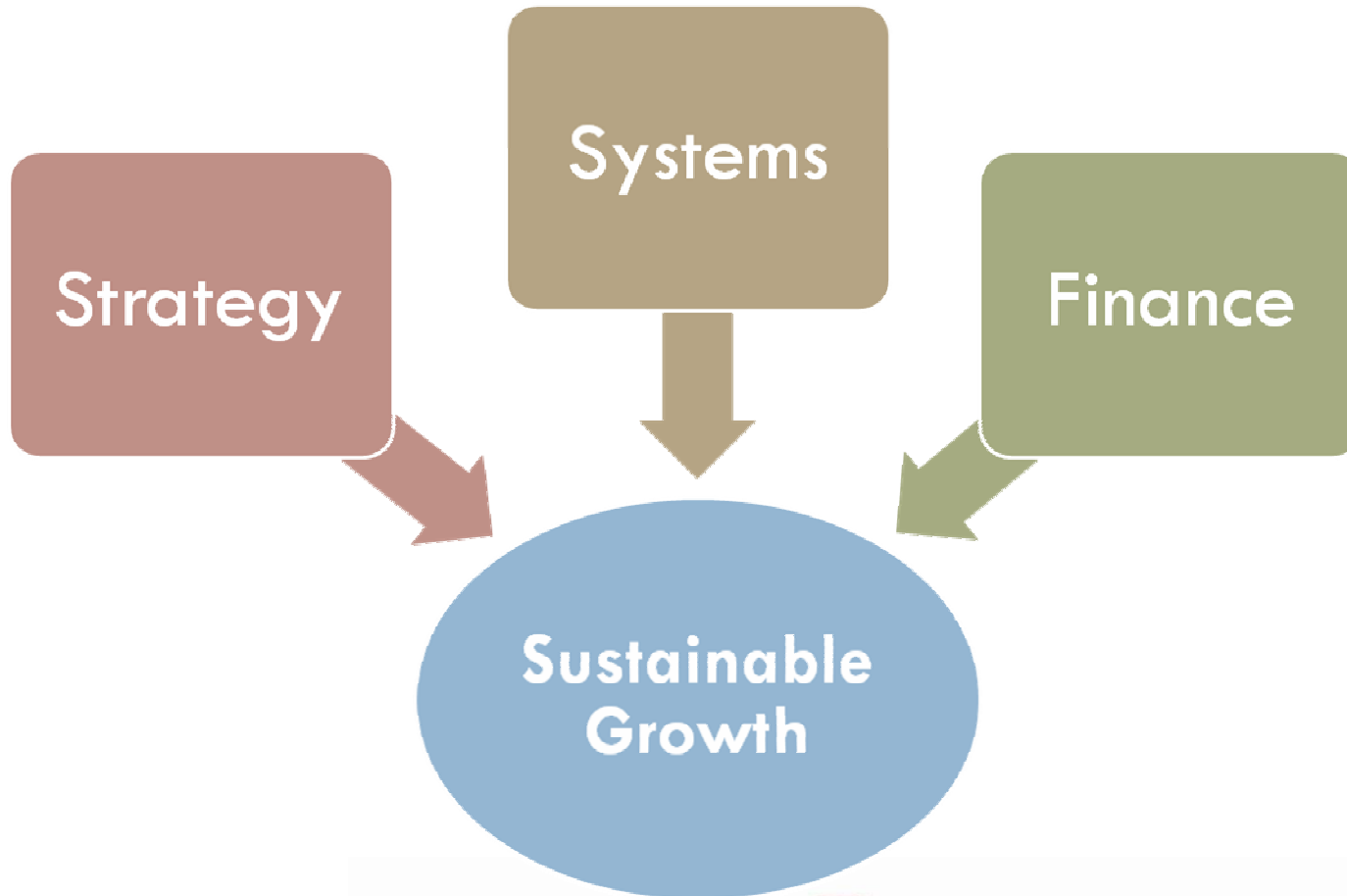
To aid growth in small & medium enterprises by providing relevant business support services



Our Ethos

- Alternativ was formed out of a passion to support the growth of small and medium enterprises within the Nigerian economy.
- Our approach to providing business support services is based on three pillars of business thinking; Strategy, Systems and Finance. We believe the good management of these three pillars leads to sustainable growth and business success.

Our three step approach to developing businesses:



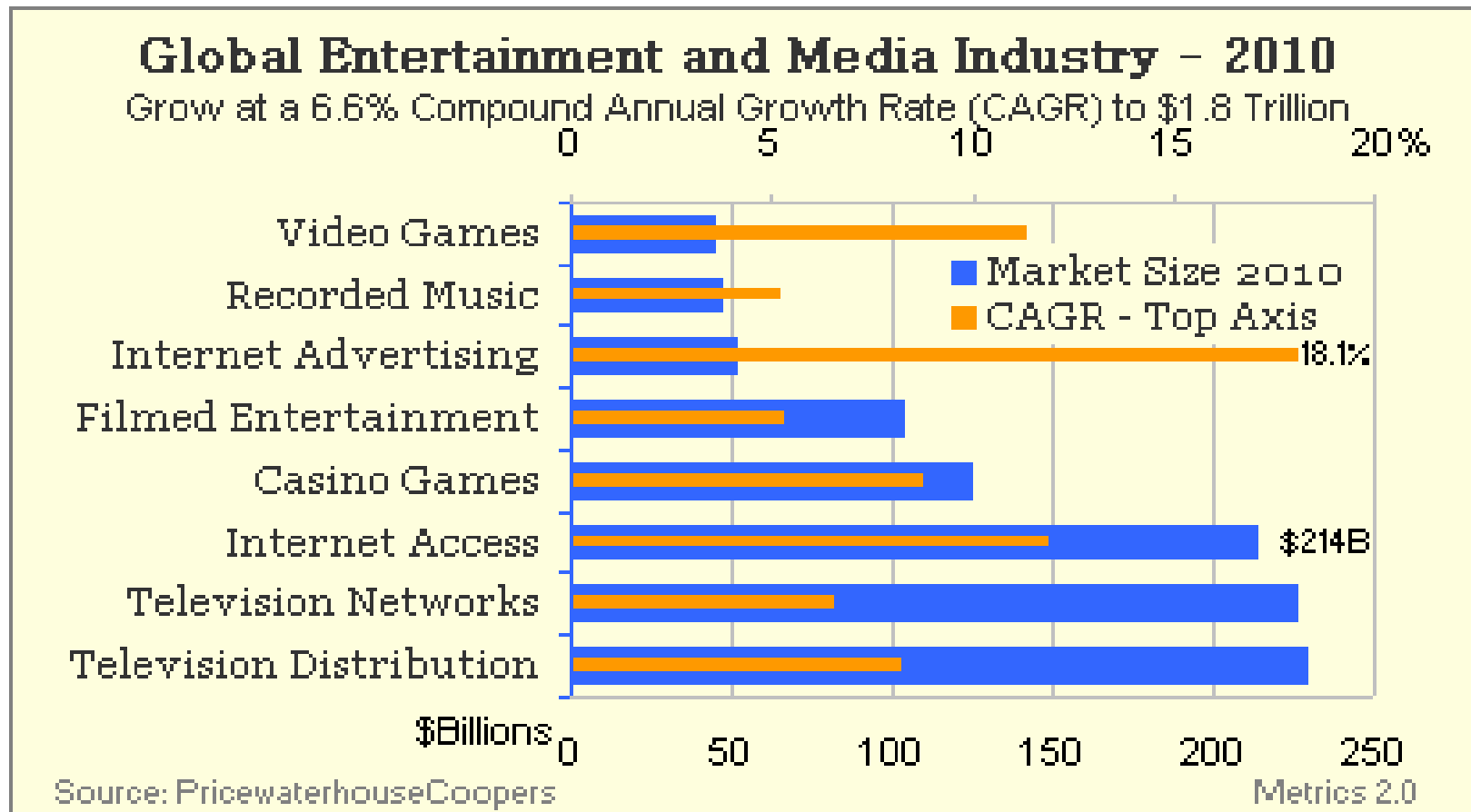
Introduction to the Global M&E Industry

Overview of Industry

- The global media and entertainment (M&E) industry is big business: accounting for 4-5% of GDP in both the United States and Japan, although the specific composition is different
- It spans the United States, Canada, Latin America, Asia-Pacific and the Europe/Middle East/Africa regions
- It comprises as many as 14 sectors, including print, film and television to radio, internet, recorded music and video games
- The industry which has been badly hit by the global economic slowdown and terrorism in recent years, approached US\$1.67 trillion in 2008 on 6.3% annual growth rate. Market size will hit US\$1.8 trillion by 2010^{Source: Price waterhouse Coopers.}
- The US, the M&E industry / market leader expands at a 5.4% compound annual rate.
- Future world-wide growth and recovery will be led by the Asia-Pacific region (CAGR: 9.8), with China and India serving as the two main growth engines.
- The key growth sectors are the internet and video games
- Film growth is set to slow following the movement of the US DVD market towards a maturation point
 - Meanwhile, advertising trends will be uneven over the next five years

Introduction – cont'd

Global M&E Market Size / growth



Introduction – cont'd

Global film facts and forecasts

- U.S. box office growth will average 4.3% CAGR during the next five years,
 - taking total box office spending from US\$9.0 billion in 2005 to \$11.1 billion in 2010.
- In Europe, Middle East and Africa (EMEA) online subscription services and video streaming services are entering the market.
 - Together they will reach \$2.2 bn by 2010 from only \$216m in 2005, averaging 59.1% CAGR.
- In Asia Pacific high-definition video and reduced piracy will stimulate the sell-through market.
 - Sell-through spending will grow at 6.2% CAGR to \$6.2 bn in 2010 from \$4.6 bn in 2005
- Countries in Latin America are supporting local production through various subsidy programs. The success of local films will dramatically affect the overall market
- In Canada sell-through growth will average 4.9% compounded annually to \$3.8 bn, and rentals will be flat at \$1.3 billion

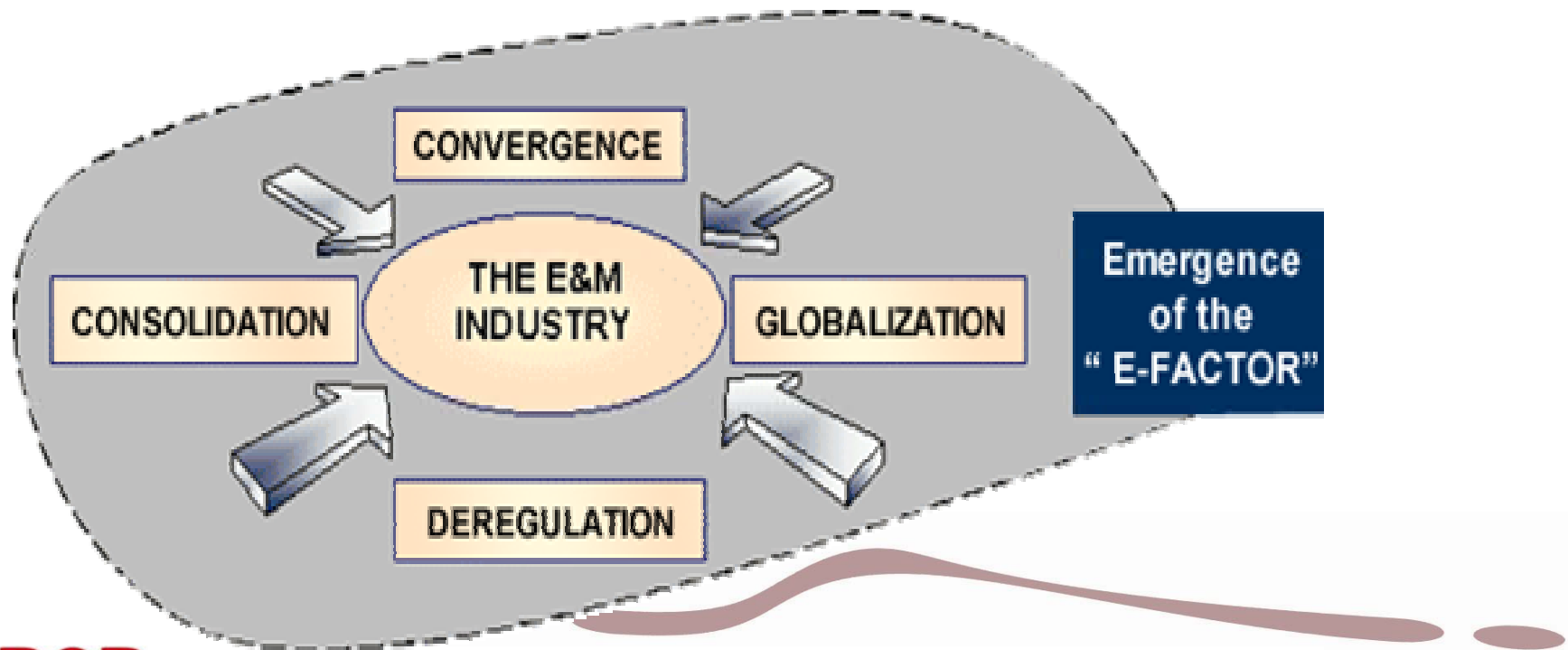
Figures do not include music videos or video-on-demand (VOD), or pay-per-view (PPV), or movie distribution by cable, satellite, or telephone companies



Introduction – cont'd

Global Industry Growth Drivers

- The first four factors: Globalization, Convergence, De-regulation & Consolidation refer to the environment specific to companies, policy makers, technology and the industry,
- "E-Factor" lies in the mindset and behavioral pattern of the consumer.
- These driving forces guide strategy formulation in global M&E industry



Nigerian Film Industry

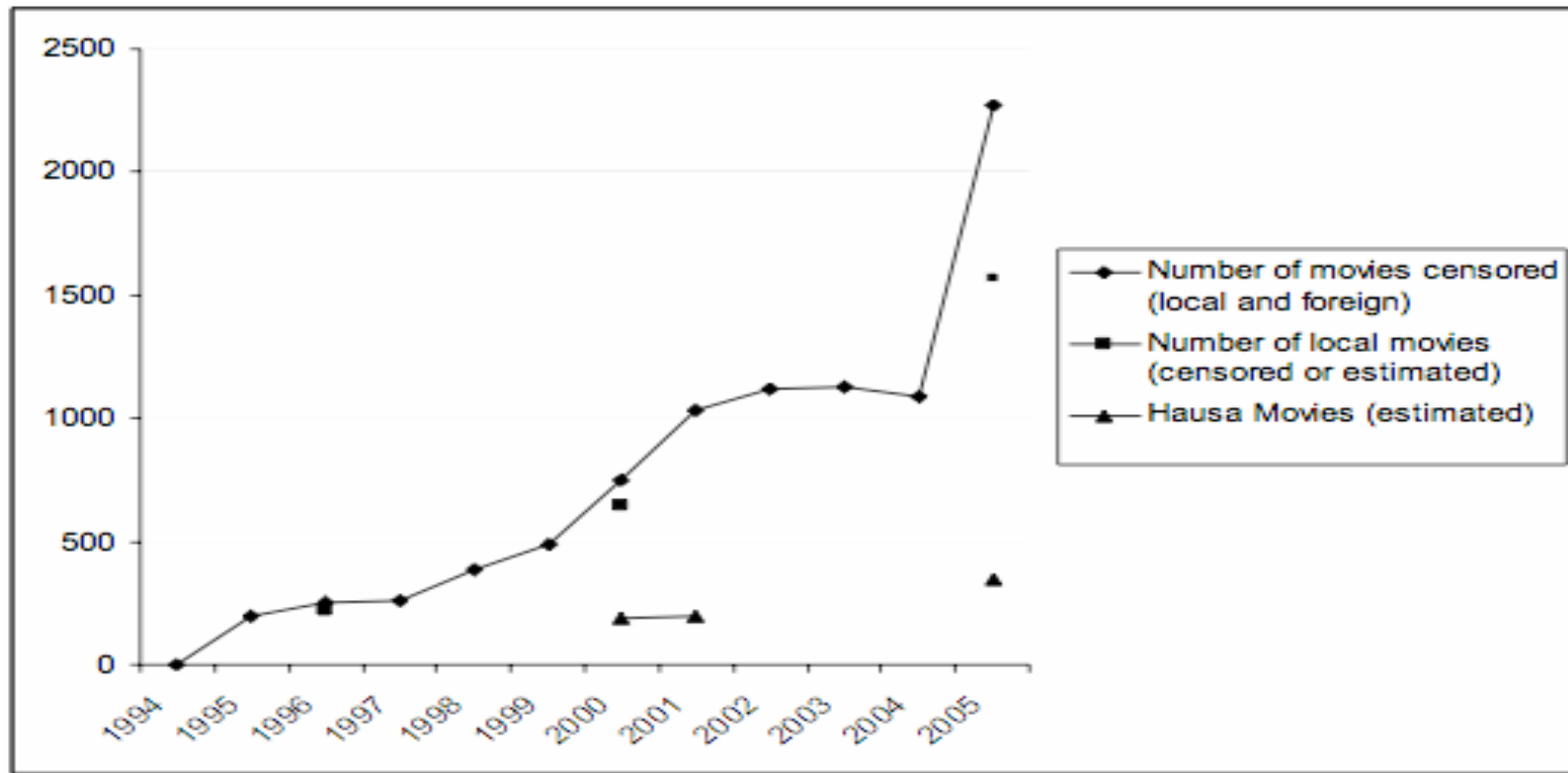
Overview of Nollywood

- Modern film-making in Nigeria began with Kenneth Nnebue's *Living in Bondage* in 1992
- Since then, Nigerian Film industry – *Nollywood* - has grown into the biggest in Africa and the 3rd in the world
 - After *Hollywood* and India's *Bollywood*
- Its size and work rate has it producing over 2000 movies every year
- A Nollywood film costs between \$40,000 and \$210,000 to produce
- It sells up to 120,000 copies locally and more when exported on video or DVD **Source: Harvard Business Review (May 2, 2008)**
- Sales currently stand at US\$200 – 300m per annum.
- Nollywood's contribution to Nigeria's GDP (US\$661m or 0.7% in 2005) is not yet significant. However,
 - It is a major source of (especially, youth) employment - with over 5,000 guild members (in 2004) and over 1 million jobs (at Year End 2008).
 - It has equally birthed many related industries while reducing the rich – middle-class gap.
- Nollywood has transformed the way Nigerians see themselves
- It presently commands global attention, seen as one of Nigeria's positive cultural contributions to the international community.

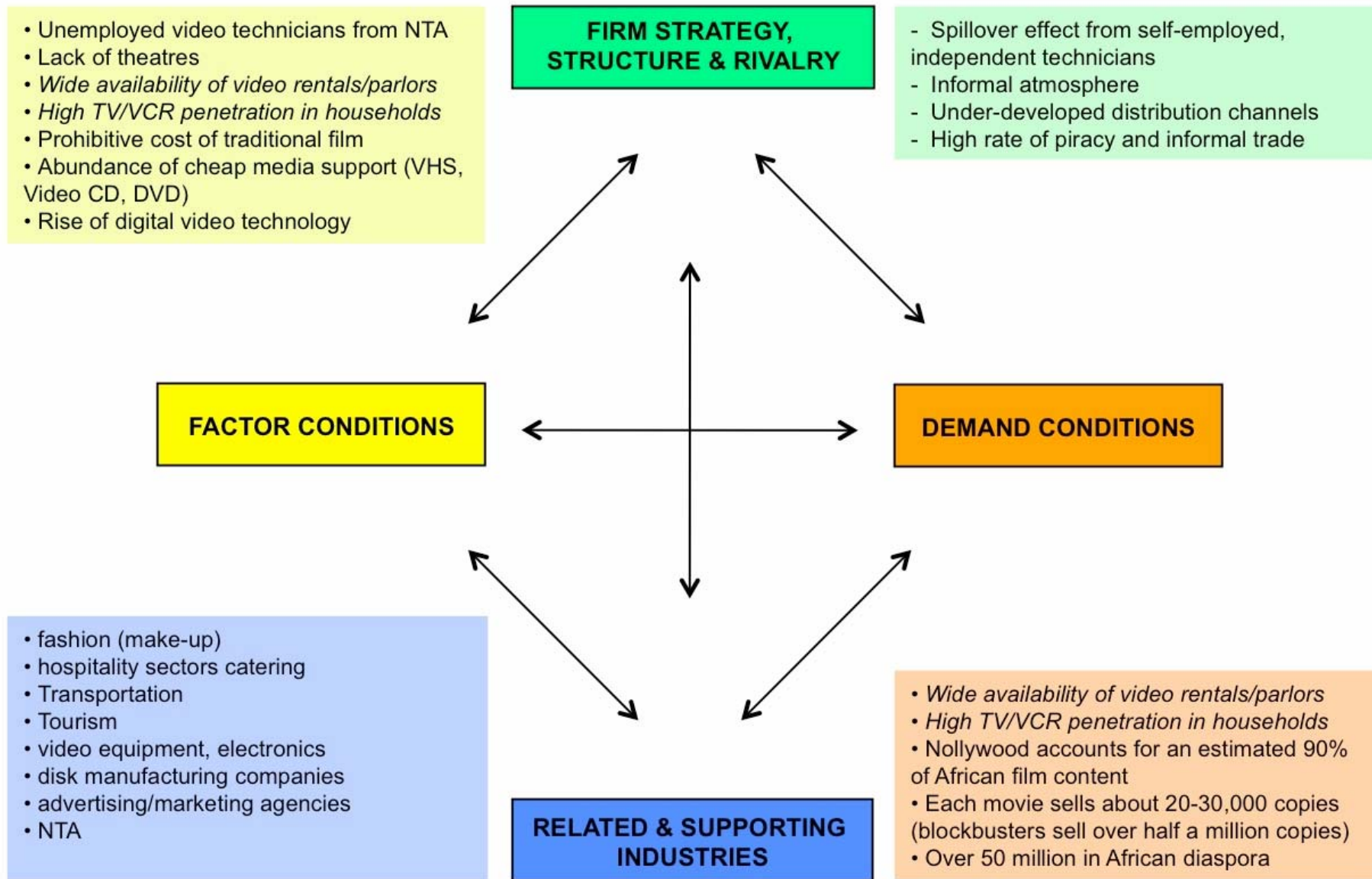
Nigerian Film Industry

Overview of Nollywood

- Our investigation of industry output is based on the number of films censored by the NVFCB up till 2005 *Source: Alternativ Managers Research Department*



Nollywood Diamond



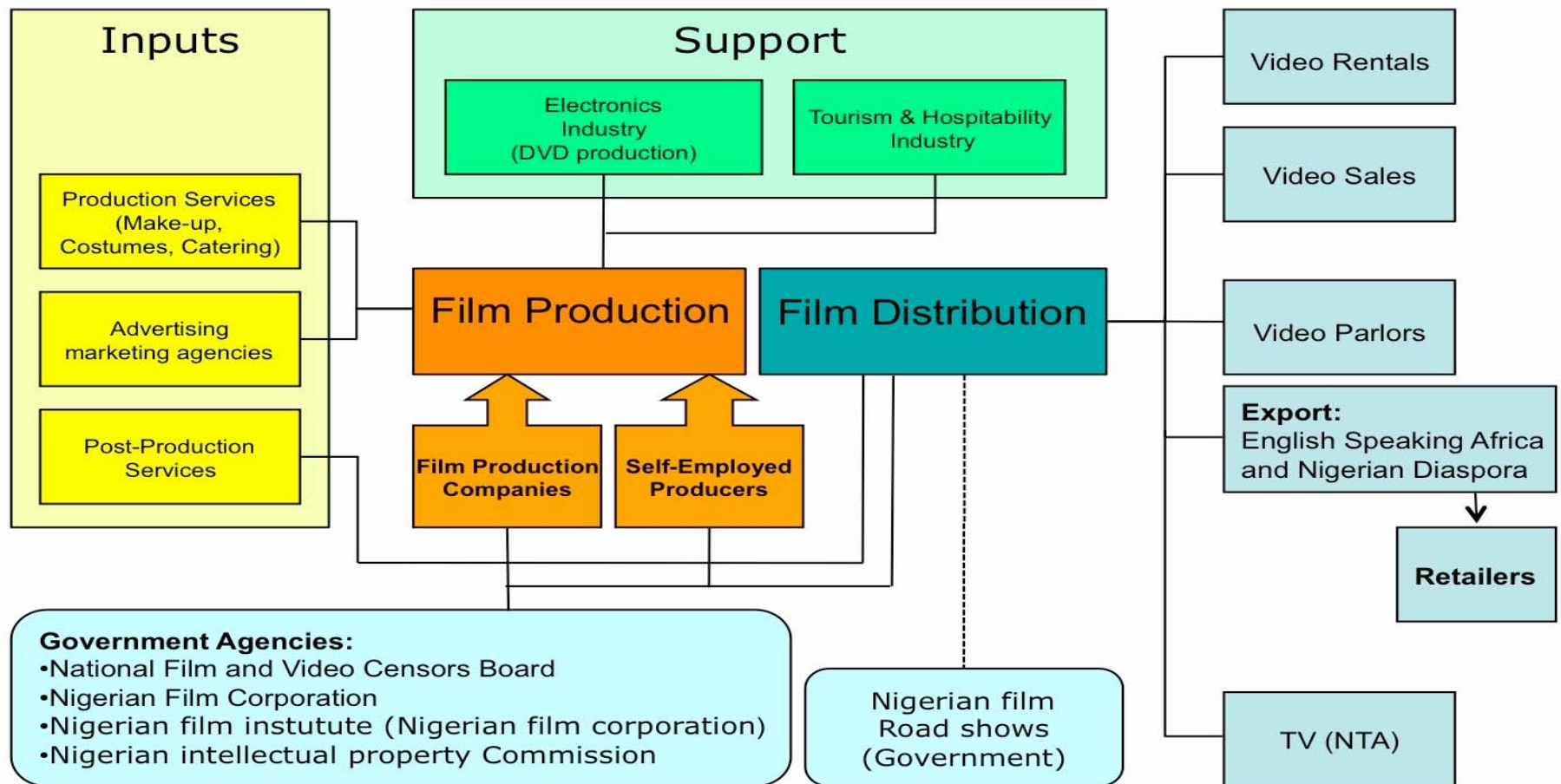
Nigerian Film Industry

Mapping of the Nollywood Cluster

- Production is the basic unit of the Nollywood's cluster
- There are formal and informal production companies in the cluster
 - In line with Nigeria's dual economy (informal sector = approx 40– 45% of GDP)
- Individual, self-employed producers often operate for years outside any recorded economic transaction, making it difficult to accurately collate basic data.
- Both production and distribution have strong linkages with collateral industries created to provide the services needed for production and post-production.
- A DVD manufacturing industry was created directly after the rise of Nollywood and (together with tourism), is Nollywood's strongest collateral industry
- Nollywood films are typically distributed through direct sales, individual rentals, or shown in video parlors.
- Recently NTA has started to show Nollywood films;
- HiTV and Multichoice's DSTV are also other sources of distribution

Nigerian Film Industry

Players in the Nollywood Cluster



Nigerian Film Industry

Nollywood Value Chain Analysis



Nigerian Film Industry

Consumption

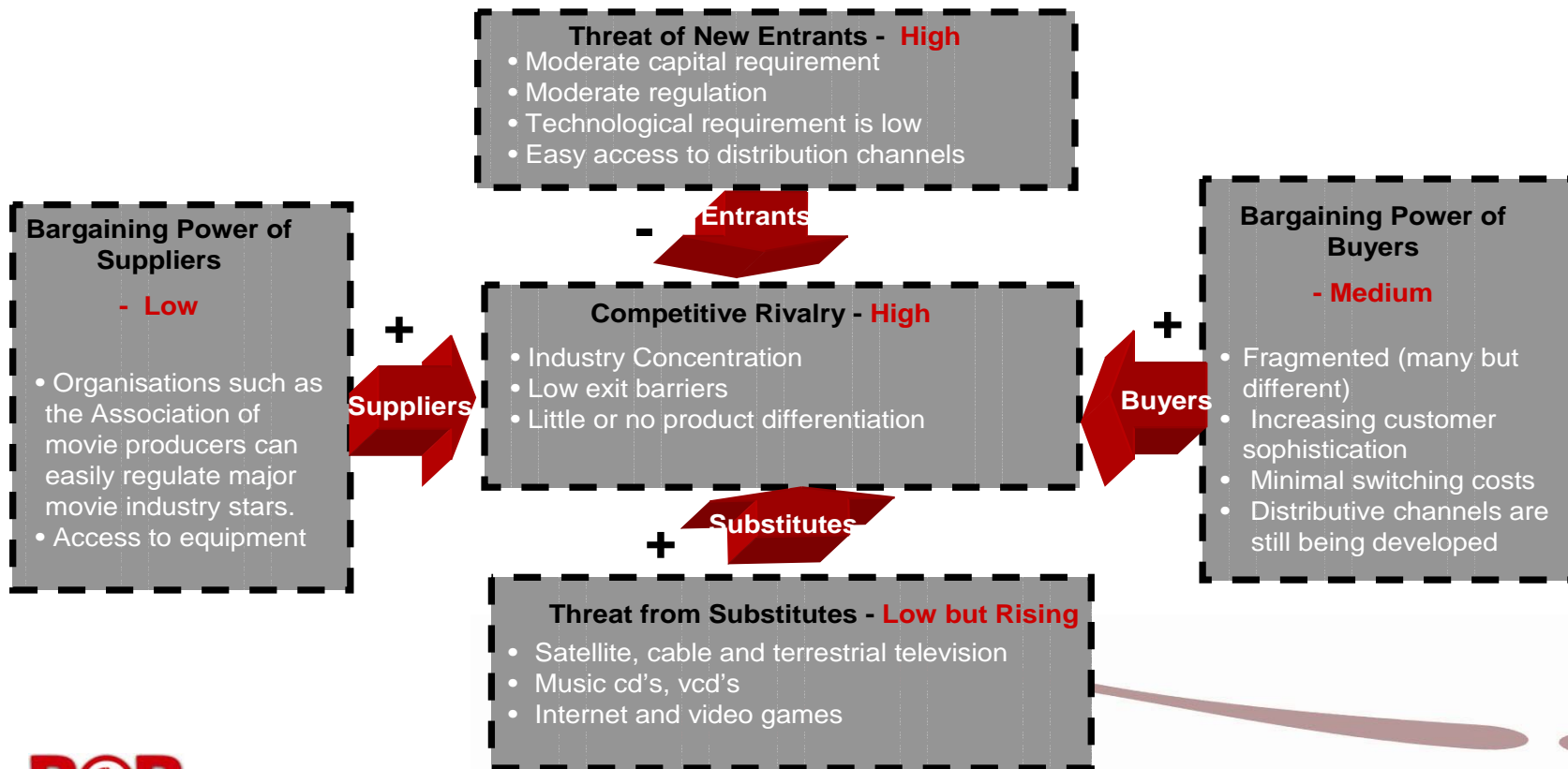
- Nigerian consumers generally rent or buy DVD/ VCD or VHS
- A small segment of the society sees movies in theatres.
- The less affluent segments of the population rely on lost-cost movie screenings in rural areas using video projectors.
- The following table gives a broad comparison of Nollywood with other major industries.

	Hollywood	Bollywood	Nollywood
Format of films	35mm	35mm	Digital
Annual production	815	1041	2300
Major revenue source	Theatres	Theatres	DVD rentals

Nigerian Film Industry

Impediments to Growth – Influence of Porter's 5 Forces

- Our *Porter's 5 Forces* analysis shows that the prospects for profit in Nollywood is near-limitless
- Why then is Nollywood's financial position near-comatose?



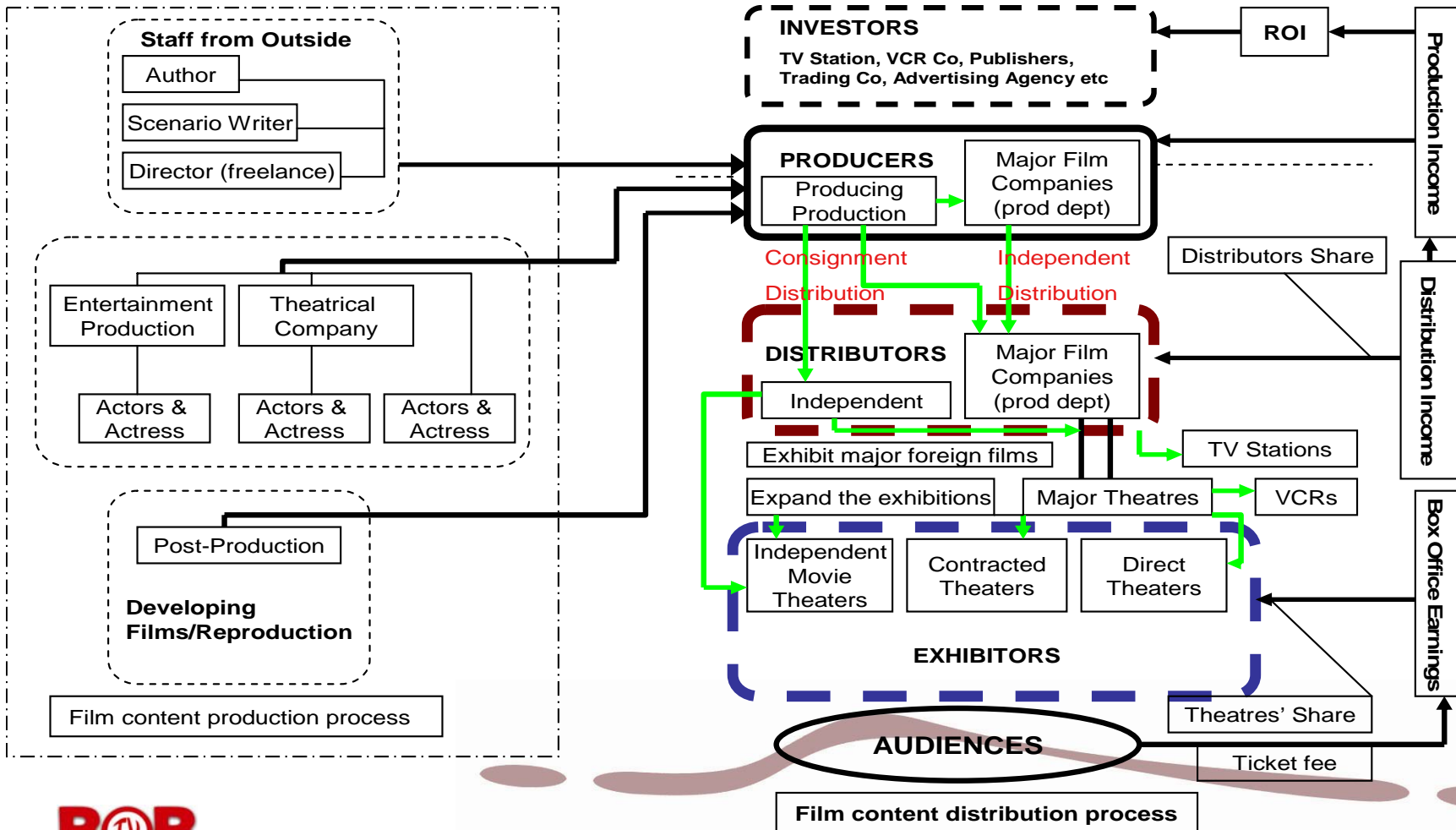
Nigerian Film Industry

Impediments to Growth – Funds In-flow

- **Weak Brand Equity:** poorly conceived marketing campaigns cause a predilection to foreign films due to perceived weakness in content, professionalism and capacity to deliver lasting cinematic experience.
- **Dearth of skilled manpower:** there are few players with adequate training
- **Poor Structure /Weak Corporate Governance** – no clearly defined roles and responsibilities, clear reporting lines as well as standard accounting and control practices for all employees / stakeholders. There are also sub-standard management practices
- **Poor Regulatory Regime:** weak enforcement and prohibitive piracy levels
- **Poor Content Quality:** together with an over-simplistic value chain
- **Weak Revenue Base:** despite its prolific profile, the cash has eluded Nollywood
- **Poor Alliances Management:** no / few strategic alliances with organizations/persons for value-add in content sourcing and professional advisory. A focused production strategy will lead to cost optimisation and improved professionalism
- **Limited Reach:** poor distribution infrastructure in key densely populated areas and remote locations. Revenue stems from distributing, rather than producing films
- **Poor Funding Regime:** a key impediment to achieving brand recognition, infrastructure development, etc. The paucity of financing sources is a deal-breaker!

Nigerian Film Industry

Global Value Chain Schematic



Nigerian Film Industry

Global	Local
<p>Funding Sources:</p> <ul style="list-style-type: none">❖ Majors: current revenues, advance payments, credit facilities with banks, venture capitalists, public/private offerings.❖ Independents: arrangements with studios, domestic/foreign distributors, banks with entertainment lending sections, private offerings, other specialized lenders, investors/venture capitalists, private placements, and rarely - IPOs.❖ External investors have no influence on artistic content of films produced.❖ Hence quality of content is not compromised.	<p>Funding Sources:</p> <ul style="list-style-type: none">❖ Producer sources funds from private sources or from the marketer.❖ This practice that is vaguely similar to pre-sale deals in Hollywood.❖ Producer receives upfront payment from marketer❖ In exchange for this financing, marketers have sweeping influence on production – distribution / sales decisions❖ This interferes with producers' overall artistic freedom and ultimately, content quality.

Nigerian Film Industry

Global

Production:

- ❖ *Development* (includes all efforts that yield a *shootable* film script); including: in-house story development, review of out-of-studio scripts,, hiring of writers/consultants - writing, analysis, rewriting, adaptation, licensing, filming of final screenplay.
- ❖ *Packaging: pitching* and deal-making to bring in the key creative elements: writer(s), director, other producers or executive producers, actors, crew.
- ❖ *Preproduction:* script budgeting, finance brokerage, legal documentation, location scouting, creating screenplay storyboards, final script changes,
- ❖ *Principal Photography:* image / sound creation, on-stage/off-stage filming, final assembling/ compilation of film into a print that can be exhibited in theaters or transferred to tape for TV
 - Typically lasts less than three-months,
- ❖ *Post Production:* final assembly/compilation; scoring of music, dialogue looping, sound mixing, sound/film editing, special effects

Local

Production:

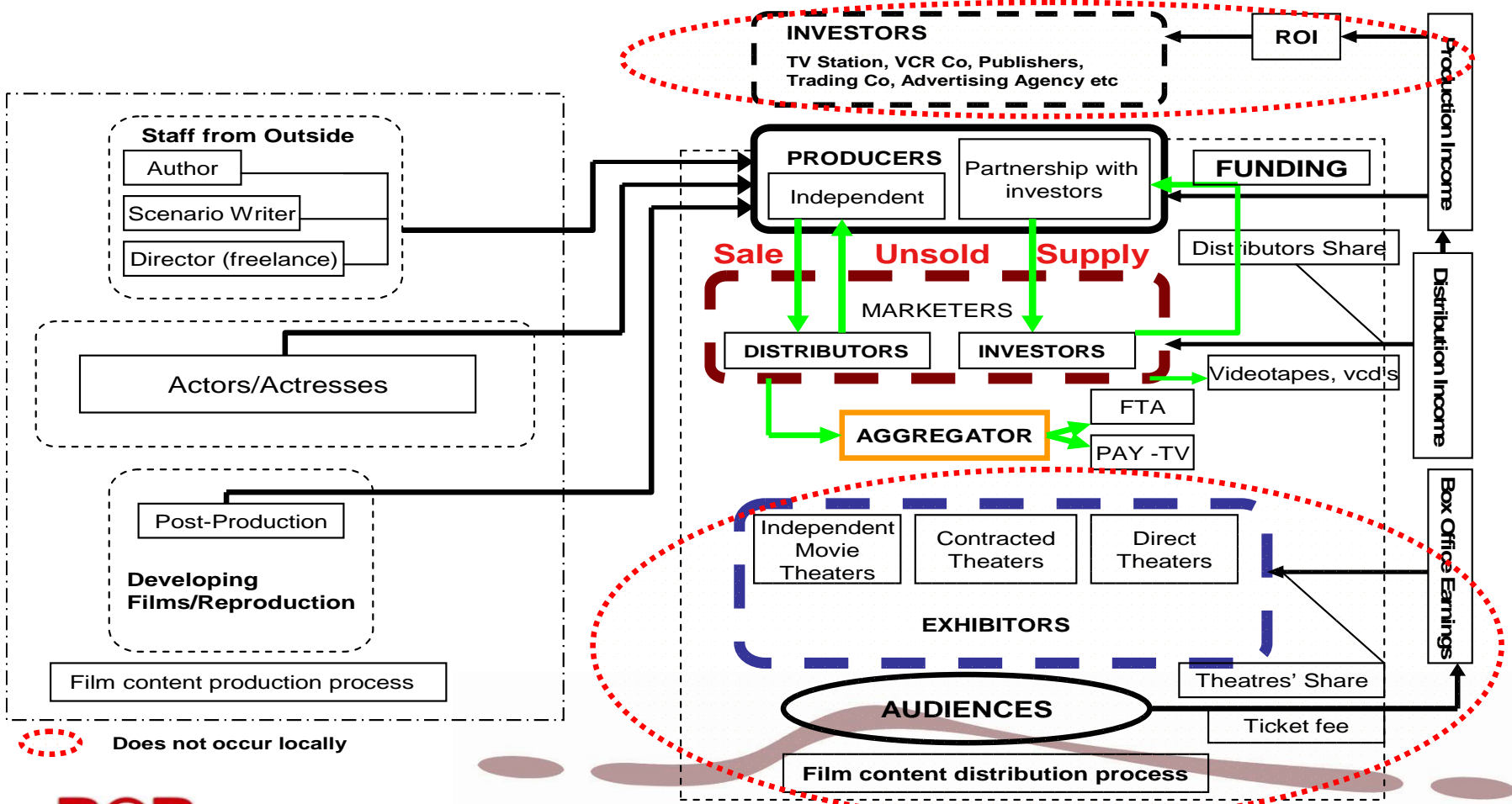
- ❖ Post Production: final assembly/compilation; scoring of music, dialogue looping, sound mixing, sound/film editing, special effects
- ❖ Production practice in Nigeria is almost linear.
- ❖ Producer (who might claim ownership of the film) often doubles as director
- ❖ Shortly after receiving payment, producer cedes master tape to marketer
- ❖ Producer supplies publicity materials, posters, flyers, stickers, and also prints the jackets/sleeves
- ❖ These are endorsed by seal or signed by hand by the marketers.
- ❖ A tab is kept on the sales traffic. As demand rises, the producer supplies more jackets.
- ❖ 2 - 3 months after release, both parties settle accounts.
- ❖ For a producer with alternate funding sources, producer supplies the finished video tapes and vcds to the marketer on a sale and remit basis.
- Marketer-producers account for about 80% of industry production output.

Nigerian Film Industry

Global	Local
<p>Distribution: i.e. commercial exploitation of film</p> <ul style="list-style-type: none">❖ Varied sale/license revenue sources	<p>Distribution:</p> <ul style="list-style-type: none">❖ In terms of mass diffusion, almost all films have to be marketed/distributed by a <i>marketer</i>.

Nigerian Film Industry

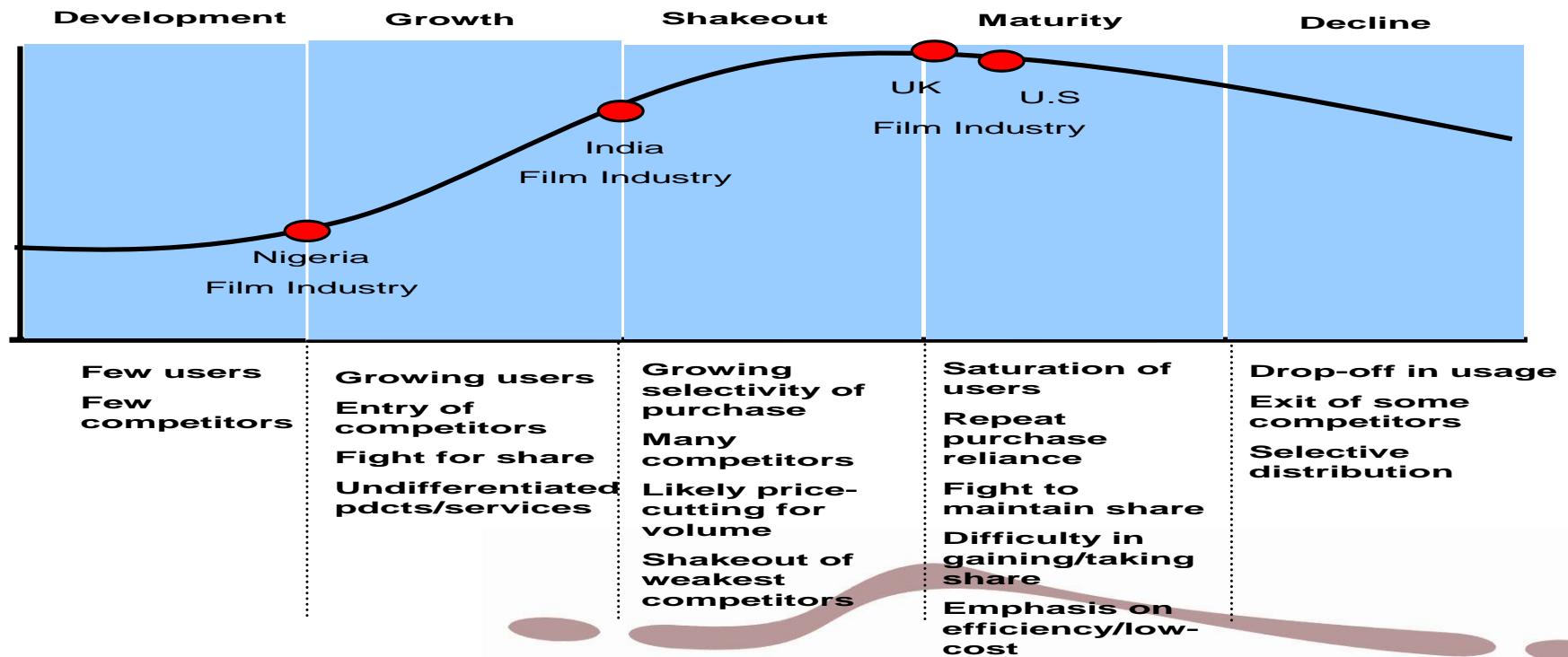
Local Value Chain schematic



Recommendation

Industry Life Cycle

- Alternativ has analyzed and depicted the life cycle of Nollywood within the context of the global industry, and taking cognizance of the level of development of distributive channels
- Our analysis reveals that the Nigeria industry is still in the growth phase



Nigerian Film Industry

Impediments to Growth – Global vs. Local Value Chain Analysis

- As shown below, despite its high production levels, Nollywood has fared poorly against the leading markets. What is the missing link?

Revenue (US\$) in 2008		Annual production	Total Investment (1997)	Revenue per movie (US\$)
Bollywood	US\$2.2bn <ul style="list-style-type: none"> \$2.7bn in 2010 @ 19% CAGR) 	1041	>US\$340m	US\$2.1m
Hollywood	US\$10 bn <ul style="list-style-type: none"> \$11.1bn in 2010 @ 4.3% CAGR) 	815	>US\$9.8 bn	US\$12.3m
Nollywood	US\$540m	2300	Poor	US\$235,000 (ie. N28m; @US\$1 = N120)

Source: HBR; FICCI-PCW; Alternative Managers



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Recommendation

NEXT STEPS

- The key Next Step is to achieve proportionate growth – in revenue and productivity; and hence, help Nollywood transit to *Maturity Stage*
- This will require tough action and painful but unavoidable sacrifices, and
- Full, unalloyed co-operation and participation of all industry players, stakeholders and the government

Recommendation

Our R³ Matrix

Recommendations	Resources	Remarks
<i>Anti-piracy law implementation</i>	✓ Government	<ul style="list-style-type: none"> ❖ Create a potent anti-piracy task force (similar to that used by India to fight software piracy) that conduct random or targeted raids on suspects ❖ They should be empowered to arrest or hand down fines / penalties ❖ Nollywood should employ moral suasion and concerted campaigns with the central theme: <i>'Pirated Films Cost as Much as Original Copies, So Why Risk Your Liberty for Nothing?'</i>
<i>Develop and formalize distribution channels – both local and foreign</i>	<ul style="list-style-type: none"> ✓ Government ✓ Nollywood 	<ul style="list-style-type: none"> ❖ Enforce licensing / registration of distributors, video sales / rental outlets ❖ This sheds light on their practices and spots /stops pirates ❖ This imposes heavily penalties on offenders ❖ Form distribution and broadcast alliances with TV and broadcast channels and other industry players both within and beyond Africa
<i>Ensure safety in 'theatre' regions</i>	<ul style="list-style-type: none"> ✓ Government ✓ Private sector ✓ Nollywood 	<ul style="list-style-type: none"> ❖ Encourage private sector participation in development and management of cinemas and theatres ❖ Provide a safe and secure environment in the <i>'theatre areas'</i> ❖ This provides an alternate revenue stream from box office receipts ❖ It also provides the incentive to go out



Recommendation

Our R³ Matrix

Recommendations	Resources	Remarks
<i>Organise and support local and international film festivals</i>	<ul style="list-style-type: none"> ✓Government ✓Nollywood ✓Private Sector 	<ul style="list-style-type: none"> ❖This should especially target nations with huge population of Nigerians and Africans in Diaspora: e.g. UK, US ❖It will expose our talented practitioners to a wider audience ❖It can be leveraged for international marketing and distribution
<i>Training Infrastructure</i>		<ul style="list-style-type: none"> ❖Build and operate world class training institutes and facilities for film actors, producers and other practitioners ❖This will prove a veritable tool for both technology and knowledge transfer from other film markets across the world ❖It will also provide an industry barometer for standards and quality
<i>Wholesome Branding Strategy</i>		<ul style="list-style-type: none"> ❖There is near-zero competition from the rest of Africa, presently ❖Nollywood must therefore seize the moment and its first-mover advantage as the <i>Undisputed Face of African Movie</i> industry ❖All parties must pursue concerted and deliberate branding campaign to win hearts and minds, conquer new frontiers ❖There is an urgent need for a global branding strategy for Nollywood

Resolution / Outlook

Outlook for FDI and Future Funds

- A key first step towards funds mobilization will be the set up and management of a buoyant *Nollywood Fund*
- This can provide scholarships for talented film makers to study in the best training schools around the world
- It will also offer access to major film festivals around the world, including that at Cannes, France
- It will also sponsor such film festivals and awards in Nigeria
- Finally, there are institutional funds that can be accessed, locally and globally, in support of the Nollywood Vision,
- This is subject of course to the fulfillment of the relevant prerequisites, including
 - Corporate Governance Codes,
 - Management Integrity and Management Succession Plan,
 - Potential for earning foreign exchange revenues from foreign markets
- These funding sources include
 - Cable and satellite television rights, overseas distribution, gaming rights, broadband rights
 - International Finance Corporation (IFC),
 - EXIM
 - SMIES Funds of Large Nigerian Corporates;
 - Capital market – this is more futuristic; as well
 - Non-Governmental Organisations
- Federal Government of Nigeria can also offer tax incentives to industry players

THANK YOU!

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