

Family matters at b.o.

Study: G-rated fare more profitable

BY Brian Fuson

Family-friendly movies are more profitable than R-rated films, according to a new study to be released today.

In a follow-up to a 10-year study commissioned by the non-profit Dove Foundation in 1999—which found that between 1988-97 the average G-rated film made eight times the profit of an R-rated picture—an extension of that study found that trend continuing and expanding.

The new, expanded study examines the revenue and negative costs for 3,000 MPAA-rated theatrical films released between Jan. 1, 1989 - Dec. 31, 2003, using the 200 most widely distributed films each year based on the number of theatres.

The 15-year study throws more fuel onto the fire of the long-running debate over sex and violence in entertainment—and whether it sells. To encourage the production and distribution of more wholesome family entertainment, the Dove Foundation commissioned the study to examine the profitability of movies broken down by their MPAA ratings to compare family-friendly movies vs. R-rated films.

“While the movie industry produced nearly 12 times more R-rated films than G-rated films from 1989-2003, the average G-rated film produced 11 times greater profit than its R-rated counterpart,” said Dick Rolfe, founder and chairman of the Grand Rapids, Mich.-based media advocacy group.

The new study found that in the years after the first study was released in 1999, from 2000-03, that trend has continued. The average profit for films rated G went from \$74.2 million to \$92.3 million, PG vaulted from \$9.9 million to \$78.8 million, PG-13 rose from \$15.4 million to \$45.6 million, and R-rated films increased from \$3 million to \$17.9 million. The study notes that those increases are probably due in part to increased ticket prices, coupled with a decrease in manufacturing costs associated with

videos and DVDs.

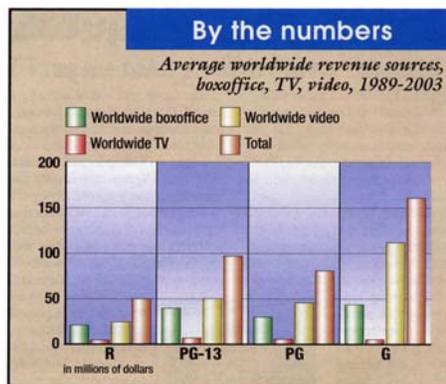
At the same time, on average more G and PG-13 films are being made and released. Since the first study was released in 1999, Rolfe noted that there has been a slight production shift toward more family-friendly films: “The production of R-rated films has dropped by 12%, while G-rated fare has increased by 38%.” The average number of R-rated films released each year dropped from 105 to 93, G-rated films increased from seven to 10, PG-rated films decreased from 36 to 21, and PG-13 rated films went from 50 to 75.

Rolfe points out that the goal of the foundation and the report is not to eradicate R-rated films. “Dove is not suggesting that Hollywood produce only G and PG movies,” he said. “We just think the proportionality is out of balance, given the relatively few, highly profitable family-friendly movies released each year. Our study reveals that Hollywood is not serving the most prolific audience segment in the entertainment marketplace: the

family.”

The study defined “profit” as estimated worldwide theatrical rentals, TV and video grosses, minus estimated negative costs, P&A and video/DVD manufacturing costs. To produce an accurate rate of return, all costs and revenue used were limited to the first 24 months from the date of each release.

“Profit” in this study does not include revenue derived from merchandising, licensing or fast-food tie-ins. If those revenue streams were included, the average profit for G, PG and PG13 films would rise dramatically, while the average



SOURCE: THE DOVE FOUNDATION

profit for R-rated films would not, because sales of toys and other licensed products are rarely associated with R-rated films.

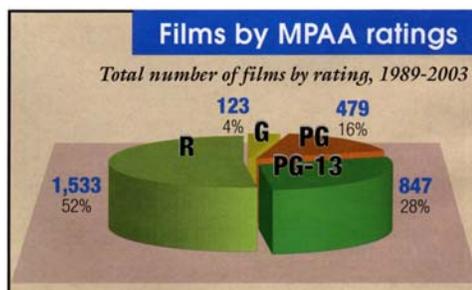
The well-known research firm Kagan Media Appraisals assembled the data (though some results are based on Kagan’s estimates of proprietary corporate information), which was analyzed by the finance department of Grand Rapids’ Seidman College of Business at Grand Valley State University.

Rolfe makes the case that films can be entertaining and profitable without the sometimes gratuitous trappings that go along with an R rating. “Movies such as ‘Shrek 2,’ ‘Finding Neverland,’ ‘National Treasure,’ ‘The Incredibles’ and ‘Miracle’—all rated PG—all are action-adventure films, comedies, dramas and mysteries—but without the explicit language and gory special effects that are rampant in R-rated movies,” Rolfe said.

While an R-rated film has never been given the Dove Seal of Approval, Rolfe



“Shrek”



SOURCE: THE DOVE FOUNDATION OF THEATERS. INCLUDES THE 200 MOST WIDELY DISTRIBUTED FILMS EACH YEAR BASED ON THE NUMBER OF THEATERS.

said the foundation has given endorsements to select R-rated films that have a redemptive message, including "Saving Private Ryan," "Schindler's List," "Amistad" and "The Passion of the Christ." "The portrayals were too explicit to meet our standards," he said in regard to the violence in those films, "but they did have a strong redemptive message."

Over the 15-year period, Hollywood produced 123 G-rated films, which accounted for approximately 4% of the top 3,000 films and had an average profit per film of \$79 million. At the same time, R-rated films comprised 1,533 of the total, or 52% of the 3,000 films in the study, and averaged \$7 million each. The second most widely distributed film rating was PG13, with 847 films averaging \$23.5 million in profit, while 479 PG-rated films averaged \$28.3 million.

While studio executives have long known that films with less restrictive ratings have a potentially bigger audience, the rating is not the sole driving force of the business.

"There is no question in my mind that Hollywood has been making more PG-13-, PG- and G-rated movies. Movies make huge sums of money when they work and have those ratings, since they have a much broader audience to draw from," said Tom Sherak, a partner at Sony-based Revolution Studios, who said he had not seen the report.

"But the key to the entertainment business is that movies are made for different things and different reasons," Sherak added. "Our industry tells stories, and not all of those stories are G or PG stories. There are movies that are rated R, which should be rated R, which need to be made as well."

Regarding the profitability of G-rated fare, Sherak said, "G-rated movies will always have a place in society films that you can take everybody to and not worry. The thing about G-rated films is they have to appeal to the parents and the kids to be really successful."

Weighing in on the ratings-profitability study, a leading entertainment investment banker said the conclusion was not unexpected. "The results are not that surprising but are, in fact, quite intuitive," said Lloyd Greif, president and CEO of Greif & Co., a Los Angeles-based investment banking firm. "The reason for that is G-, PG- and PG-13 rated films are



widely accessible to nearly all age groups—both in theaters and the aftermarket. By its very definition, a more restricted film is accessible by a more limited audience."

Greif added: "An adult will watch once, twice if you're lucky, but a child, adolescent or teenager will go back to the movie or video and watch it multiple times and will not tire of the experience. If Hollywood is chasing the older teens and early 20s age demographic with R-rated product, they are missing a much greater opportunity to attract all age groups with more accessible product—product you don't need a driver's license in order to see."

Commenting on the new study and the move away from R-rated films in recent years, Greif said, "While the shift isn't dramatic, it looks like Hollywood has gotten the message and is producing proportionally fewer R-rated films today."

While the "profit" used in the report is not the actual profit earned by a studio, the comparisons cited in the study are viable because the same factors were applied to all films. Hence, the results reflect a relative, though not absolute, assessment of return on investment.

With these qualifiers in place, for films released from 2000-03, the study maintains that the average rate of return on investment for a G-rated picture was 94.5%; PG-rated films, 72.6%; PG-13-rated films, 43.6%; and R-rated, 28.7%.

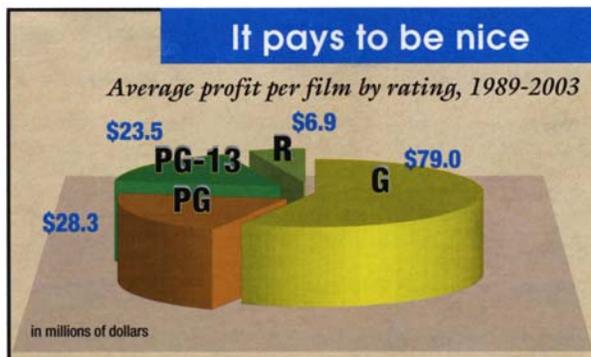
The dominance of less restricted fare also can be seen in the top 10-grossing

films in the international boxoffice: Five are rated PG-13, four are rated PG and one is rated G. "The Matrix: Reloaded" is ranked 18th and is the highest-grossing R-rated film among the worldwide boxoffice champs, and "The Passion of the Christ" is ranked 27th and is the only other R-rated film in addition to "Reloaded" in the top 30.

Between 1988 and 2004, Buena Vista was the largest purveyor by far of G- and PG-rated films. And while it cannot be attributed solely to family-friendly ratings, the Disney distribution arm has collected more than \$1 billion in annual domestic film gross nine times in the past 11 years more than any other distributor.

The foundation also will attempt to make an impact on the suppliers and producers of entertainment by appealing to the investment community. Rolfe noted that in addition to the major studios, the study also will be sent to 200 mutual and pension fund administrators.

"Clearly, if Hollywood is worried about a recent decline in attendance and the resulting loss of profits, they should be producing more G- and PG-rated films," Rolfe said. "The general public is voting with their feet, heading to movies that the whole family can enjoy without having to worry about exposing themselves or their youngsters to inappropriate language or behavior."



SOURCE: THE DOVE FOUNDATION
INCLUDES ESTIMATED WORLDWIDE THEATRICAL FILM RENTALS, TELEVISION AND VIDEO, MINUS ESTIMATED NEGATIVE COSTS, P&A, AND VIDEO MANUFACTURING COSTS.

Parental guidance needed						
Releases by MPAA ratings 2000-04						
Distributor	NC-17	R	PG-13	PG	G	Total
Buena Vista (Disney)	0	12	36	20	23	90
Col./TriStar/Screen Gems	0	40	53	8	1	102
DreamWorks SKG	0	11	16	5	2	34
Fox	0	18	36	14	1	69
MGM/UA	0	16	22	9	0	47
Miramax/Dimension	0	51	21	7	4	83
New Line/Fine Line	1	39	21	4	1	66
Paramount	0	27	34	9	2	72
Universal	0	19	41	8	0	68
Warner	0	50	43	18	4	115

SOURCE: THE DOVE FOUNDATION