

THE INDUSTRY OF ENTERTAINMENT

The **Entertainment Industry** panel is produced by the L.A. Times Brand Publishing team in conjunction with Citrin Cooperman, Gallagher, GHJ and M-Theory.



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As with most industries across the business spectrum, the world of entertainment was rocked substantially by the COVID-19 pandemic. Untold numbers of projects and jobs became frozen in limbo (or worse) during the slowdown, but creativity and resilience – always hallmarks of the entertainment world – sparked silver linings and trends that may actually benefit some sub-sectors of the industry while others were hurting.

As productions begin ramping up again and the industry explores

“new betters,” where there may no longer be a “new normal,” the region’s show business professionals are faced with uncharted territory, which means many unanswered questions remain. What new protocols are here to stay in the long-term? What legal and financial issues need to be addressed? What new role is technology playing? What will the industry look like a year from now? Los Angeles Times Brand Publishing turned to four uniquely knowledgeable experts for their thoughts and insights about how L.A.’s bedrock industry is reacting, recovering and ramping back up.

FROM YOUR PERSPECTIVE, HOW WILL THE COVID-19 PANDEMIC CHANGE THE ENTERTAINMENT INDUSTRY GOING FORWARD?

A: Kingman

COVID-19 has had a devastating impact on the film and TV production insurance market. Hundreds of insurance claims were submitted as a result of the global production shutdown that began in March 2020. Re-starting production has been slow due to the time-consuming implementation and financial impact of new protocols to protect the cast and crew of each production and restart in a safe and secure way. Looking forward, one of the biggest and most significant changes is the Pandemic Epidemic and Communicable Disease exclusions that are being added to production policies put into effect after March 2020. However, individual production situations will vary, including policy terms and conditions. That’s why it’s important that you discuss your specific insurance coverage terms and policy one-on-one with your risk management, insurance brokerage and legal teams to understand your specific risks.

A: Haimoff

AT&T, Comcast, Disney and Viacom have shifted their focus to their own streaming services to compete with existing services (most notably Netflix and Amazon), especially during times when consumers prefer watching safely from home. This effort requires significant content development and acquisition, consumer awareness efforts and other structural changes at these media giants. So far, Disney seems to lead the pack. Perhaps most dramatically, the movie theatre business will not return to its past life. Instead, the theatre window will forever shrink to less than a month, after which PVD (Premium Video-On-Demand) will follow. While wide-release motion pictures would be released via the movie theatres, some motion pictures will go straight to their new streaming services or other media. Finally, television programs are resilient and continue to show explosive growth fueled by competition for quality content and lack of dependency on movie theatres.

A: Mejia

Consumer streaming services have become even more relevant than they previously were in delivering entertainment to our homes. We believe this platform will continue to grow post-COVID, due to habits such as the hesitation of consumers to gather in large venues (theatres and play houses) acquired over the past year. While hopeful that live attendance picks back up, we believe that the process will be slow, and during that time, home entertainment will continue to grow in terms of content, subscribers, and the technology bringing enhanced streaming to our homes. The exception: we believe that the live concert business post-COVID will be robust. While live-streaming of concerts by artists may continue to grow (with price and accessibil-

ity being huge drivers), the euphoria of seeing and hearing one’s favorite artist perform a favorite song amongst a crowd of likeminded fans cannot be equaled in a home environment.

WHAT ARE SOME OF THE SILVER LININGS THAT THE INDUSTRY HAS LEARNED FROM OR MANAGED TO ADOPT AS A RESULT OF THE LOCKDOWNS AND CHALLENGES?

A: Haimoff

Despite the lockdowns and other challenges, collaboration grew between studios, guilds and other industry organizations to bring back production. Although production costs have increased by an average of 10% due to increased health and safety guidelines, productions have resumed around the world. Furthermore, digital distribution provided a “workaround” to release motion pictures. Warner Bros. has leveraged HBO Max for new releases while also driving users to the platform. Experimenting provides for a unique opportunity to reconfigure the motion picture distribution windows.

A: Kingman

Film and TV production is one of the most creative and resourceful businesses out there, and has proven its ability and resiliency to adapt to change and challenges. I have seen this crisis bring out

“THE CONSUMER’S SHIFT FROM WATCHING CONTENT ON TRADITIONAL TV TO MOBILETABLET DEVICES HAS CREATED A WHOLE NEW SET OF POSSIBILITIES FOR MARKETING AND REVENUE GENERATION.”

—Chant Vartanian

the best of the industry in the face of adversity and uncertainty. At the onset of COVID-19 lockdowns, Gallagher’s entertainment insurance teams in every major media region worked closely with producers, safety experts, union representatives, financiers and bond companies to focus on solutions. And this creative collaboration continues now with evolving safety and hygiene protocols established by our industry. The silver lining is that the industry has learned to be more productive with and through remote working options, created the safest movie and TV sets to date, and overall can now do more with less.

HOW HAVE RECENT TECHNOLOGICAL ADVANCEMENTS IMPACTED THE ENTERTAINMENT INDUSTRY?

A: Vartanian

Emerging technologies create a new lexicon that the entertainment industry quickly adopts, seen since the dawn of TV. In our world, recent technologies

“CLIENTS ARE CREATING CONTENT ON THEIR IPHONES AND SIMILAR DEVICES, AND SHARING IT WITH MILLIONS OF VIEWERS, WITH A TAP OF A FINGER – ALL IN REAL-TIME.”

—Wayne Mejia

are heavily nuanced in our daily lifestyle choices and language that culture doesn’t just use tech, it is influenced by it. The tailorable options of new tech give consumers the agency to consume on their terms. We see this now with the extended available bandwidth to deliver streaming content to consumers. Major players such as Apple, Hulu, etc., are now producing original content and several subscription platforms now allow for the consumer to choose specific packages for viewing or listening. Subscription-based technology is our latest paradigm shift and conversion of SDI to Ethernet now allows for delivering content anywhere, anytime, including live broadcast. These streaming platforms give ad production less time to deliver a message, which has changed the basis on which we communicate.

WHICH EMERGING TECHNOLOGIES SHOULD THOSE WORKING IN ENTERTAINMENT LOOK OUT FOR?

A: Vartanian

Artificial intelligence continues to advance and it monitors consumer behavior and allows for a personalized digital experience on all media platforms. Skillful utilization of available data that requires AI has created a whole new set of opportunities to create original content. The consumer’s shift from watching content on traditional TV to mobile/tablet devices has created a whole new set of possibilities for marketing and revenue generation. Also, music consumption is going through another renaissance. Consumer download of music is heavily declining while streaming music has skyrocketed in terms of demand. Apple is no longer the dominant player in this arena. Disney, Amazon, and many other music content providers are changing the landscape of music delivery.

WHAT SAFETY PRECAUTIONS ARE BEING USED TO ENSURE THE HEALTH OF CAST AND CREW DURING THE PANDEMIC?

A: Mejia

A single COVID case on set today can shut down a project for weeks. For that reason alone, life on set is quite different than it once was. Safety precautions include daily rapid onsite testing, social distancing, and wearing new technology embedded into a chip to assist in tracing. Without a working vaccine that has been provided to the entire population, it's a challenge for our clients to feel safe at work, but we are grateful for the efforts being put forward by production.

A: Kingman

Safety precautions vary based on the production, so it's best to discuss safety with your risk management, insurance brokerage and legal teams. However, those resuming production are proceeding with caution. One example that I've seen widely implemented is the Production Risk Management acronym WWWTT,

“TELEVISION PROGRAMS ARE RESILIENT AND CONTINUE TO SHOW EXPLOSIVE GROWTH FUELED BY COMPETITION FOR QUALITY CONTENT AND LACK OF DEPENDENCY ON MOVIE THEATRES.”

—Ian Haimoff

which stands for “WATCH YOUR DISTANCE,” “WASH YOUR HANDS,” “WEAR YOUR PERSONAL PROTECTIVE EQUIPMENT” and “TEST & TRACE.” The risk management and mitigation process is enhanced by dividing the cast and crew into groups A, B and C. Group A may include cast, directors and others that cannot wear PPE or work from a distance. Group B are those who can work from a distance and wear PPE. Group C includes remote workers. A daily test is performed on each member in Group A, and members of all groups regularly self-attest on any symptoms, report any positive tests, etc.

HOW PAINFUL FOR THE ENTERTAINMENT INDUSTRY OVERALL HAS THE SWITCH FROM THEATRICAL RELEASE TO DIGITAL OR STREAMING RELEASE FOR NEW FILMS BEEN?

A: Haimoff

It depends on the size of the production budget of those motion pictures. The larger the budget, the more costly the switch would be, especially considering that theatrical releases drive much of the downstream windows (as well as any contingent compensation to the talent, as applicable). Furthermore, making the motion picture available on your own streaming service as opposed to a traditional PVOD service makes it difficult to correlate the release of the motion picture to the financial benefit gained “How do you accurately calculate the value of the increased number of subscribers to the motion picture released on a streaming service?”

WHAT IS THE MOST COMMON TECHNOLOGY-RELATED CHALLENGE YOU FIND, AND WHAT ARE THE BEST SOLUTIONS YOUR TEAM OFFERS?

A: Vartanian

Secure data transport is increasingly becoming more of a concern. How to protect all of data transport is a major question for our plugged-in society and our team specializes in creating a secure end-to-end communication platform to ensure availability, scalability, and reliability. With all of the data that is getting created, people tend to ask how to store and back up the data. We specialize in providing state-of-the-art in the cloud and on-premise IaaS storage, back up and DRaaS for all content. Right now, everyone is working on how to make specific content available to the right audience by utilizing AI to block or deliver content. We will see this trend accelerate as AI places itself more into the user's daily life.

DO YOU BELIEVE THE SHIFT IN PRODUCTION TO OTHER CITIES CONTINUES TO OCCUR?

A: Kingman

Yes. Production location usually comes down to costs and can take place in myriad locations. As long as there are experienced local crews, crews willing to travel, and generous tax and other incentives offered by other states and countries, we will continue to see a shift away from production in Los Angeles. With Gallagher offices around the world, no matter your location or situation, our international network helps our clients comply with local insurance requirements both domestically and abroad. We provide the ability to tap into tax-incentive programs and create insurance structures to meet multi-national productions.

A: Haimoff

The shift of production on location to less expensive cities will continue, especially in areas that are less populated and will allow for a safer “bubble” environment. A notable example includes Universal's production of “Jurassic World Dominion,” which partially took place in the UK despite the pandemic surge in 2020. While the UK provides various financial incentives, the location of choice was Pinewood Studios, an English film and television studio, located in a small village 18 miles north of London. To address the new COVID-19 risks, Universal invested millions in safety protocols, from a private medical facility to COVID training and testing. As part of such measures, an entire hotel was rented out for the cast and crew to quarantine for 14 days upon arrival.

A: Mejia

The City of Los Angeles has seen its status as the film and television production capital of the world erode over the past years for several reasons that continue to persist.

- 1) Other states and countries offer TV/film production credits and incentives not matched by the City of Los Angeles or the State of California.
- 2) Hollywood unions and the related union wages and benefits add significantly to the price tag of production. This, combined with minimum wage laws requiring \$15 per hour puts the City of Los Angeles at a significant disadvantage compared to states and jurisdictions with significantly lower minimum wages and right-to-work laws.
- 3) With top-side income tax rates at 13.3%, filmmakers may want to avoid this significant tax cost and look for locations outside of California for their movie or television production.

The bottom line is that movies and television productions can be made for less money in states such as Georgia and Louisiana, and in countries such as Canada and the United Kingdom, and this isn't changing anytime soon. Consequently, we expect that the trend of L.A. losing productions to other states and countries will continue.

HOW CAN WE REINVEST IN L.A. TO KEEP MORE PRODUCTION HERE?

A: Haimoff

Considering the film and television industry represents one of the key industries in Los Angeles, it is critical that local government provide more financial incentives, rebates, or other regulatory support to keep the productions local.

WHAT ARE SOME OF THE NEW CHALLENGES OF FINANCING A FILM OR SERIES?

A: Kingman

In insurance, a systemic risk is one event that causes catastrophic loss to an entire industry. With significant losses to date, the pandemic fits this bill, and could continue to challenge the industry. Reinsurance rates that support primary carriers and bond companies are increasing, and capacity in some cases has been reduced by as much as two-thirds. With insurers continuing to exclude communicable diseases and pandemics, the hardest hit may be the independent producer who relies on bank financing and bonding. But banks have been reluctant to lend, virtually halting independent production. After the pandemic, banks should hopefully treat this the same as any other systemic risk. Pandemic and Epidemic insurance will likely be limited, expensive and a specialty line of coverage. While these risks may be eventually reinsured by global governments including the U.S., it will remain a risk management challenge at least for the near future.

A: Haimoff

Challenges in funding television and motion picture programs are derived by increased production costs to ensure health and safety protocols are followed. Such costs could be as much as 20 percent over the original budget for independent motion pictures. This is coupled with no available or, at best, too expensive insurance to cover the additional COVID-19 risk. This may not be as much of an issue for larger studios or production companies which self-insure their production, but it can have a significant impact on independent producers.

FROM AN IT PERSPECTIVE, WHAT IS THE BEST ADVICE YOU WOULD GIVE TO PROFESSIONALS WORKING IN THE ENTERTAINMENT INDUSTRY?

A: Vartanian

I would say it's imperative to understand the shifting trends mentioned earlier, such as SDI to Ethernet conversion, utilization of AI to produce personalized content. Streaming has changed the way we deliver live broadcast or original content, as well as the omnipotence of on-demand entertainment. In real-time we are communicating, interfacing, and entertaining. IT professionals need to capture opportunities which arise from streaming AI and machine-driven decision will continue to dominate the M&E industry. As an IT specialist, one can focus on understanding AI's best use in various settings. It is no surprise that AI will create a competitive advantage for your organization and its adoption is the next step for many businesses.

HOW HAS STREAMING CHANGED THE FACE OF ENTERTAINMENT FROM A FINANCIAL PERSPECTIVE?

A: Mejia

Streaming has changed the face of entertainment in multiple ways. In recent years, consumer preferences have gone from watching new movies in theatres to at home via streaming. Factoring in overpriced theater tickets and snacks, the convenience of their sofas, and affordable home media equipment, it's not difficult to understand why. The result signals a financial risk for movie theatres as they're squeezed out of the movie industry revenue stream. The beneficiaries, of course, are the streaming services themselves. With a growing subscriber base and revenue, streaming services have become the new Hollywood studios. As both the producers and exhibitors of created content, the cost of prints, advertisements, and distribution have been eliminated or significantly reduced. Streaming's efficient model allows for increased cost savings to be invested into creating more content, acquiring more subscribers, and generating more revenue.

A: Haimoff

In terms of opportunities, streaming is driving dramatic growth to home entertainment revenues as well as increasing demand for content at record levels. So if you are producing content, especially now, you are in the driver seat! In terms of challenges, as streaming is gaining a larger share of the overall industry revenues, it is taking revenues away from theatres, traditional home video and television. This could result in further consolidation and workforce reductions in segments squeezed by this change. Furthermore, turning a profit from a streaming service can be a challenge, especially with growing competition and increased costs to develop or acquire content to retain and grow a subscriber base.

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—Brian Kingman

Therefore, as more studios and media companies enter the streaming market, there may be a negative impact to the bottom line in the near and perhaps intermediate term.

WITH CYBERCRIME ON THE RISE, HOW DO YOU THINK COMPANIES CAN BEST AVOID RISKS WHEN IT COMES TO SECURING AND PROTECTING THEIR DATA?

A: Vartanian

Internal employee mistakes continue to be the number one source of security breaches. Practices, such as Conditional Access Restriction, Multi-factor Authentication, disaster recovery, data loss prevention, end node protection, and Incident Response planning continue to drive IT security practice with the M&E industry. Digital streaming solutions continue to evolve every aspect of M&E industry and data is at the center of this revolution. Storing and protecting this data in a 2N+1 environment is a must for any organization in M&E. There is no such a thing as a 100% guarantee to prevent a security breach. If prepared properly, there is, however, a high probability to minimize and mitigate impact. 24-hour security operations continue to flourish and can help any media company to prevent large-scale critical impact.

WHAT NEW AVENUES DO YOU ANTICIPATE FOR CREATIVE TALENT OVER THE NEXT FEW YEARS?

A: Mejia

Not long ago, our clients considered potentially passing up a good fee to avoid working commercials or other non-film projects, as it may have been perceived as a non-creative role that could jeopardize their brand. Today, we have influencers on social media platforms with tens of millions of followers. Clients are creating content on their iPhones and similar devices, and sharing it with millions of viewers, with a tap of a finger – all in real-time. This is extremely powerful, and viewers are yearning for the content. And guess what? If properly done, it generates income for our clients. Looking to the future, we expect viewership and monetization to continue growing.