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Abstract

The Finnish film industry is standing at a delicate cusp. At the time of writing this thesis in 2017, domestic audiences were seeing Finnish films at an all-time high, accounting for 27% of total audience per annum. This number is significant landing Finland in the top five countries for domestic audience attendance in the European market. However, this number has remained started to decline and it would appear that growth in the national market has reached its absolute limit. The only way the Finnish film industry could expand it seems, would be by crossing its national borders through the process of internationalization. The global film industry is fiercely competitive and constantly evolving and relative to countries such as Norway, Sweden and Denmark the budgets of film production are lagging behind. The emergence of private financing in Finnish film production could help in lifting budgets on level with our neighbors, as well as, getting commercially viable domestic films to the international market.

The participants for this study were chosen due to their knowledge and expertise regarding film production. Data collection was done through semi-structured interviews. The purpose of this study is to examine private financing in the Finnish film industry. Seen as this is a relatively new phenomenon, it acts both as an interesting subject matter as well as a challenging one, due to there being little to none background data or information regarding it in the national market. This study focused on defining what exactly private financing is, how do the private financiers operate within the Finnish film industry and what do they contribute to the internationalization of Finnish films. The findings aligned to a certain degree with the theory presented by previous research.

The findings indicate that there are different forms of private financing; angel investors, crowdfunding, teleoperators, commercial partners, product-placement and private financing funds, such as IPR.VC and Nyland Film Fund. Due to the substantial private investment capabilities of the funds, this thesis focused on them. The key findings indicate that private financing and the internationalization of the Finnish film industry were observed to support one another, and private financing will continue to allow for domestic filmmakers to aspire for bigger and increasingly ambitious productions. This ensures a growing and increasingly international Finnish film industry in the future.

Key words	Private financing, film industry, internationalization
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Tiivistelmä

Suomalainen elokuva-ala seisoo herkän käännekohtan edessä. Tutkielman tekemisen ajankohtana, eli vuonna 2017, suomalaiset kävivät katsomassa kotimaisia elokuvia ennätysmäärän. Kaikista elokuvateattereissa katsotuista elokuvista oli peräti 27% oli kotimaisia elokuvia. Luku on merkittävä, suomi sijoittuu viiden parhaan joukkoon kotimaisessa katsojaosuudella Euroopan markkinoilla. Katsojaosuuden kasvu on kuitenkin pysähtynyt ja ja kääntynyt laskuun. Kasvu kotimaisilla markkinoilla näyttää saavuttaneen tietynlaisen ylärajan. Suomalaisen elokuvan kasvun mahdollisuudet näyttäisivät olevan kansainvälisillä markkinoilla. Globaali elokuvateollisuus on äärimmäisen kilpailutettu ja ala kehittyy jatkuvasti. Suhteessa Norjaan, Ruotsiin ja Tanskaan suomalaisten elokuvien budjetit ovat selvästi alhaisemmat. Yksityisen rahoituksen ilmaantuminen suomalaiselle elokuva-alalle voisi mahdollisesti kuroa umpeen tätä eroa meidän naapurimaihimme ja edesauttaa taloudellisesti kannattavien elokuvien päätymistä kansainvälisille markkinoille.

Valintaperusteet tutkielman haastateltaviin olivat heidän kokemus ja asiantuntijuus elokuvatuotannossa. Tutkimusaineisto kerättiin tässä tutkimuksessa teemahaastatteluista. Tutkielmantarkoitus oli tarkastella yksityistä rahoitusta suomalaisella elokuva-alalla. Yksityinen rahoitus on suhteellisen uusi ilmiö ja osoittautui sekä mielenkiintoiseksi ja haastavaksi aiheeksi, sillä kotimaista aineistoa siitä ei ollut saatavilla kovinkaan paljon. Tutkielma keskittyi määrittelemään mitä tarkalleen yksityinen rahoitus on, miten yksityiset rahoittajat toimivat alalla ja miten yksityinen rahoitus auttaa suomalaisen elokuva kansainvälistymistä. Tutkimuksen tulokset olivat jokseenkin yhdenmukaisia teorian kanssa.

Tulokset osoittivat, että yksityisellä rahoituksella on eri muotoja; enkelisijoittajia, joukkorahoitusta, teleoperaattoreita, taloudellisia kumppaneita, tuotesijoittelua ja yksityisiä sijoitusrahastoja kuten IPR.VC ja Nyland Film Fund. Tämä tutkimus keskittyi etenkin yksityisiin sijoitusrahastoihin heidän merkittävien sijoittamismahdollisuuksien perusteella. Avain tulokset osoittivat, että yksityinen rahoitus ja kansainvälistyminen tukivat toisiaan. Yksityinen rahoitus edesauttaa kotimaisia elokuvantekijöitä tavoitella suurempia ja kunnianhimoisempia tuotantoja, varmistaen elinvoimaisen ja kansainvälisemmän elokuva-alan tulevaisuudessa.

Avainsanat	Yksityinen rahoitus, elokuva-ala, kansainvälistyminen
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**UNIVERSITY
OF TURKU**

Turku School of
Economics

PRIVATE FINANCING AND THE FINNISH FILM INDUSTRY

Internationalization aided through private capital

Master's Thesis
in International Business

Author:
Juuso Merta

Supervisors:
Prof. Eriikka Paavilainen-Mäntymäki
Prof. Johanna Raitis

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Turku

The originality of this thesis has been checked in accordance with the University of Turku quality assurance system using the Turnitin OriginalityCheck service.

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1 INTRODUCTION

1.1 The state of the Finnish film industry in 2019

The last few years from 2017 – 2019 has seen a significant drop in domestic audience attendance, as seen in figure 1. In the year 2019 almost 1.5 million people attended domestic films, compared to 2015, where over 2.5 million people went to see Finnish productions. While this might seem worrying when first observed, one must remember that the film industry is inherently volatile and susceptible to major fluctuations annually. Generally speaking, the national movie industry has overall done very well in the last decade. Indeed, the average domestic attendance for the decade was 25,4%, which is an exceptionally high number compared with other domestic attendance in other European countries (ses.fi, Report of activities 2019). This is not bad for a country, which in the mid-90's post-VHS era only garnered a meager annual attendance of 200,000 national moviegoers (ses.fi).

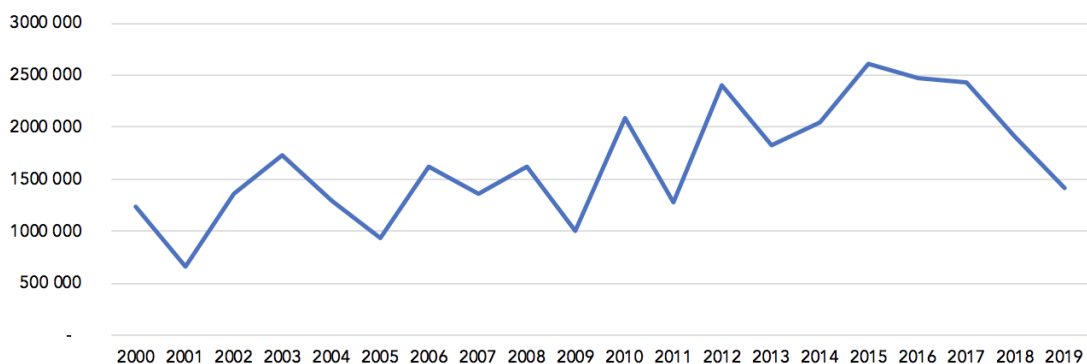


Figure 1 Finnish domestic attendance 2000-2019 (ses.fi)

The corona virus pandemic will certainly contribute to a further drop in both domestic and international film attendance. This is due to the fact that the film theaters have been shut down, effectively stopping any revenue streams. The Finnish film foundation, henceforth referenced as SES, foresees that the situation will require further financial assistance from them (SES Report of activities, 2019). The problem is multifaceted; movie theaters are shut down and productions are on hold. The entire industry is facing something which had not even occurred during the World Wars or the Spanish Flu, when theaters remained open for business.

Another major problem for film producers and financiers is annually decreasing sales and rental of both DVD's and Blu-Ray's. Since the rise of the DVD's in 2003, producers could always count on a substantial amount ROI through DVD sales after a film's theater

run was over. This drop in rental and sales has not surprisingly coincided with the rise of video-on-demand (VOD) and streaming services. Unfortunately, the agreements between producers and streaming services are nowhere near as lucrative as the rental and sales of DVD's from days past. However, the emergence and success of the streaming services have brought about new trends in the film industry. The rise of original content produced by streaming services. Through the production of original content streaming services such as Netflix, Elisa Viihde and Cmore are effectively cutting out the 'middle-man' from the logistical chain of making movies and are acting as both the producer and distributor of the created content. The streaming services generally offer larger budgets and an established release platform, which in turn is seen as very worthwhile for filmmakers operating under constant financial pressures, hoping to find an audience.

Arguably the most interesting recent development is the growing amount of private capital being invested into domestic films for a mainly domestic audience. Traditionally, film production in Finland has been heavily dependent on grants from SES, who in turn receive their annual budget from the government's gambling monopoly company Veikkaus. The grants form roughly one third of the total budget and are inherently necessary in order to get the movie made, let alone make profit for the filmmakers. This stands in stark contrast to the financial ecosystem of Hollywood, where all movies are financed through studios and private funds or even Denmark, where banks offer production loans for movies (si.is/media). Private financing was integral in the production of the latest version of the 'The Unknown Soldier', which had a record breaking seven million euro budget for a domestic release. Five million was private capital raised from other companies, hedge funds and risk investors (kauppalehti.fi/elokuvaosakeyhtiö). Seen as the general budget for Finnish films is around 1.7 million, this type of investment is truly a remarkable one (ses.fi). Producer Miia Haavisto stated that the movie would not of have been possible to make without private funding. With over 1 million attendances the film became the most successful Finnish film since the golden studio era of the 1950's (kauppalehti.fi/news). This could be a potential turning point for Finnish film as the success could encourage an increasing amount of private capital to flow into domestic films.

The quality of the movies produced in Finland has always been seen as being behind that of its Nordic neighbors. Both Sweden and Denmark have had multiple Oscar winning pictures, actors and directors constantly breaking into Hollywood and established a strong domestic filmmaking culture not adverse to taking risks. It should come as no surprise, that once again Finland has been relegated to play the role of the 'little brother'. Looking into the reasons why this is; we can see that budgets for films in both these countries are double that of Finland's average. While one should not overly simplify the reasons behind the success of our neighbors to the assertion that a bigger budget automatically means a

better movie, we can see that it provides certain freedoms in the production schedule. Amongst other benefits a larger budget translates into additional time for the screenwriter to perfect the script, double the shoot days during production and a more financially stable environment for future work. This is where Finland is severely lagging behind. The national movie going audience has grown every other year, yet the average budget and grants offered have stayed almost the same. The reasons being cuts imposed by the government on cultural spending, the small market size of Finland and the stagnated amount of money SES receives towards its grants from Veikkaus.

We are standing at a cultural breaking-point brought about by digitalization. Never before has the consumer had such an unending plethora of both domestic and international media to choose from, while at the same time costing next to nothing for the end user. This rings especially true for a market size of Finland where there is a very limited customer base, who have become increasingly conscious regarding the media they consume. For Finnish films to stand a chance against international productions, they need to grow and that is why private financing is such an exciting turn of events for the domestic industry and deserves further investigation. Petri Rossi the former production and development director of SES sees this as the only other way for Finnish film to develop besides the internationalization process of joint productions between countries. Films have long stood as a reinforcing and uniting element of a nation's cultural identity and without an active domestic industry, the competition for the attention of the end-user will be lost to the international mega-conglomerates. This begs the question, what interest do they have to produce content for a market size of Finland?

1.2 Purpose and structure of the study

The purpose of this study is to examine private financing in the Finnish film industry. Seen as this is a relatively new phenomenon, it acts both as an interesting subject matter as well as a challenging one, due to there being little to none background data or information regarding it. This study will be further dissected into three sub-questions. They are as follows:

- What different agents are related to private financing?
- Why have private financiers entered into film investing?
- How does private financing contribute to the internationalization of Finnish films?

The first sub-question deals with how the national film industry generally works i.e. the broad outline of how a film is traditionally produced, distributed and financed and what agents are related to private financing. The second sub-question investigates the emergence of private financiers in the industry. The third sub-question will look into the

potential effects of private financing in regard to the internationalization of the Finnish film industry. Lastly, the thesis will provide a conclusion for the theoretical and practical contributions, as well as assess the possibilities for future research and limitations of this study. The theoretical framework for the study will be based on research, articles, reports and results conducted by Suomen elokuvasäätiö and Ministry of Education and Culture. Specifically, this section will focus on culture as a business, financial theories and theories of internationalization. Culture as a business will delve into the concept of culture; the possible advantages of an innovative approach to it and today's commodity nature it can inhibit. Financial theory will help explain the environment and mechanics behind private investment. Private investors saw the domestic market as a steppingstone towards the larger and more lucrative foreign markets, this is why internationalization theories are examined. The results of the research will be in turn based on the answers of the interviewees and secondary material, which support the theoretical framework.

2 THEORETICAL BACKGROUND

2.1 Culture as a business

Culture and business have long been understood as entirely separate entities. However, the globalization of the world economy has brought about a situation whereby nations increasingly derive their wealth from immaterial- and human capital. It would seem that we are heading towards an economy which engine runs on cultural knowledge, composed of two elements; human skills and organizational creativity. Digitalization and new distribution channels have lifted art and culture as central factors for production. The term 'cultural industry' is these days agreed as an umbrella term for art, culture and mass communication (Willenius 2004, 11). It encompasses an entire group of different agents running through the creation, production, distribution and consumption processes of the industry. Specifically, these 'creative industries' include art, architecture, marketing, media, publishing, design, fashion, music, theater and program production (Niinikoski & Sibeliu 2003, 16, Willenius 2004, 80).

In the U.S. the motion picture industry has been developing for over a century. There, the entertainment industry is still the second largest net export industry right after aerospace, playing a vital role in trade relations. Hollywood's global market dominance is undisputable, as one report states that the entertainment industry earns 40% of its total 17.2 billion dollar revenue from overseas. The mixture of complex historical, economic, political and cultural factors have enabled the U.S. and Hollywood to become a movie-making juggernaut (Wasko 2003, 3 & 175) What makes it even more remarkable is the fact that this majority share of the worlds film market is held in hands of a few studios based in Los Angeles (Finney 2010, 4) and the reason these studios exist is to solely make profit. The main driving force behind these more than often risky endeavors is money and even though film is considered to be an art form, revenue rules supreme. It is the guiding principle for the entire industry. Both profit and the commodity nature of the films influence what sort of films are made, distributed and watched. With Hollywood productions it is important to keep in mind the industrial capitalist structure in which these movies are made (Wasko 2003, 3-4). The U.S has built a highly sophisticated machine that effectively turns culture into cash.

Beyond Hollywood, the international film industry is edging an interesting point. Changes brought about by digitalization and user demands are challenging the established structures of the studios and other gate-keeping institutions. Local audiences are demanding culturally specific stories which cater to their own communities (Finney 2010, 4-5). Comparatively in Finland, the public funding for culture is lower when compared to other countries in Europe (Willenius 2004, 83). The creation of products and services

necessitates creativity, while the business side requires systematic processes and established business models to flourish (Willenius 2004, 12).

2.2 Financial theory and private financing in business and films

At its core financial theory tries to understand how individuals make choices in a business environment with uncertain payoffs over multiple periods of time (Copeland et al 2005, 1). Basic financial theory is required in order to fully understand the different agents related to private financing and how they operate within the business. The rules of venture capital and equity investment are fundamentally the same regarding different areas of investment, whether it be the technology- or film industry. It helps explain the underlying reasons why private financing has entered as a new player into the movie business. At the same time, these agents also operate abroad, which ties in with different internationalization theories.

2.2.1 The Financial Market's role in distributing capital

The financial market acts as a facilitator for investment decisions. The financial market consists of the primary market and the secondary market. The role of the primary market is to satisfy the financing needs of individuals and companies. Here, the companies can sell their stocks or bonds to receive financing. This results in the creation of securities, a tradable financial asset. The secondary markets aim is to ensure the ease of trading these securities i.e. selling them onwards. Well-functioning secondary markets are the basic requirement for efficient fundraising through the primary markets (Berglund 1993, 11). The main objectives of the financial market are to (Ikäheimo et al 2011, 140):

- Relay information
- Ensure the liquidity of financial contracts
- Hedge risks
- Efficiently allocate resources between excess and deficit markets

The financial market relays information efficiently in regard to the companies in it, keeping investors informed of the different attributes and inherent risks involved with the stocks. Highly liquid financial contracts ensure that investors may sell-off their stocks or bonds fast, making it possible for others to gain financing for long-term projects. Placing all investments in one stock is very risky, hedging your investments guarantees the diversification of risks involved over time and quantity (Ikäheimo et al 2011, 140). However, the most important goal of the financial market is to redistribute the surplus capital to the sector facing a shortage of it, as illustrated in Figure 2.

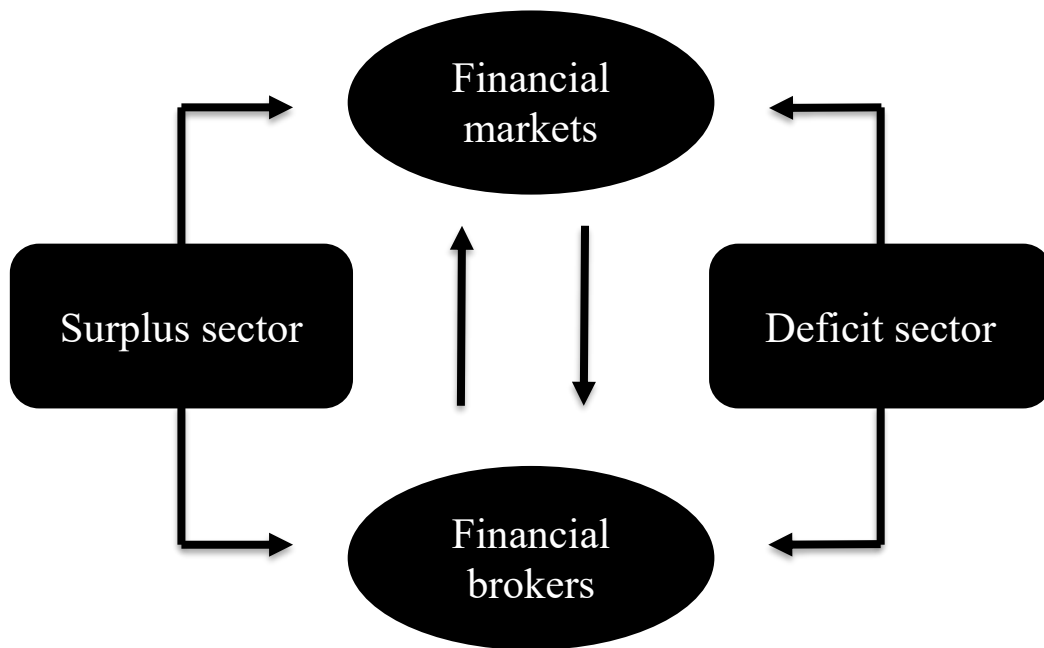


Figure 2 The role of financial markets in the economy (Knüpfer & Puttonen, 2009)

This is the forwarding of the resources available for investment, to the market segment with the demand for it (Berglund 1993, 5). Banks, insurance companies, brokerage firms and investments funds act as the brokers for this transfer of financing (Ikäheimo et al 2011, 165). With influx of available capital, the financial market essentially seeks to find new channels for investment purposes. The problem with the film industry as a whole is the transparency or the lack of it. Serious investors are used to having rich information available to them at the push of a button. Outside of box-office numbers, the key parameters which outline a film's success or failure are hidden out of sight, discouraging many investors. This is due to there being no real incentives to divulge such information. In fact, it is viewed as counter-productive; revealing such information would be a valuable hand-out to competitors and creative partners such as directors, actors and screenwriters (Cohen 2017, 15). Even though profitability data is hard to access, studios understood that they would have to disclose crucial information regarding revenue and cost in order to attract larger institutional investors (Cohen 2017, 26).

2.2.2 How Private Equity and Venture Capital operate

The choice of which projects to partake in and which to reject is probably the most important decision a firm can take (Copeland et al 2005, 3)

Many up and coming companies require significant capital but the company's founders may lack these personal funds and have to look for outside financing. In these cases, the stock exchange is going to be a limited solution seen as it provides only access to funding for medium and large-sized companies. Specifically, these companies have to meet certain criteria; sales figures, total of balance sheet, minimum number of years of existence, etc. (Demaria 2013, 9). They are going to struggle to raise capital from traditional financial institutions such as banks due to having largely intangible assets, uncertain future prospects or years of expected negative earning. Private equity and venture capital organizations finance these companies that are considered high-risk but in turn potentially high reward yielding (Lerner et al 2009, 1). These organizations essentially fill the void between the funds needed for innovation and the capital required for on-going traditional expenses (Zider 1998, 132). The film industry as a whole is characterized as volatile and high-risk one. Producers and filmmakers have to secure financing through a 'jigsaw-puzzle' of sources, including equity investment (Finney 2010, 64-65).

Rather than investing their own capital, these organizations raise the bulk of their funds from other individuals and institutions. These institutions are large institutional investors such as pension funds or university endowments, which have neither the staff nor expertise to make the investments for themselves, as seen in Figure 3. In return of the investment the private equity organization receives equity from the company (Lerner et al 2009, 1).

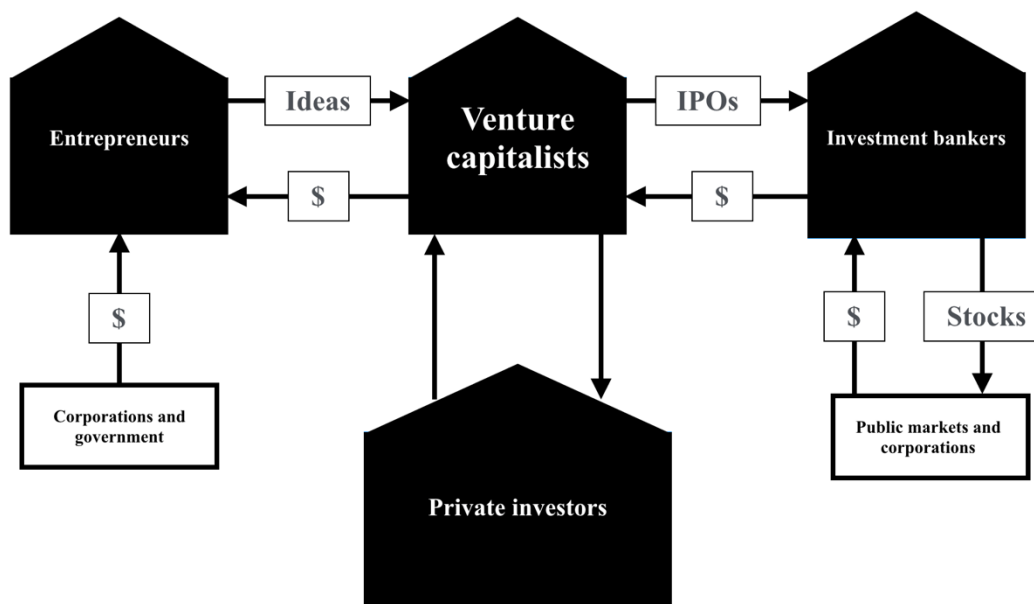


Figure 3 Venture capitalist structure (Zider 1998, hbr.org)

Most of the private equity funds are limited partnerships with so-called blind pools of capital. Here, the limited partners composed of institutional and individual investors, provide the money for the fund without specific control of investments to be made. The fund manager is in charge of the investment capital and targets (Lerner et al 2009, 30, 72). These managers seek out bigger more mature companies that may develop into \$50-100 million companies within a span of three to five years. Due to the inherent high failure rate of investments, these funds must narrow their cooperation to a select few, larger deals with possibly enormous payoffs. This is done to cover the losses incurred by the failures. The funds look to outperform the venture capital industry and therefore mostly do not partake in deals that are worth less than \$7 million (Benjamin & Margulis 2005, 83). In the film industry investors had an average of 25-30 films in their portfolio, but as more money flooded into the sector, they were prepared to accept 20 or even 15 films. This reduction of films in their respective portfolios correlated with the decreased probability of banking big in the box-office (Cohen 2017, 2).

Private equity and venture capital money is not intended to be long-term. The idea is to nurture a company until it reaches a credible and sufficient size, after which it is sold to a corporation for profit with the help of an investment bank – a process called an exit (Zider 1998, 132). Successful exits are of utmost importance in regard to the securing of lucrative returns for the investors, which in return guarantees the raising of surplus capital for future investing (Lerner et al 2009, 339). Private equity's investment timeframe rarely exceeds over 5 years (Cohen 2017, 84). The private equity fund managers and venture capitalists are paid 2-3% of the fund's total pool of money annually – this is done to cover operating costs associated with running the fund. These management fees are paid regardless of the fund's success. However, the real profits lie in the appreciation of the portfolio, here the investors receive 70-80% of the gains and the private equity and venture capitalists 30-20% (Zider 1998, 135).

The flow of capital has moved from genetic engineering and computer hardware to software companies, telecommunications and multimedia (Zider 1998, 132). Lately, the shift in the increasingly competitive field of private equity has caused leading firms to differentiate themselves from the mass of others. They are effectively branding themselves to help distinguish them from other investors. They employ strategic alliances, international operations, additional services, as well as other initiatives to build their visibility (Lerner et al 2009, 4). Institutional investors became initially interested in the film industry due it being an asset class that non-correlated to the stock market. In essence they are a perfect addition to portfolios seeking to diversify their assets beyond stocks and bonds. This independence of films performing when the stock markets were down can be evidenced by the fact that even the Depression did not halt people from going to the cinemas (Cohen 2017, 26-27).

Similarly, to private equity companies, venture capitalists (VC) are investors who invest capital into companies which are not publicly traded yet offer good future prognosis. However, they buy different size and types of companies, invest different amounts of money and attain different amounts of equity from the companies. The most distinguishable difference is that while private equity companies mostly target more mature, existing companies with existing products, VC's enter earlier on of the company life cycle, during the chaotic beginning phase (Hwang 2012, forbes.com). It is during this adolescent phase which more than 80% of the venture capitalist's money is invested (Zider 1998, 134).

They display a fundamentally different value creation methods; private equity is top-down, whereas VC's are the bottom-up driven. Private equity investors tend to try to acquire companies that are inefficiently making profit and reorganize the company for increased revenue. VC's on the other hand tend to look for start-ups with high growth potential. In a typical start-up deal, for example, the venture capital fund will invest \$3 million in exchange for a 40% preferred-equity ownership position (Zider 1998, 133).

Much like private equity funds, VC investors intend to separate themselves from the investment in a set timeframe. They often offer additional resources to increase the value of the company, such as industry specific knowledge and organizational assistance. Typically, before investing, venture capitalists demand they have the right to enact control over the direction and operations of the company and just like private equity companies, VC's receive their profit after a successful-buyout where, as the name implies, they sell their share of the target company (Ikäheimo et al 2011, 141). One of the major selling points in investing in movies is the short horizon for ROI compared to other asset classes. Traditionally a film will be completed on average 1 year after pre-production (Cohen 2017, 136). With equity investment in film, investors recoup their investment with an added premium, as well as, collecting revenue with an average life of 2.5 – 3 years (Cohen 2017, 74, 118).

In the film industry it is important to distinguish between financing and investment. While both contribute to the end goal of getting your project up and running, they are inherently different in their goals and objectives. Film financing is essentially a form of loan towards a film. The condition being that the loanee is provided with a high position of security, meaning that their repayment is placed first in the recoupment agreement. With these conditions investors traditionally do not take no ongoing position in the principal rights of the film. After being fully repaid the loanee relinquishes all charges against the film, thereby acquitting the producer of their responsibilities to the investor. Film investment, which is often referred to as equity, is often times behind film finance in the recoupment pecking order. However, film investment is recouped before the producer receives their net profits. In this equity investment the investor becomes a co-

owner of the film, having permanent rights to the cash-flows of the film. Here, the investor is eager for the film to break-even as fast as possible and over a long timeframe worldwide (Finney 2010, 63). In film investment equity can be cash or it can be more fluid. As an example, an investor can provide investments for a share of rights to the film, this known as an ‘equity deal’. It can also be an alternative to the salaries of directors of producers whereby they receive a share of the profits rather than upfront capital compensation (Finney 2010, 63). In 1998 Arnold Schwarzenegger, Danny DeVito and director Ivan Reitman persuaded Universal studios to greenlight the film ‘Twins’. Instead of a salary they opted for 45% share of the profits. Since the film made 214 million dollars worldwide on a budget of 16 million, the trio made an absurd amount of money compared to their traditional salary fees (Cohen 2017, 73).

Film industry among investors is seen as an ‘alternative’ investment. The idea is that they are reducing the risks in lower margin portfolios through ‘uncorrelated assets’. Film-specific investors arrive from different types of investment organizations (Finney 2010, 149-149). They are:

- private equity (which are hard to find)
- angels (more common in the film production side)
- venture capital funds (are increasingly becoming interested in film)
- hedge fund managers (have started to experiment with Hollywood productions)
- tax-orientated investors

In Finland, angel investors and venture capital funds have increasingly become an option to gain financing for one’s project. The reality of film investment is that the total funding for the project can be very complex and come from a myriad of different sources. Film production is prototypical, meaning that every single project is like the other. Experts and analysts suggest there are ‘no-rules’ for independent financing of films. Few films have the exact same structure of partners, investment, recoupment and profit share positions (Finney 2010, 61). Hence, funding can come from some or all of the above listed sources.

2.2.3 Angel Investors

The term ‘Angel’ originates from the Broadway Theater, these affluent persons would make risky investments in order to produce new shows. These angel investors are composed of high-net-worth-individuals or families, who are willing to invest in projects typically viewed as ‘high-risk’. These deals are offered to them by people they often respect or want to be associated to. These days angels are financially sophisticated private investors willing to provide seed and start-up capital for higher-risk ventures (Benjamin & Margulis 2005, 8). In fact, the amount of angel investors funding start-ups was growing rapidly when compared to VC’s. The year 2011 saw angels invest \$22 billion in

approximately 65,000 companies, whereas VC's invested \$28 billion in about 3,700 companies (hbr.org/six-myths). These individuals invest in start-ups with the aim of getting them up and running, rather than entering the venture solely for a successful exit and profit. Unlike venture capitalist who pool their money from various sources, angel investors mostly invest their own. In return for their investment, they acquire ownership equity or tradeable debt (Benjamin & Margulis 2005, 10). Angel investors in film should seek to invest in 2-3 compelling projects per year, as even studios struggle to find 8-10 attractive projects yearly (Cohen 2017, 2). Rarely are investors in the movie business solely to make money; reasons range from being a pure cinephile who enjoy reading scripts to understanding the power of cinema in promoting social values (Cohen 2017, 114). Lastly, many investors enjoy the glitz and glam associated with the movie business. They are able to walk down the red carpet, hanging out with the titular stars of the film. Naturally, they are further able to network during these events to potentially acquire future distribution deals (Cohen 2017, 121).

2.2.4 Crowdfunding in film production

Another source of fund raising for start-ups and other companies is crowd funding. This approach enables finance seekers to raise small amounts of capital from a global pool of backers. In return the backers receive non-equity products, such as t-shirts, posters, mugs, etc. from the companies (Cohen 2017, 114). The most well-known crowdfunding sites are Kickstarter.com and Indiegogo. Kickstarter raised over \$320 million for over 18,000 projects in 2012 – tripling the amount from the previous year (hbr.org/six-myths). Crowdfunding can generate success, such seen with the film 'Wish I Was Here' which managed to raise 3.1 million dollars for production. However, it does not come as easy as one might think; it requires an enormous amount of work and several hundreds of thousands of dollars for running marketing campaigns online to generate necessary public interest. Additionally, with Kickstarter crowdfunding campaigns carry the risk of not receiving the contributions if you don't hit your funding goal. Indiegogo lets you keep any money sourced even if you don't hit your funding goal, they do collect a 9% fee and additional processing fees in the range 3-5%. Once you hit your funding goal with Kickstarter, they charge 5% fee and additional processing fees ranging from 3-5% (Cohen 2017, 115).

A study by Crosetto and Regner (2014, 21) found that crowdfunding is an ingenious way of covering production costs and creating buzz for an upcoming project. Crowdfunding seemingly taps into fans hidden altruism, as a consistent amount of funding in the form of donations, came in even after the total funding goal was already met. Unlike pre-selling, where pledgers receive products in turn for funding, donations are essentially gifts, where nothing is expected in return. The study concluded that while

people showed genuine altruism towards crowdfunding, successful pre-selling correlated dramatically with meeting the funding goal. Product pre-sales were preferred as it appealed to the pledgers' social image concerns i.e., they could display their involvement in the project. Josefy et. al (2016, 176) argue that crowdfunding essentially allows for the democratization of funding, as it provides the opportunity to obtain funds across vast geographical distances.

2.2.5 Investor profile and risk management

Cohen (2017, 15) argues that with film investment, smart investors may be duped once or twice before deciding to either leave to field or learn the specific rules within film investment. He continues by stating that the self-made rich do not like to be made fools of, causing their rather stubborn efforts in learning the micro and macroeconomic factors involved in the movie industry. This allows them to apply their set of rigorous investment strategies from their previous experiences in business investment. Complex financial instruments require the investor to be proficient in mathematics and statistical analysis. Analyzing the information in turn necessitates the use of information technology and even possibly programming. They also understand the legislative norms and pricing of financial instruments inherent in the financial environment. Conclusively the professional investor should strive to be an expert in this multi-field ecosystem. (Knüpfer & Puttonen 2009, 26-27). While trading stocks can be intellectually challenging and economically rewarding, rarely has it been described as creative and fun, the movie industry on the other hand often can be (Cohen 2017, 115). Companies seeking funding from any of these investors should anticipate the practice of due diligence. Due diligence is the analysis conducted by the investor, attorney or accountant to determine the strengths, weaknesses, future profitability and associated risks with the venture. Typically, these people not only analyze the venture but also the people behind them; their personal and business backgrounds. This can take up to two weeks to six months (Benjamin & Margulis 2005, 49). Cohen (2017, 14) describes that self-made rich individuals are not averse to taking risks, in fact, this is the reason they have accumulated their wealth. He describes that to them; it is all a matter of probabilities and their partaking in film investment is a testament to their belief that rational investment strategies are possible within the film industry.

Careful investors understand that nothing can subsidize the value of a complete venture-audit. This is the in-depth assessment of the founders and entrepreneurs, analyzing the various elements within the deal to judge the prospect of the early-stage investment. Naturally this will entail plenty of personal face-to-face meeting with the entrepreneur, where the investor will review the business plan and strategy. The investor will also look into the whole business ecosystem associated with the venture; customers, suppliers and competitors. Lastly the investor might counsel experts from the

corresponding industry to verify the given information (Benjamin & Margulis 2005, 50). Cohen (2017, 2) believes that making money in the film industry on a systematic basis is possible. This requires being extremely selective, very careful and the application of rigorous diligence standards. Risk measuring in the film industry is difficult to say the least. One must look at a number of factors to evaluate it; budget, genre, level of cast and director, distribution arrangements, presales and incentives (Cohen 2017, 130). Wealthy individuals and equity investors tend to utilize a mixture of tax breaks and subsidies (Finney 2010, 65).

During the process of potential involvement in a project, investors will conduct various investment calculations to see whether or not the venture will be profitable. While there are many different formulas, two of the most well-known ones are *Net Present Value* (NPV) and *Internal Rate of Return* (IRR). NPV is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. IRR is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero (Knüpfer & Puttonen 2009, 103-104). Internal rate of return (IRR) is a calculation formula used in financing to determine the profitability of potential investments. It reflects the time value of money i.e. that capital today is worth more than in the future. IRR is a great way of assessing an investment as it calculates the compound interest rate at which an investment has to grow to develop profit in the future (Cohen 2017, 30). If the IRR is greater than the discount rate (required rate of return), the investment is profitable. Generally, the greater the internal rate of return is, the more desirable the investment becomes (Knüpfer & Puttonen 2009, 103-104).

2.3 Internationalization theory in business and films

The process of digitalization has brought about the continued internationalization of films. Indeed, the rather small market of Finland can hardly grow any further within its own borders – companies both in Finland and abroad are looking for market shares around the globe. Historically, the film value chain became vastly more complex as it expanded to territorial sales of film distribution rights. Currently the international film business is standing on a fine edge; the advancement of technology and shift in user demands are changing the established structures of Hollywood (Finney 2010, 4). From the perspective of film financiers and investors, the worldwide market is presents itself as especially lucrative; a global box-office hit translates into extremely lucrative revenue streams. To further understand how companies and films branch out globally internationalization theories are required. To further understand how companies become international, this study examines different theories for the purpose of internationalization. While Hollensen (2007, 61) states that there are multiple theories for internationalization, arguably the two most well-known being Uppsala internationalization model and the network model.

2.3.1 Uppsala model

Arguably the most well-known theory for internationalization, the model by Johansson and Vahlne suggests a sequential pattern of entry into foreign markets. The model, which was based on the similar steps of Swedish manufacturing companies distinguishes four different modes when entering a foreign market, where each successive step translates into a deeper commitment towards it (Hollensen 2007, 61):

- 1st stage: No regular export activities
- 2nd stage: Export through third-parties
- 3rd stage: Establishment of a foreign sales sub-unit
- 4th stage: Foreign production/manufacturing units

They noted that companies would begin export to nearby countries due to market commitment or the perceived psychic distance. Psychic distance being defined as the perceived differences of the home and foreign market. It is understood as the difference of culture, language and political systems. Thus, firms tend to gravitate towards countries they can understand, directly affecting the decision making in regard to the internationalization process of the firm (Ahokangas & Pihkala 2002, 72). The two factors which make up market commitment are the available resources and degree of commitment. The resources refer to the different elements available for operationalization purposes of new markets i.e. marketing, organization, personnel etc. Degree of commitment refers to the difficulty of finding an alternative use for the resources which would yield positive results (Hollensen 2007, 61). Depending on the size of the film i.e. is it a multi-million-dollar Hollywood studio production or a smaller independent film, resources vary whether it receives global theatrical release or a limited theatrical release (Finney 2010, 98).

The Uppsala model argues that international activities require both general knowledge and market-specific knowledge. General knowledge can be defined as the knowledge of operation which can be transferred from country to country, whereas market-specific knowledge is only gained through experience (Hollensen 2007, 61). The premise here is that the market knowledge and available resources affect where and how the firms' resources are allocated. Again, later on these actions have effects on the firms' market knowledge, which in turn effect how the resources are allocated in the future. This cyclical model explains the logic behind the growth and development of companies (Ahokangas & Pihkala 2002, 73). Evaluating the economic viability of a film abroad is based on two key parameters; the cultures and economy of a country. Both of these vary across countries and territories. Culturally, different countries have diverse appetites for the type of entertainment they consume. Countries with high working hours have less time to spend on leisure activities and vice-versa. Cue market research, which provides

information on the market before it is released and information regarding the outcome after the film's release (Finney 2010, 98).

The model has since then received its share of criticism. According to critics the model is seen as too deterministic and does not take into account the interdependencies between different countries (Johanson & Mattsson, 1988). Studies have shown that the model is not valid for service businesses and that new entrants in certain industries seem to be skipping initial stages of internationalization proposed by the Uppsala model. This 'leapfrogging' of the established chain is corroborated by the fact that these firms begin operations in countries with a 'higher' psychic distance. Researchers argue that this is due to the progressively homogenous nature of the world, where the perceived psychic distance is in turn decreasing. The development of information technologies and economies of scale have made it easier for firms to take the leap into foreign countries. The entire process seems to have altogether sped up with time (Hollensen 2007, 66-67).

2.3.2 Network model

The network model assumes that the international firm should not be viewed as a separate entity within its environment but as an actor within an ecosystem of different players that can affect them. The ecosystem consists of customers, distributors, competitors, etc. This way the firm is dependent on the resources of others, with the relationships within the network playing a vital role in gaining a competitive advantage or using the domestic relationship as a bridge for expanding into other countries (Hollensen 2007, 62, 70).

Johanson and Mattsson (1988) expanded upon the original Uppsala-model by adding a network perspective into it. Here, the internationalization process of a firm is observed to advance through the business relationships formed. Ahokangas and Pihkala (2002, 74) identify three distinct ways this happens:

- The network expands (new networks)
- The network deepens (the business activities and commitment with existing networks increases)
- The network integrates (the firm initiates activities with others within the network)

With the network expansion, the firm is essentially developing business relationships with entities previously unknown to them. The network deepening brings forth the notion of the firm committing more resources to preexisting networks and relationships, thereby strengthening its position in their respective business environment. Finally, the network integration is understood as the combining of different national networks together. These formed alliances differ from each other in the form of formality, organizational structure, the factors which influenced the internationalization process, as well as the size and

function of the existing networks of the firms (Ahokangas & Pihkala 2002, 74). Applying the network model to film industry we can see that it composed of large array of different actors, all of whom offer their own expertise. These actors are operating in development, financing, production, international sales, international distribution, exhibition and consumption (Finney 2010, 13). Markets as social institutions vary globally due to socio-economic and historical factors. Conceptual tools are required to understand market structures and varying standards inside media subsystems. Media subsystems are composed of creators, markets, providers and receivers and is shaped by legal institutions such as the government, the economy and socio-cultural and political values (Lowe & Nissen 2011, 91).

The basic premise in the network model is that the individual firm is dependent on resources controlled by other firms. These companies gain access to the resources through their relationships and established position within the network. Seen as the development of the positioning takes time, the firm needs to begin to further improve them (Hollensen 2007, 70-71). This perspective means that the networks should be understood as business relationship bundles, where relationships are born, developed, formed and ended continuously so that the firm may achieve its objectives. The interaction and learning gained through the relationships develop the knowledge deemed necessary for the internationalization processes (Ahokangas & Pihkala 2002, 74).

According to Johanson and Mattson (1988) there are three firm objectives which influence the strategy of operating in a network. They are as follows: generally developing the 'know-how' of the firm, minimizing costs and using the opportunity to capitalize existing network relationships and positions. If the relationships between firms are viewed as a networks, it can be argued that firms internationalize because others are doing it as well. This beckons four different scenarios for internationalization (Hollensen 2007, 72):

- The early adopter
- The lonely international
- The late starter
- The international among others

The early adopter is among the first to develop an international network within their industry (Ahokangas & Pihkala 2002, 74). They gradually become more involved with the international markets via an external agent, which in turn leads to a sales sub-unit and finally a manufacturing subsidiary. It is a situation whereby competitors, customers, suppliers and other companies in the domestic or foreign market have no meaningful relationships. The primary focus is to gain market knowledge for stronger future commitments (Hollensen 2007, 72). The movie industry relies on external agents such

foreign sales companies to help negotiate license deals with distributors across different territories (Finney 2010, 48).

The lonely international has acquired the necessary market knowledge of the foreign country's customs, legislations and business practices for further expansion (Hollensen 2007, 72). In this situation the firm only faces competition from the foreign countries domestic market. The biggest challenge therefore is to efficiently coordinate the firm's internal processes, as differences in the market areas may cause need for individualized practices, distribution networks and product features (Ahokangas & Pihkala 2002, 73). The firm's network of foreign national relationships may act as yet another bridge to other customers, suppliers or countries (Hollensen 2007, 72-73).

The late starter can often find it rather challenging to establish a position in a saturated foreign market. The best resources of distributors and networks have already been seized by the competitor firm and they can make the late starter unprofitable by the practice of predatory pricing (Hollensen 2007, 73). Films are released into an intensely competitive market, in fact, studio films are the most expensive media to produce and market to potential customers (Finney 2010, 97). Other times it is the customers and distributors who pressure the firm to enter an international network. This way the firm must allocate considerable resources to learn the necessary knowledge when operating in it. From an SME's perspective, a successful entry requires the firm to have highly specialized products and knowledge (Ahokangas & Pihkala 2002, 75).

The international among others is in a position where their network has become so highly internationalized that national the differences between countries gradually diminish and the only viable for further internationalization is through mergers and acquisitions. SME's must once again rely on their niche knowledge and a strong focus on the customer and market at hand (Ahokangas & Pihkala 2002, 76). Here there is a strong need for coordination of international activities along the firm's value chain (Hollensen 2007, 73).

Regardless of which scenario the firm faces, the role of learning becomes increasingly important in the network model. The current position of the firm in its network is determined by the choices and action preformed earlier. This emphasizes the significance of learning, as future strategy and tactics can avoid the pitfalls of the past. Learning however, does not account for the unforeseeable or unwanted changes in the environment, which can hinder the firm to reaching its goals. Here, the aim is to remain flexible, as it will translate to greater successes for the firm during its developing and growth phase. Lastly, operating successfully in the network requires the firm to pay special attention to relationships between companies, trust in the network, controlling resources, the variables between resources and understanding the dependencies between companies (Ahokangas

& Pihkala 2002, 76). The promotion of business networks can have potentially positive effects for the growth of export development (Perry 1999, 181).

2.3.3 Licensing and Joint ventures

Licensing is an agreement by which the licensor gives the licensee something of value in exchange for either a performance or payment. The licensor gives the right for the use of a patent or product, technical advice, marketing advice or the use of a trademark or tradename (Benjamin & Margulis 2005, 81-82). In exchange the licensee pays the licensor fees or royalties. These payments are usually in the form of (Hollensen 2007, 332-333):

- Lump sum (a fixed amount paid at the beginning of the agreement)
- A minimum royalty (a guarantee that some payment will be received annually)
- A running royalty (a set percentage of the normal selling price)

Regarding the film industry, agreements are made to exploit the license rights across territories. This is a fundamental component in independent film income. Sales companies pay an advancement in the form of a lump sum often referred to as a ‘minimum guarantee’ to ensure acquisition of a certain territory. Technically, the sales company becomes a ‘international distributor’ once they pay the cash advance. Broadcasting companies which have interests in film, tend to finance 20-30% of the production budget in return for license rights (Finney 2010, 63-64).

A joint venture (JV) is a strategic alliance between two or more companies. Usually they are non-equity endeavors, meaning that the companies do not commit equity or investments into the venture. There are several reasons for companies to partake in JV’s, such as increasing the speed of market entry or the access to complementary technology and skills provided by the partners (Hollensen 2007, 349). This strategic relationship will generally benefit customers, distributors, suppliers and vendors (Benjamin & Margulis 2005, 80). Film production essentially is built upon joint ventures. The cast of players involved in movie financing, production and release is vast. On the creative side you have a producer, director, casting agent, actors, production house, the list goes on. From a business perspective there are equity investors, senior lenders, gap lenders, talent agents, sales companies, distributors, lawyers etc. All of these different players form an alliance of sorts with one another to achieve the end goal of getting a commercially viable film to the market (Cohen 2017, 68). Typically, the international partner provides financial resources, products or technology. The local partner offers market specific knowledge and the skills required when operating in the host country. This collaboration has multiple positive effects for the companies involved: it reduces market and political risks, pools in resources and skills, overcomes governmental restrictions and is less costly than an

acquisition (Hollensen 2007, 349). The strategic importance of partnerships and alliances is crucial in today's film business. Co-productions involve more than one producing party in the finance and production process. The co-productions come in the form of partnerships, joint ventures or other co-production agreements. Historically, joint ventures were especially dominant in 1980-1990's Europe and even today remain an integral strategy to garner financing and distribution across national borders (Finney 2010, 75).

3 CONDUCTING THE RESEARCH

3.1 Methodology

Methodology refers to the different research techniques, which most scientific branches have accepted as valid. The aim here is to explain the different techniques and steps involved, as well as assess the resources and limitations of the research. Methodology wishes to explain the scientific procedures used, in the easiest to understand way (Grönfors 1982, 154). Research is mainly conducted through two different methods, quantitative and qualitative. Eriksson and Kovalainen (2008, 3) state that quantitative research tends to be more standardized and structured when collecting and analyzing empirical data and are often validated through random sampling and mathematical significance (Grönfors 1982, 11). Here it is easy to understand the major difference between the methods; qualitative research results are not arrived via statistical methods or other procedures of quantification (Ghuri & Gronhaug 2002, 86). This is not to say that the lack of mathematics involved in the qualitative approach would make it any less 'scientific'. Indeed, the credibility of qualitative research is based on other criteria to prove the trustworthiness of the method, the most important being explanatory power, meaning how scientifically convincing the study is. In qualitative research the process of obtaining data is seen as rather error prone and that is why great care has to be paid to show that the way which it was gathered, cannot be questioned in lacking scientific coherence. In other words, the scientific credibility here can be defined as the validity or reliability of the research, which will be further explained later on (Grönfors 1982, 11).

The correct methods and techniques depend on the research problem and its purpose (Jankowicz, 1991). Ghauri and Gronhaug (2002, 87-88) state that when an event or social process is difficult to study via quantitative methods, qualitative methods are more suitable and can provide intricate details and further understanding. Qualitative research employs a low number of interviewees due to the nature of trying to understand the problem in-depth and provide 'thick descriptions', which would not be possible with cases involving numerous participants. This is why qualitative methods are more suited to the nature of the research problem in this thesis as the objective of the study is to provide a detailed picture of the observed phenomena. This thesis will therefore utilize the qualitative method as there is very limited knowledge involving private financing in the domestic industry.

Eriksson and Kovalainen (2008, 3) say that qualitative research gives the possibility to focus holistically on complex business-related phenomena, while at the same time offering new insights on how these phenomena work in real-life contexts. It creates new knowledge on why and how these occurrences work in a specific way and how they might change over time. Koskinen et al. (2005, 24) state that qualitative research offers methods

to detach from the constraints of having self-evident truths. It provides a new insight dependent on the perspective of the participants.

Qualitative research in general can be divided into three main components. Firstly data, which is often obtained through interviews, as was the case in this thesis. Secondly the analytical procedure, whereby various techniques are used to conceptualize and analyze the data, so that the researcher can achieve results and theories. Finally, the report; a written or verbal account of the whole research, mostly delivered in the form of a thesis or report (Ghauri & Gronhaug 2002, 87).

3.2 Data collection

This study utilizes the method of triangulation where by the research combines multiple different data materials with each other. These range from magazine articles, web-releases, statistical information to actual interviews (Koskinen et al 2005, 69). The interviews in this study will be conducted as theme-based where the interviewer will have a set of themes and questions prepared. When creating the interview structure, the interviewer should divide it into theme-categories. These are the areas which the questions asked by the interviewer should touch upon, acting as guiding focal points for the interview. Aiding in this process is a pre-prepared list of the said themes to help the interviewer remember each one. (Hirsjärvi & Hurme 1992, 41). This differs vastly from a survey interview as the subjects being interviewed are left to talk freely and the only set objective for the interview being that all themes are covered during it. While the survey interview stipulates a carefully pre-planned question and answer format, the complete opposite rings true for theme interviews. This lack of planning is intentional in order to minimize the effect of the researcher onto the given answers from the participants. (Grönfors 1982, 106). From these theme-categories, the interviewer can then continue and further the discussion as far as they deem necessary or until the limitations or disinterest of the interviewees is reached (Hirsjärvi & Hurme 1992, 42).

The purpose of data collection through interviews is to obtain valid information from the most appropriate person. This is why the researcher should prepare in advance for the interview. Preparation in the qualitative method translates into analyzing your research problem, understanding what information is required from the interviewee and who best to provide it (Ghauri & Gronhaug 2002, 102). From here the researcher should create an interview guide or questions and test how much time they generally take. The interview questions in this study were based upon the three sub-questions presented earlier in the thesis.

Before the initial interview, it is best to be as transparent as possible with the interviewees; explaining to them the purpose of the study, providing a brief problem statement and describing the sort of information you would be searching to collect and

finally how the information will be collected (Ghauri & Gronhaug 2002, 102). In this thesis the author sent out emails for interview requests with a brief description of the study being carried out. After the contacted participants had accepted the requests, interviews were conducted at a place of their choosing. Before the interview, the author asked for permission to record the conversations with a tape-recorder. During the interview the author wrote additional brief notes when necessary. With tape recordings the researcher will have the opportunity to not have to rely solely on hand-written notes, avoid errors caused by lack of memory, as well as to listen and reanalyze the interviews multiple times (Grönfors 1982, 136).

Theme-based data collection offers the possibility of starting off as an easy-going discussion which effectively could lead to more in-depth answers. Here it is in the interviewers' best interest to create a positive and welcoming atmosphere from the start (Grönfors 1982, 107). Hirsjärvi and Hurme (1991, 78) state that the two main roles for the interviewer are acquiring information and ensuring that the communication should run effortlessly. Aiding in a flowing and progression in the interviews was the researcher's beforehand knowledge in regard to the subject matter being discussed. The author has had a long-standing personal interest in the world of film and TV, which helped in creating a sense of common ground and mutual understanding.

In qualitative research the researcher plays a central role in obtaining the data. The researcher is therefore the most important research tool. The competence of the researcher is mainly established with how well they structure the interview questions, how they personally interact with the participants and finally based on the answers given, how successful the analysis of them is (Grönfors 1982, 13). The interviewees will have a general structure ready to ensure all his themes and questions are covered.

The participants chosen for this research are seven professionals working in the movie industry. Petri Rossi the head of production and development at SES, Petri Jokiranta the producer in Cinet Oy, Ari Tolppanen an angel investor, Mikko Leino a venture capitalist, Johanna Karppinen, CEO and co-founder of Nyland Film Fund, Timo Argillander the co-founder of the IPR.VC-hedgefund and producer Miia Haavisto from Tekele productions. These people were chosen based on their extensive knowledge involving movie production and financing. The positions occupied by the participants are from different perspectives in the domestic film industry ecosystem. This was done to ensure a most comprehensive picture of the private financing within the Finnish film industry.

Person	Title	Type of interview	Date
Petri Rossi	Head of Production SES	Face-to-face	13.9.2017
Petri Jokiranta	Producer	Phone interview	12.10.2017
Ari Tolppanen	Angel investor and co-founder of Friday Capital	Face-to-face	18.04.2018
Mikko Leino	Venture capitalist and co-founder of Friday Capital	Face-to-face	25.04.2018
Johanna Karppinen	CEO and co-founder of Friday Capital	Face-to-face	25.04.2018
Timo Argillander	CEO of IPR.VC	Face-to-face	18.9.2017
Miia Haavisto	Producer	Face-to-face	12.04.2018

Table 1 Interviewees

Petri Rossi has been working for the SES since 2014. Before he assumed his position at the foundation, he worked as a cinematographer and producer for various films and TV shows. SES provides grants for professional production, distribution and marketing of Finnish films. These grants are non-refundable and form the backbone of most Finnish films budgets. SES is also responsible for the distribution and internationalization of Finnish films. The grants are used for renowned international film festivals to further the cultural export of domestic films. As mentioned earlier the foundation receives its funds through the state-owned gambling monopoly company Veikkaus. In 2016 the foundation handed out grants worth 26.6 million euros to over a thousand different projects. Unfortunately, Petri Rossi passed away due to an illness in 2019. Rossi was an immense help for this thesis, as he put the author into contact with most of the other interviewees.

Petri Jokiranta had previously worked for SES from 1996-2000. There his position as production advisor saw him oversee the funding of over a hundred different projects. He then worked as a producer in the co-owned production company called Blind Spot Pictures Oy, where he and Tero Kaukomaa produced among other films Finland's Oscar pre-candidate of 2008 'Miehen Työ' and the first Finnish movie to receive distribution in China 'Jadesoturi'. After leaving Blind Sport Pictures, Jokiranta founded Cinet Oy, where he landed his then biggest international success. He produced both movies in the 'Rare Exports' franchise, winning Finnish producer of the year in 2011. He then founded Subzero Film Entertainment Oy and produced at the time the most expensive Finnish

movie ever made, 'Big Game'. Petri Jokiranta is one of the few domestic producers who is exclusively interested in making films for the international market.

Mikko Leino is a venture capitalist at various family offices. He is the CEO and chairman of the board at M1 capital and a partner at M&M Growth Partners. The companies make investments in all asset classes; start-ups, properties, stock companies and direct investments towards growth companies. He was contacted and asked if he were interested in financing Solar Films 'Flowers of Evil'. This was his first endeavor into the film financing world along with Ari Tolppanen. He is also a partner and board member at Post-Control Helsinki, a high-end post-production focused company. Together with Ari Tolppanen they founded Friday Capital and Ilona studios. Leino has been an executive producer for 'Animals' and 'Iron Sky 2'. During the interviews Friday Capital was still referred to as Nyland Film Fund and as such this study will refer to it as by its original name NFF. The thesis will specify the differences between Nyland Film Fund and Friday Capital later on in the chapter for future research and limitations of the study.

Johanna Karppinen has a background ranging from working as a project manager for the Finnish Lapland Film Commission to working as the CEO of Audiovisual Finland (formerly known as Favex), where her mission was to boost the internationalization and growth of the Finnish film and TV industry. At Audiovisual Finland she actively lobbied for better film policies successfully, as the Finnish government began building an incentive in 2016. Currently she works as the CEO for Friday Capital, where they focus on different forms of collateral lending; bridge financing of projects with feasible commercial and artistic quality. Karppinen was also an executive producer in the film 'Animals'.

Ari Tolppanen has over 25 years of experience in private equity. He is one of the founders of CapMan, an equity company based in Helsinki. He was the CEO of CapMan for 16 years and has since then occupied Chairman positions at the European Venture Capital Association (EVCA), as well as CapMan Plc's Board of Directors. He has been diligently involved in developing the private equity industry in Finland and the Nordics since 1989. Tolppanen has an avid interest in contemporary art and film, the latter motivating him to finance new Finnish films. He has since then acted as an executive producer in award-winning films such 'The Unknown Soldier' and 'The Eternal Road'. Together with Mikko Leino they also founded Ilona Studios, which is currently building a large multiplex theater in downtown Helsinki.

Timo Argillander is the CEO and co-founder of IPR.VC fund. He has over 30 years of experience working in the media industry gaining a vast experience in successful business development assignments in over a 100 media and entertainment companies with clients in both startups and legacy media since 2002. He founded IPR VC fund with partners Jarkko Virtanen and Tanu-Matti Tuominen in the fall of 2015. Both Virtanen and

Tuominen had former backgrounds working with different funds. Tuominen had previously founded the Vision+ fund, which had financed a considerable stake of the 'Big Game' budget. IPR.VC Management Oy is a venture capital investment company specialized in digital media content. They are currently investing through IPR.VC Fund I Ky, a Finnish venture fund of 20M€ total capital commitments from professional institutional investors.

Miia Haavisto is the founder and CEO of Tekele productions Oy. Previously she was the CEO of SELO ry, Finland's director union, as well as the CEO of Helsinki-Filmi Oy. Haavisto has both a bachelor's degree in documentary directing and law. She has produced films such as 'The Unknown Soldier', 'Tom of Finland' and 'Miami' which have won several Jussi-awards. In 2018 she received a recognition award from APFI (audiovisual producers Finland) for her visionary and innovative approach towards producing.

The interviews were conducted in the private offices of the participants. One was arranged as a phone interview. All of the participants agreed to be recorded and a few requested that the author send their respective parts of the interviews to be proof-read before publication as to ensure no misunderstandings in interpretation.

3.3 Data analysis

Ghauri and Gronhaug (2002, 138) distinguish three components within qualitative data analysis. The first is data reduction, which is the process of transforming a large mass of data to a coherent, simplified and focused version of it. Here special importance is placed on the researchers' ability to create meaning from the different contexts. Secondly the process of data display, whereby the information is organized and compressed into either lists or figures, through which conclusions can be drawn. This thesis provides such a display seen on page 43, seen in Figure 8, where the different actors within the private financing ecosystem are visible. Lastly comes the process of drawing conclusions; to understand and explain the actual phenomena. Here one has to tread especially carefully and to ensure that the conclusion or explanation is a valid one.

After the interviews were conducted, the author transcribed them either the very same day or the next one. This was done as quickly as possible due to the interview still being relatively fresh in the memory of the author. The process of transcription is very time consuming, but at the same time a good way for the researcher to further acquaint oneself with the data (Eriksson & Kovalainen 2008, 85). Koskinen et al. (2005, 230-231) emphasize this importance of familiarization. Firstly, it improves the management of the data, secondly it gives the data a structure, as the researcher adds notes which help establish themes later on. Lastly it aids the researcher in beginning to form an interpretation, as well as finding more applicable theories for it.

After reading the transcribed interviews multiple times, the author established themes throughout the texts to find commonalities between them. From this process of thorough comparison, the researcher will be able to create coded categories or concepts. (Eriksson, Kovalainen 2009, 159). These coded categories were then reordered according to their respective themes. The process of constant comparative method combines both coding and analysis (Hirsjärvi & Hurme 1991, 117). Coding can be seen as a form of classification by which the responses i.e. data is ordered into classes or categories (Ghuri & Gronhaug 2002, 123) Eskola and Suoranta (2002, 156) state that the main focus is to cut the data into smaller, easier to define parts. The main idea here is to systematically comb through the collected information. The transcribed interviews were printed into physical form, which then in turn were highlighted with different color markers to establish the various themes throughout. This helped the author to find the corresponding parts from the different interviewees. With this method, it was easier for the author to build arguments and conclusions later on.

After the process of rearranging the interview data according to their corresponding themes, the actual analysis of the information began. The thematization of the data helped the author observe which themes seemed to be more prevalent than others. The themes were then compared to the research questions. This helps distinguish the most important and fundamental data from the mass of information (Eskola & Suoranta 2002, 175).

3.4 Assessing the trustworthiness

Qualitative research has been criticized for having dubious trustworthiness criteria. This has been further exacerbated by the fact that qualitative research does not distinguish a clear difference for the phases of data analysis and assessment of trustworthiness as with the quantitative methods. In qualitative research the researcher has to constantly assess their own actions and at the same time perform analysis of the data as well as assess the trustworthiness of the chosen methods (Eskola & Suoranta 2002, 209). This means that in qualitative research the main criteria for the trustworthiness of the research are the researchers themselves. The whole research process is therefore to be scrutinized. Reflexivity is a form of a critical inspection upon one's whole research process, understanding the importance of this, is a procedure of establishing validity (Eriksson, Kovalainen 2008, 32) Due to the inherent nature of the researcher being a research tool in themselves within the qualitative approach, the matter of objectivity and subjectivity arises in the comparison of quantitative and qualitative methods. However, many qualitative researchers believe that the subjectivity actually increases the explanatory force of the study. When a researcher gives their framework for inspection, the persons using the study may gain a further understanding on the conditions involved with the collection of the information (Grönfors 1982, 14).

There are three classical meters for assessing qualitative trustworthiness; Mckinnon, Mäkelä or Lincoln and Cuban. The author is decided to use Lincoln and Guba, where they distinguish four different criteria to establish the trustworthiness of the research. These are credibility, transferability, dependability and confirmability (Lincoln & Guba 1985, 289-325). Trustworthiness translates into how internally consistent the research is and how believable the results are. Eskola and Suoranta (2002, 212) state that this is where the researcher asks themselves if the research accurately studied and interpreted the phenomena at hand. The core issue is to demonstrate that the entire process has followed rigorous steps to ensure a scientific approach to the study. With this study, the trustworthiness was slightly weakened by the fact that the interviews were conducted in Finnish language and transcribed into English. However, to ensure minimal loss of credibility, close attention to detail was paid when the transcription was conducted. Also, the fact that the interviews were recorded, made it possible for the researcher to listen to them multiple times thereby reinforcing the trustworthiness. Hirsjärvi and Hurme (1991, 130) state that when transcribing the interviews from the recorded tapes to document form, one has to pay close attention to transferring the information as precisely as possible. This transferability accuracy varies from person to person, seen as people pay attention to different things. Before publishing the study, the author sent out the respective parts of each participants for inspection. This was done to ensure that no misunderstanding had occurred between the researcher and participant, strengthening the credibility.

Transferability refers how well the reader is able to generalize the results to their own context. Here the aim is to provide sufficient evidence to show that the researcher has delivered appropriate information in regard to themselves as a research instrument, the scientific processes involved, participants and the researcher – interviewee relationships. This enables the reader to conclude how well the results may transfer to their respective studies or research. In this research the author provided thorough descriptions involved in the research processes as well as familiarizing themselves with a theoretical framework encompassing research articles, reports and publications from Finnish Film Foundation. The transferability was further strengthened due to the participants being among the top professionals working within the domestic film industry. Due to the small sample sizes and lack of quantification, great care must be placed on emphasizing that the qualitative data cannot be generalized in a traditional sense (Eskola & Suoranta 2002, 212-213).

Dependability deals with the consistency of the research results. This means the study should be consistent across time, techniques and researchers. To ensure this, researchers should strive to keep a detailed account on the chronological order of research processes and activities which influenced data collection and analysis. In this study the author detailed how the research results were ascertained and under which circumstances. The

interviews were mostly conducted in the offices of the participants. This created a comfortable atmosphere for the interviews as well as the reception of comprehensive answers. One interview was conducted via phone, which ran well with all questions and themes being covered. The dependability was weakened however, by the fact that author was the only interviewer holding the discussions.

The last of the criteria, confirmability, addresses the question of how objective the study truly is. Confirmability assumes that the perspective of the researcher is never purely objective, as their biases and customs may affect the integrity of the results. It is therefore necessary to take all available precautions to ensure the reader, that the data and analysis is as unbiased as possible and that the findings are consistent with the conducted research processes. In this research the confirmability was reinforced by transcribing the recorded interviews as soon as possible. The data garnered from the interviews was reorganized according to their respective themes, which in turn was further analyzed to achieve the results and finally arrive at the conclusions.

Theme interviews being a research method, we need to assess its trustworthiness via scientific criteria. The main requirement for scientific methods is to establish reliability. (Hirsjärvi & Hurme 1991, 128) There are multiple factors which appear during different phases of the research that can affect the trustworthiness. Firstly, if one cannot distinguish the fundamental characteristics from the research, then our concept reliability is weak. This weakness can be observed in the form sloppily crafted main categories of research and the research questions being badly designed.

4 FINDINGS

4.1 What different agents are related to private financing

Financing arguably plays the biggest role in getting your film made. Especially in Finland where moviemaking is currently dependent on public grants and financing from other institutions, hedge funds and investors are becoming increasingly vital for quality film production. Traditionally, the financing of films has relied on three agents. The first of which is a television company, as seen in Figure 4. If the company agrees to fund it, the project applies for a grant from SES. SES is more likely to permit a grant after a television company has greenlit funding for it. The distribution company gives their share for the movie and finally we have the risk capital invested by the producer themselves (Kinnunen 2015, 74-75).

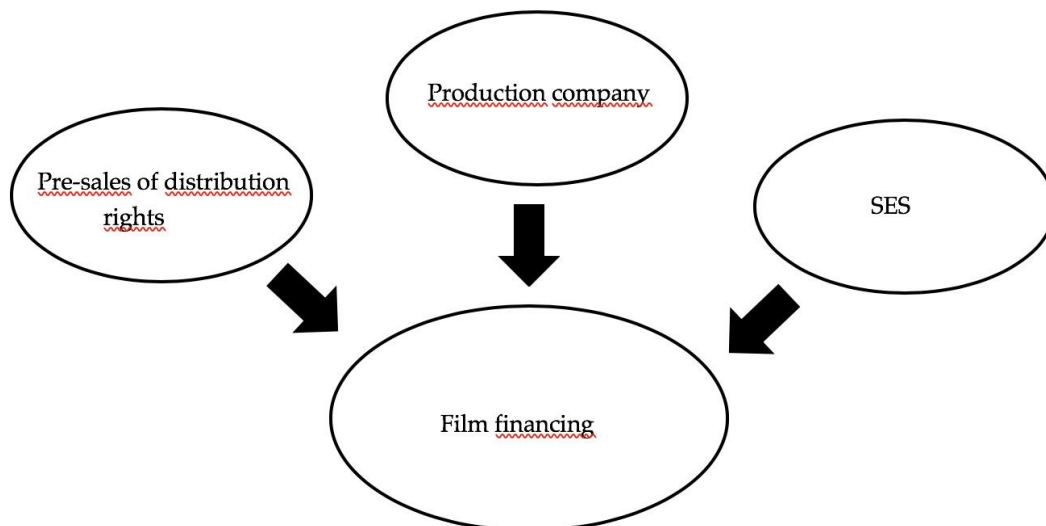


Figure 4 Example of tripartite-model

Most European countries have regional funds or production incentives (Kinnunen 2015, 128). In 2016 Finland created their own incentive offered by Business Finland. There are notable exceptions, where films are produced without the grant of SES. Production company Black Lion Pictures focuses primarily on Finnish independent productions. ‘Rendel’ was the first Finnish superhero movie ever made. Rendel had a budget of 1.45 million euros and was financed without any grants from SES. The film would go on to earn international success, being released in almost 30 Latin American countries.

When a film is struggling to find financing towards the end of pre-production, there are different forms of financing available. Gap-financing is the practice of financing late stage productions in need of capital. Here, the financier will loan the outstanding sum with a high-interest rate (Argillander, interview 18.9.2017). In the movie industry

‘Equity-financing’ you receive a share of the movie distribution rights, while in the traditional venture capitalist you receive shares. Globally there are many projects which require financing for the last 20% of the film. Here companies will come in finance it, demand security bonds, and add a high interest rate of 20% for the loan (Argillander, interview 18.9.2017)

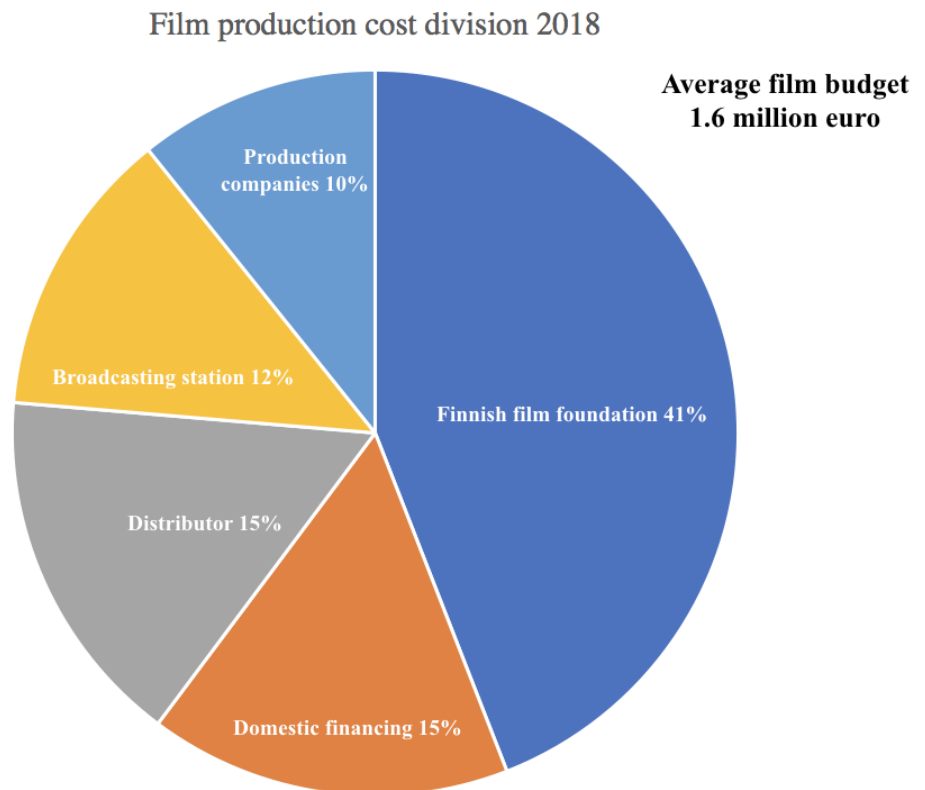


Figure 5 Sources of the budget of an average Finnish film (Ses.fi, 2018)

It is important to make a distinction between so-called ‘soft money’ and ‘hard-money’. ‘Soft-money’ is offered from funds such as EUR-image or NFTF. They lend out capital which becomes refundable, if the movie makes a certain amount of money back (Argillander, interview 18.9.2017). Arguably, the biggest and one of the most important actors in this ecosystem is SES. Petri Rossi estimates that on average SES accounts generally for 40% of a films budget, whereas media companies 10-20%. SES financing is non-refundable even if the movie would be a box-office hit. Business Finland (former TEKES) launched its production incentive system in January 2017. After production wraps, the filmmakers can recuperate 25% of films budget, as long as they present receipts, proving they spent the budget in Finland. ‘Hard-money’ is capital loaned in advance for assets, such as distribution rights, intellectual property rights or for example royalties. Nordisk Film is a distribution company, they lend out a pre-distribution loan for production, acquiring the rights to distribute the film when completed. When the

movie begins to recoup its budget, the distributor takes its share back, retaining rights for distribution (Argillander, interview 18.9.2017).

4.1.1 The birth of private financing in Finland

Gradually, foreign money has seen an increase in Finnish films in the form of international joint productions (Jokiranta, interview 12.10.2017). It continues to grow due to larger productions such as ‘Big Game’, which had 10% of its budget financed with Finnish capital and ‘Iron Sky 2’, which only had 5%. In Finland Big Game attracted the interest of venture capitalist Tatu-Matti Tuominen who founded the Vision+ fund, to raise one million euros for production, which at the time was a ‘hard-money’ record for a Finnish film.

Vision+ got the ball got rolling. Maybe Big Game was some sort of a good case. Showing interests who had yet to invest in movies, that it could be a reasonable investment.

(Petri Jokiranta, interview 12.10.2017)

Tatu-Matti Tuominen and Jarkko Virtanen went on to found IPR.VC fund with Timo Argillander. They continued investing in films, such as ‘The Guardian Angel’ and ‘Tom of Finland’. During this time pre-production for the remake of ‘The Unknown Soldier’ had begun.

The Unknown Soldier might be pivotal for this. Nobody believed in it. I calculated it needed a million viewers. Well, it went and got it.

(Petri Rossi, interview 13.9.2017)

Director Aku Louhimies wanted to bring the Finnish classic onto the silver screen for a new generation of Finns. Ari Tolppanen added that every generation needed their own version and that was a key reason for them to join the project. Due to the national significance of the subject matter, private investors were eager to put their share into production. It was clear that the extended war scenes and scope of the movie could not be achieved with a standard Finnish film budget of 1.4 million. A bigger budget was deemed fundamental for successful production and critical reception. Miia Haavisto (interview, 12.04.2018) stated:

Right off the bat, we knew that this kind of production budget was not possible through traditional Finnish financing channels.

She goes on to explain that the traditional pre-distribution loan was never going to be enough and that the maximum grant from SES was one million euros. Because of this it became feasible to acquire private financing, but it would require exact calculations of expected profits. In the end ‘The Unknown Soldier’ would amass a budget of 7 million euros, out of which 5 million was private financing, a record-amount for a Finnish language film. Ari Tolppanen (interview, 18.04.2018) stated that ‘The Unknown Soldier’ had 15 financiers, including Ari Lahti and Mikko Leino, who went along due to the topic matter.

The company ‘Elokuvaosakeyhtiö Oy’ was created for the sole purpose of managing the private finances, with Miia Haavisto as the CEO. Ari Tolppanen and Ari Lahti became executive producers in the film. They pooled the money and kept the investors well informed. Tolppanen (interview, 18.04.2018) continues:

It’s what I’ve practiced at CAPMAN for 30 years. The investor is the customer.

Petri Rossi clarifies that ‘Elokuvaosakeyhtiö Oy’ was not a fund but a production company, through which an investor can invest their money. The investors get their share back through an agreement set between them and the company. This practice is not uncommon internationally, as a new company with a blank financial history is easier to oversee.

The movie would go on to become the third most watched movie of all-time in Finland, grossing over a 15 million euros in the European box-office market. With ‘The Eternal Road’ Ari Tolppanen and Mikko Leino invested through what is known as ‘top-financing’, whereby they loaned the outstanding amount of the budget for production to begin. The film had a total budget of 2.9 million euros, and was both a commercial and critical success, garnering 13 Jussi nominations (the Finnish equivalent of the Oscars), winning four. Petri Rossi (interview 13.9.2017) explains:

During The Unknown Soldier they questioned why they invest money as individuals, why wouldn’t they create a fund and manage investments? It makes a lot more sense and is more professional from an investors angle.

With the success of ‘The Unknown Soldier’ and ‘The Eternal Road’, Ari Tolppanen and Mikko Leino would go on and form their own fund; NFF, with Johanna Karppinen as their CEO. They would go on to invest into different TV-shows and films. Internationally, private financing has a long-standing history with films and TV. These are financiers who know the movie industry and its respective business model. Petri Jokiranta (interview, 12.10.2017) states:

Films are a different investment target compared to startups or games. Movies have their own ROI-model, it requires familiarization and professionalism to begin investment into films.

The domestic industry has successfully produced several films which have garnered large audiences, while increasing the appreciation towards national movies (Ministry of Education and Culture review 2018, 68).

4.1.2 Defining private financing

It's broad. They are private individuals such as us, fund operators, companies and their interest groups

(Mikko Leino interview, 25.04.2018)

The private financing is among the most important new developments in the Finnish film industry. What then is private financing by definition? According to Johanna Karppinen (interview, 25.04.2018) it is financing, which is not publicly attained, yet still listed in the financing plan of the project. The films financial plan accounts for the different sources of financing for the project, as seen in figure 6.

Funding source	T€
Subsidies (SES, tax breaks etc)	800
Soft loans (Eurimages, NFTF etc)	800
TV rights	600
Hard money (IPR.VC, distributor advances)	800
TOTAL	3.000

Figure 6 Example of funding for a film (source, IPR.VC)

As one can see, IPR.VC can attribute substantially to the total budget of the production. This helps immensely in covering the costs for projects with a larger scope compared to that of the average budget of Finnish films.

Research results indicate that private financing encompasses different forms. Private financing and financiers are a multitude of wealthy individuals, fund operators, commercial partners, product-placement, production companies and their reference groups, as seen in figure 7.

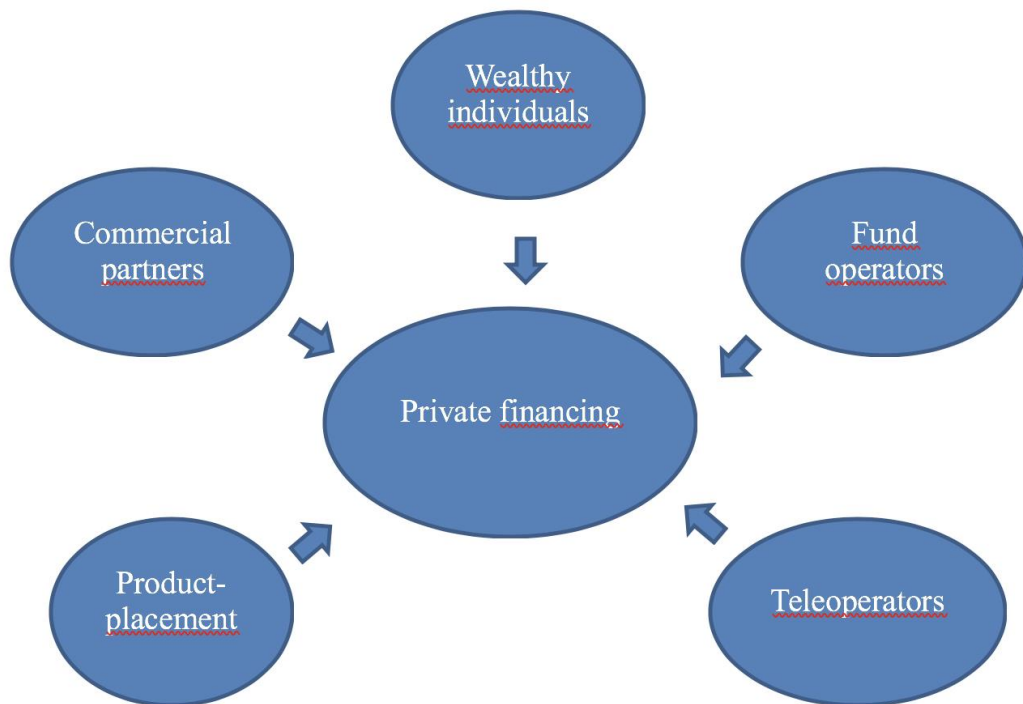


Figure 7 Forms of private financing

With the rise of IPTV or internet protocol television, teleoperators such as Telia and Elisa, have become active in investing into ‘original’ content for their corresponding streaming platform. When asked whether or not they qualified as private financiers, the author was met with a resounding unanimous ‘yes’. Petri Jokiranta explains that there are even sub-contracting agreements. For example, a British VFX house can make a subcontracting-agreement, whereby they offer their services for shares in profits. This can be viewed as private financing. Unlike their European counterparts, Finnish banks ones will not loan capital for films. Rossi (interview, 13.9.2017) explains that the Finnish market is too small for banks to invest money into filmmaking.

4.1.3 Introducing the two funds: IPR.VC and Nyland Film Fund

Our company’s mission is help find success stories and show that this is sensible investing.

(Timo Argillander interview, 18.9.2017)

This thesis will specifically focus on professional investors and their companies specialized in media, TV and movie investments. Both IPR.VC and Nyland Film Fund (henceforth referred to as NFF) are funds created for the purpose of financing the aforementioned via fund money. The capital of the funds is gathered and pooled from

institutional investors such as retirement funds, family offices and other regional investors such as cities or states in Finland, as seen in figure 8.

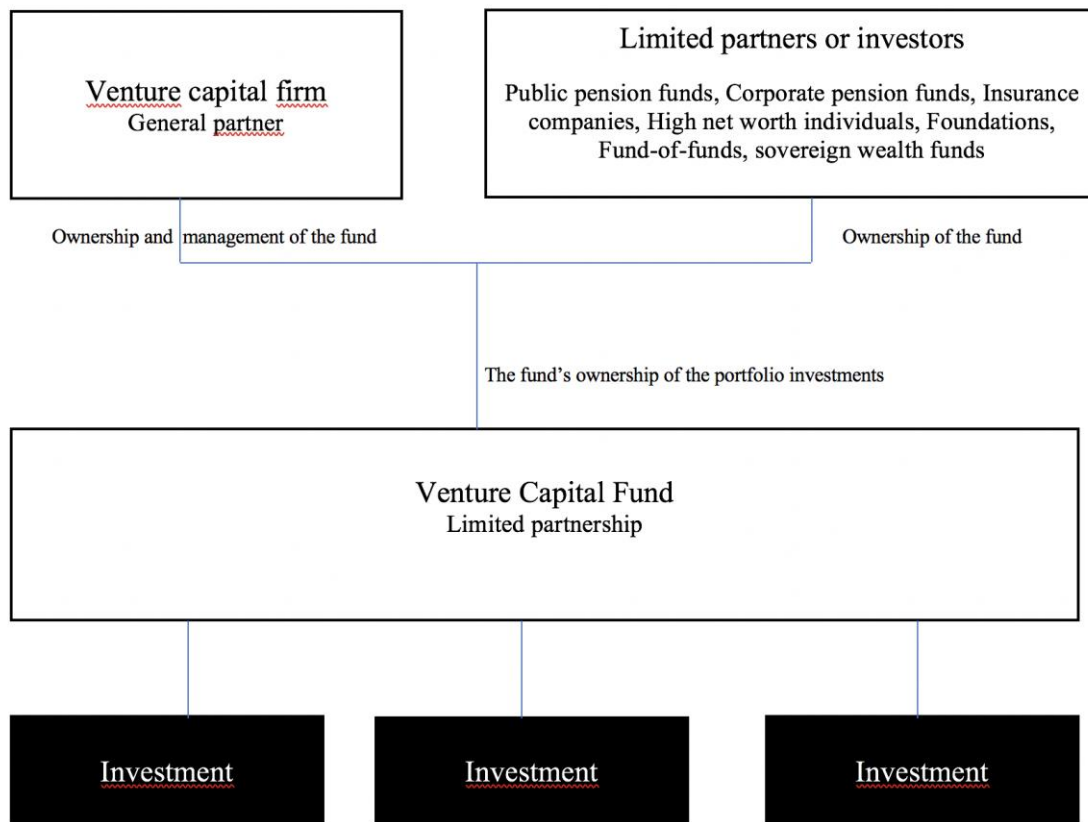


Figure 8 Usual venture capitalist structure (source, IPR.VC 2017)

These big institutional investors have large amounts of money, which they seek to invest wisely:

We approached institutional investors and our message was that you have not invested in these areas before, so we offer a new business area for you. This is something which our investors have appreciated

(Timo Argillander, interview 18.9.2017)

Argillander (interview 18.9.2017) adds that when speaking to investors, they must have their excel calculations in order and speak with financial terms on how the investment process works. Mikko Leino (interview 25.04.2018) explains that all investors look for alternatives and that film industry is an alternative like any other:

Why could you not package this so that other investors would add this to their portfolio?

At IPR.VC they send their investors a general summary, which shows expected profits within a certain time frame. It shows the target goal and after three months they do a mid-report which shows how each investment is doing.

Both funds have a total of 20-25 million euros for investment purposes and are designed to operate for 3-4 years. The funds themselves are a limited partnership, which are governed by a management company composed of the team members themselves. This way the team behind the fund retains the final say in which projects receive funds and which do not, without the interference of the institutional investors. The teams are composed of 3-6 people, whose wages are paid through a 2-3% management fee deducted from the fund. After all the capital is spent, the fund will be closed and assessed. Depending on the success of the previous fund, a new one will be founded (Argillander, Tolppanen, Leino, Karppinen, 2018). The fundamental principles of venture capitalists do not differ here.

Argillander (interview, 18.9.2017) believes that Finland and the Nordics have the potential to do something with large global appeal. He states this has already happened in the game industry and that there is no reason this could not happen in the Film and TV-medium:

This is not the norm of thinking in this business. This is the perspective we want to challenge, and this is the spirit in which we operate.

Jokiranta (interview, 12.10.2017) stresses that films are a different investment compared to start-ups and games, necessitating diligence and professionalism. According to Petri Rossi (interview, 13.9.2017) IPR.VC and Nyland Film Fund are not at odds with one another, seen as they know each other and are not looking to compete with one another. He explains that they are looking for different kinds of productions and that two funds would not fit into one project.

4.1.4 Differences and similarities between the funds

That's the thousand-dollar question. Madness mostly. I believe there needs to be a deep-seated love for film. The feeling of gratification when achieving something great. In a way we are culture-friendly, but we do look at the investments with cold eyes. Rather than trusting your gut-feeling, have the numbers justify why this is a worthwhile investment.
(Ari Tolppanen, interview 18.04.2018)

There are major differences between the two funds. The biggest being that IPR.VC is bound to invest their funds solely for Finnish majority owned productions, whereas NFF,

operates globally, investing in both national and international TV-shows and feature films, Karppinen (interview 25.04.2018) estimates that the share of foreign production is around one third of the total mix. IPR.VC's restriction is based on them having pooled capital from TEKES (Business Finland), who stipulated that the funds need be spent for Finnish productions. IPR.VC also invests in games and media, whereas NFF is strictly focused on TV and Film investing.

Both funds found interest in productions with a budget that exceeded the national average of 1.5 million euros. Generally speaking, the budgets would be between 3-10 million euros. The smallest budget in which IPR.VC was involved in financing was a film worth 2.5 million euros. Films exceeding a 10 million euro budget present themselves as a challenge for it becomes, ever more difficult to double or triple their profits. Anything under a million was seen as too small to be worthwhile (Leino & Karppinen, interview 25.04.2018). According to them, the decision to enter a project has to be in line with the work, investment and profit related to the project.

Tolppanen (interview 18.04.2018) states that traditionally, VC's aim for a hit-ratio of 3 successful investments from 100 total made investments (or even 1 from 100), this due the possibility of multiplying their investment back ten or even hundredfold. Ari Tolppanen argues that this is simply not possible in the movie industry as the multiplier is rarely over two and that their form of investing is more in line with loaning than actual equity investment. Whereas IPR.VC offers financing in return for royalties, NFF has a varied form of mezzanine financing. This is a hybrid of interest-rate loans, IP-investment and equity financing. Johanna Karppinen and Mikko Leino (interview 25.04.2018) estimate they have seen 40-50 different projects been presented to them, estimating that the figure would hover around 50-100 by the end of year 2017. At the time of the interview, they had invested in four projects. It is important to note that these 40-50 projects are not investments, but presentations of potential investments, meaning that the funds are clearly very diligent in making decisions.

Film financing constitutes a financial plan. Here there is a share from SES, TV-pre-distribution rights and some private financing. An important part of film financing is the minimum guarantee or MG. This is the loan of a distributor for the pre-distribution rights. This loan will be paid back once the film begins turning over profit. After the MG is paid back, the profits are distributed according to their respective position within the financial plan. According to Rossi (interview 13.9.2017), projects that have investment companies or funds, don't have MG as it has been replaced with private capital. Timo Argillander (interview 18.9.2017) raises the problem with the traditional producers' earnings-model:

The production budget entails the producers fee. In a sense the producer gets paid a monthly wage, regardless whether people go see the movie or not. This is a problem. This is something we want to change.

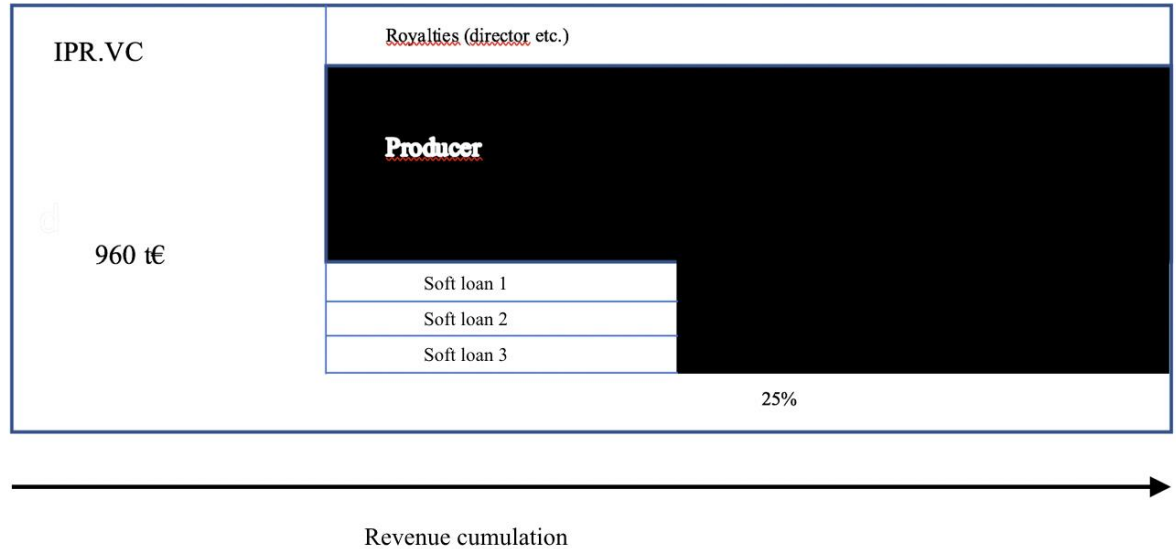


Figure 9 IPR.VC Earn-out model (source, IPR.VC 2017)

In IPR.VC's model they effectively want to take the financial position of the distributor within the budget of the film. Argillander (interview 18.9.2017) wants the producer to seek the black share of the revenue cumulation, as seen in figure 9 above. He reinforces the notion that this must be viewed as the baseline for the producer and not some nice added bonus. Rossi (interview 13.9.2017) believes that from the investors point-of-view it doesn't make sense to enter a project where profits get taken away before anybody else receives their share. Timo Argillander (interview 18.9.2017) states:

Technically our money is risk loans. Capital based money, the profits erase the loan we give, after which we collect royalties.

He says that this is effectively portfolio investing, which is a high risk, high reward style of investing. This, however, only works if you have many projects in your investment portfolio.

Finding these funds and private investors was not seen as a challenge. The Finnish film market is small, where word-of-mouth (WOM) spreads quickly (Karppinen, interview 25.04.2018). While IPR.VC does not actively market themselves, they do have a website offering their services, NFF attends industry events. Ari Tolppanen (interview

18.04.2018) explained that if you want international slates to be screened for investment purposes:

You need to be damn proactive, travel to all the festivals and explain what you are willing to do.

According to Tolppanen their max ‘ticket’ or investment sum can be 1.5 million euros for film or TV-production, which is sum that guarantees negotiation power in the EU-zone. As NFF operates globally there are certain key agents and organizations within the EU that connect finance seekers with NFF (Karppinen, 25.04.2018). Additionally, for IPR.VC sales companies are essential. These companies connect IPR.VC with movie producers (Argillander, interview 18.9.2017). Generally speaking, all domestic production companies seeking to do international productions are aware of the funds (Leino, interview 25.04.2018).

4.1.5 Tools used by the funds for profit calculation

Microsoft excel was the tool of choice for the financiers. Both IPR.VC and NFF admitted that excel was integral in their day-to-day business. The private funds also use a set of different mathematical formulas to calculate the profit expectations of potential investments. The most important being IRR or the internal rate of return. Specifically, IRR calculates the cost of capital during the time the capital is invested in the project (Argillander, interview 18.9.2017).

While the coefficients for the IRR are not that strong, the time frame of the investment is so short that the IRR becomes worthwhile. Petri Rossi (interview 13.9.2017) says:

If you invest in the forest industry, you will receive without doubt bigger profits, but the timeframe for profit is longer, around 20-30 years. Films are a lot faster. It's the fast pace of money returning which has suddenly intrigued private money to become interested in film.

Ari Tolppanen (interview 18.04.2018) expands on this stating that the calculation of IRR is fundamental:

The proposal for investors is that the multipliers are not that strong; you get your money back 1.5 or 2 times, which is alright. However, the time frame is short, so the IRR is good.

The average profit-expectations are not a secret for the funds. NFF aims to double or triple their investment as does IPR.VC. This means they calculate the IRR and seek a 25-30% result. The funds aim to invest 20-30% of the total production budget. The grant of SES helps in their effort of doubling or tripling their money, due to the non-refundable nature of the grant. The total profit from the production is then divided through ‘unsymmetrical payback’ whereby the investors of ‘hard-money’ receive a larger share than public investors. Petri Rossi (interview 13.9.2017) states that private investors calculate that states and cities who are essentially public investors, gain financially with tax income from the production.

Timo Argillander (interview 18.9.2017) explains that after the movie starts to make its money back, they take back their initial investment and a 20% premium. They position themselves financially where traditionally a distributor would be located and have a back-end royalty position in place. This royalty agreement is between 15-35% and is negotiable. He stresses that they do investment decisions based what the revenue should be for them to multiply their money by two times. Argillander continues by explaining that a plan must be in place and that it can’t be a one-off success. This is another fundamental principle of venture capitalists, to improve the business of the initial investment.

4.2 Why have private financiers entered into film investing

Reasons for entering into the field of film investment were diverse. In ‘The Unknown Soldier’ there were 15 wealthy financiers willing to invest due the historical nature and importance of the subject matter (Tolppanen, interview 18.04.2018). However, Miia Haavisto (interview 12.04.2018) explained that there was another group that did not invest but brought in profits i.e. gave money for the bottomline. It was not calculated into production financing, but directly as profits for the film. These were companies such as Veikkaus, Lähitapiola, Neste, Lidl and even a French fighter pilot company; acting as partners. Ari Tolppanen (interview 18.04.2018) stated:

It was their way of marketing in Finland. Jalostaja, Sinituote and Hasan & Parters, helped make it a phenomenon, the marketing act of the year.

In the end the marketing budget for the film was very small. Miia Haavisto (interview 12.04.2018) says:

We did a lot of work, getting the (marketing) partners involved. Tailored photos, content for their social media, using their own platforms for promotion.

In her eyes this is another form of private financing. While investors invest their money, partners have different interests and needs regarding the film or project. The earlier they enter a project, the more in-depth they can look at the different aspects that interest the customers of the partners. The creation of private funds has been aided due the influx of available capital and low-interest rates have contributed to the creation of funds (Argillander, interview 18.9.2017). Mikko Leino (interview 25.04.2018) confirms that there has been a general push for alternative investments and that the movie industry is seeing a natural extension of this. The stock exchange has a motivation to find a target for its investment, which the private funds help to redistribute.

The author identified a certain type of excitement related towards movie investing. Johanna Karppinen (interview 25.04.2018) states that the film industry is very engrossing due to the unpredictable nature of it:

There are plenty of terrible huge Hollywood films that sell and smaller Hungarian Oscar winners, which are completely accessible budget wise for us, that don't sell anywhere.

Karppinen explains that this is what captivates many, you can make a brilliant film and it can still be a bust. This according to her is a great injustice, as well as, presenting itself as a challenger for them; separating personal preference and recognizing projects with potential. Mikko Leino (interview 25.04.2018) argues that that investors must look at the project critically, however there are unpredictable elements of success that cannot be foreseen. At the end of the day it is intuition which plays an important part. There was also another form of excitement which had nothing to do with the investment world; the movie industry is generally seen as having a 'mediasexy' image. Petri Rossi (interview 13.9.2017) said:

I've spoken with an agent, whose client thinks it's cool. Walk with the stars on the red carpet, indifferent whether they make their money back.

Timo Argillander (interview 18.9.2017) agreed there are such individuals stating that is plenty of talk about this British-American model where they do it for the love of art, where investment becomes gambling. He stated that he would rather be at the porch of his sauna with money coming into his account than on the red carpet. Argillander also believes (interview 18.9.2017) that the significance of media and entertainment grows continually around the world. People spend an increasing amount of time on entertainment and with audiovisual media. Naturally, this creates a demand for more high-quality content and as the number of projects competing with one another grows

exponentially, original ideas and topics become crucial for gaining success. This is the so-called ‘sweet spot’ that the private financiers want to use to their advantage.

Normally VC’s invest into technology and start-ups, not content. We believe that the significance of content will continue to grow. As it becomes increasingly important and with a general lack of investment, this presents itself as a chance for us.

(Timo Argillander, interview 18.9.2017)

Miia Haavisto (interview 12.04.2018) welcomes private financing, believing it can be much more than just product placement. The question of why private financiers entered the movie industry even though it is largely unprofitable was deemed slightly misjudged. It is very profitable for movie theaters such as Finnkino, who almost have a monopoly position. The biggest risk is carried by the producer and production company. Petri Rossi (interview 13.9.2017) believes that in the future when investment companies are involved, the producer will not put any of their own money but receive their wages during production. Finland will have a hybrid form, where the producers receive some of the profits for themselves.

4.2.1 Which kinds of projects receive capital from the funds?

This is business, we want a return for our investment, if we do not believe in profit gain, that is the most likely reason not to fund.

(Mikko Leino, interview 25.04.2018)

Results indicate that projects which are likely to gain the interest and ultimately capital have commonalities between them. The integral ones were:

- The sales and marketing plan
- The financial plan
- The script
- The talent and their track record
- The international potential of the project

Private financiers assessed the credibility of the sales plan i.e. what company acts as the seller, how the territorial sales are divided and how much of the profit is generated from the national box office were important for favorable decision-making. Mikko Leino (interview 25.04.2018) said:

We look at the sales company, how the territories are distributed and how much the domestic box office is from the evaluated risk.

Argillander (interview 18.9.2017) explains decision making is based on quarterly sales expectations. Both the producer and sales company give their estimates for IPR.VC. Ari Tolppanen (interview 18.04.2018) explains that they calculate the possible profit of domestic box office, as well as the VOD profits. He argues that with these one must get pretty far already. Miia Haavisto (interview 12.04.2018) indicated that private financiers expect marketing procedures to be in place for the film:

It's not enough to make a great film. The marketing methods and budget need to be in line with set goals.

During the production of 'Tom of Finland' IPR.VC also received quarterly reports regarding the financial key figures of the production. Haavisto prepared written statements on what has and will happen with the production. Other unofficial information passed on was profit predictions, the release date of the DVD and other behind-the-scenes-information.

A balanced and believable financial plan was another important factor, specifically the position of the planned investment within the plan (Jokiranta, phone interview 12.10.2017). Both IPR.VC and NFF aim to be at the start of the project. This ensures better returns for their money. Petri Jokiranta (interview 12.10.2017) adds:

It is knowledge that few investors have, especially if they have experience investing in movie industry.

He emphasizes that the investment instruments in the movie industry can be complicated and investors must be careful examining their own position in the financial plan chain of the project. Tolppanen explains that different projects require different type of money. 'Iron Sky 2' which was a troubled production needed money at the later stages of production, whereas with the film 'Animals' it was all new money in the beginning, that was quickly pooled together to initiate production.

The script is scrutinized and evaluated by professionals. Argillander (interview 18.9.2017) interview states:

The script needs to be good, we read it together and with an expert. It needs to be quality stuff.

The same was true for NFF where they look at the script together with external specialists. Tolppanen explains that a great script can be demolished by a bad team and equally, a bad script can be lifted by a great team. This to him is the appeal and difficulty of this industry.

The talent and their track record, which means the whole team and their previous body of work involved in the project. The talent are the actors and actresses, directors and producers involved in the project (Leino & Karppinen, Argillander, interviews 2017, 2018). A track record is the previous films and projects by the individual or company. IPR.VC for example, compares box-office numbers from earlier movies by filmmakers. Argillander explains that if a Klaus Härö movie generally receives 150,000 viewers, they can assume similar numbers for the next. He stresses that this, however, is not the singular foundation for decision making, success depends on how it does overseas. Haavisto and Jokiranta agreed that financiers will specifically look if the producers have the ability to successfully handle a project of the given scale. Karppinen explains that they look at the team behind the project, their vision and credibility. Haavisto (interview, 12.04.2018) believes that essentially, it's all about risk reduction:

It's difficult to foresee audience movement, can the weather ruin a movie etc. So, in a sense it's all about minimizing risk, which means that the professionalism needs to be as high as possible.

This is echoed by Tolppanen who believes that in movie investment there is no maximizing the upside, only minimizing the downside. Additionally, the global potential of team and of the content is evaluated, whether or not the project can succeed internationally. Argillander clarifies that they assess each project individually and assess if it can become something major. Leino states that they look at the entire team, not just the above-the-line factors. Both funds were interested in projects with international potential. In fact, it was one major criteria for IPR.VC to have highly motivated filmmakers that strived for global success; they assess the team and whether or not the group wants to succeed internationally. With 'Tom of Finland' IPR.VC saw that potential. Miia Haavisto stated, that with Tom of Finland the international potential presented itself as unusually good.

Lastly, Karppinen argues that while producers and production companies are used having some private financing and commercial cooperation from private financiers, they have not had it on this scale in Finland and have seen their share of ill-prepared pitches; She believes training would be good, to show how to prepare and present a project for potential investors.

4.2.2 The roles of private investors within film production

When asked about the role private financiers play in production Mikko Leino and Johanna Karppinen say it depends on the project and actors involved. Some may take a very versatile role. Karppinen also identified that private financiers have different roles depending on what time they enter the project. Private financiers can impose certain stipulations for financing, comment on the budget, sales plan strategy of the project, as well as, demands concerning marketing and sales input. Karppinen adds that they have commented on different cuts of certain projects such as ‘Animals’.

Private financiers agreed that it that it was in their best interest not to affect the creative content itself. Timo Argillander states they might challenge the themes, if they don’t find them appealing, but in the end, they do not interfere in the creative decisions. Miia Haavisto (interview 12.04.2018) says:

IPR.VC saw two versions of Tom of Finland. They commented on it from an audience perspective. They read the script, directors and producers’ statement, but they don’t have influence in the final cut.

According to Petri Jokiranta most of the investors do not want to interfere. In the beginning they evaluate the project, choose to either invest in it or not and trust the process. Petri Rossi supported this stating that he had been assured by producers that no problems had risen. He goes on explaining that the investors want their money back and it would be of great risk to interfere and never receive their profits. When the film is funded from several smaller sources of finances, it also becomes harder to exert creative control over them. On the other, films fully funded by major studios such found in Hollywood, can have their content affected.

With both movies (Rare exports and Big game) the funding came from multiple sources, this way we got to keep the control for us, the final cut.

(Petri Jokiranta, 12.10.2017).

Petri Jokiranta adds that the most important element is that you offer something original. He argues that while domestic top-talent can draw local audiences, the same cannot be said for the international audience. Instead it is the themes and topics which need to be universal in order to breakthrough globally. Tolppanen believes that those who produce great IPR and content for several nations will be successful. However, Argillander argues that the idea can’t be too far-fetched and that if there is no possible scenario for profits to triple, then that is a deal-breaker. Jokiranta adds that investors look

for similar projects which have set the precedent in expected movie returns. All of these aspects contribute in the favor of receiving financing from the funds.

4.2.3 Challenges for private financiers

Film is a different investment subject than start-ups and games. Films have their own repayment logic, it requires acquittance and professionalism.
(Petri Jokiranta, interview 12.10.2017)

Film financing is a complex matter and the larger and further international the production gets, the more challenging it becomes. Multi-million budgeted films can have financing from a multitude of different sources. Ari Tolppanen states that Finnish productions are simpler, because of interpersonal relationships and built-up rapport. Abroad, joint-produced films are a different story. He argues that the more parties and financiers there are involved, the bigger the agreement jungle grows. There needs to be a representative to negotiate and coordinate contracts, as well as, international IPR-lawyers who draft the agreements. Compared with strictly domestic productions, multinational productions deal with vastly larger sums of money. They have rather established practices in regard to how these deals work; templates, service providers, film bonds, insurers, it is a clear network which works.

These funds have appeared very quickly, and filmmakers aim to keep them happy. Miia Haavisto (interview 12.04.2018) mentions:

I would not present a high-risk investment for private financiers. I don't want to risk my relationship with them. I would present sure-fire cases.

Haavisto hopes that producers and filmmakers will know how to properly take advantage of private investors. This means picking right projects, making the films as good as they can and maximizing profits. She continues explaining that this serves the whole industry and if there are rip-off operations, it hinders the business. Nobody wants to give money away. She warns that a success stories are quickly forgotten, if you package financially uninteresting projects as viable investment opportunities – with investors abandoning the field. Similarly, Timo Argillander (interview 18.9.2017) argues this sentiment from an investor point-of-view:

Investors who finance movies due to them being cool or media sexy, participate in investing which is more akin to lotto or betting. This type of investing brings money to the movie, but if they fail, it's bad for this whole industry.

The larger institutional investment companies will cease to see the movie industry as something worthwhile investing. Leading to the funds being unable to pool money together. Karppinen adds that there is an issue of movie scheduling. What films are currently in theaters and how they affect the different demographics of viewers and while movie-fans of 'Star Wars' might not go see 'The Eternal Road', they do take up screens from the movie theaters, thereby decreasing the available exposure for the other film. According to Haavisto when a film is released social media and word-of-mouth plays an integral part in keeping the film afloat, as the drop off in attendance can be very significant after the premiere.

4.2.4 Case Finland

Petri Jokiranta identified the problematic nature of the Finnish language. Whereas Sweden, Denmark and Norway share commonalities between them, Finnish language is completely different. Mikko Leino (interview, 25.04.2018) shared similar thoughts stating:

Investors understand that a good company is worth a lot more in a bigger market, we have the domestic market, which has a permanent handicap, this is a peculiar language zone.

He continues explaining that when an American indie film breaks in America, there will be a lot of profit. He remarks that a similar situation in Finland from an investors point-of-view is simply not feasible. However, Jokiranta believes that the small language zone of Finland presents itself as a problem with two sides. On the one hand, it maintains a functioning industry for Finnish language movies for the domestic audience. It's an industry which produces over 20 Finnish film every year. It runs efficiently consisting of money from SES, distributors, producers, tv-predistribution rights. It's a movie industry with a fast-yearly cycle. On the other hand, it breeds complacency where companies focus solely on domestic films, instead of going international. Jokiranta does see the positive in the current situation. He argues that internationalization has finally begun, and Finnish filmmakers are making content for the global market.

Tolppanen indicates that the business of private financing particularly in the Finnish film industry is small. There are actors in the field but very limited in the organized fund business. This sentiment is echoed by Petri Jokiranta who believes Finland has a lot less private financing activity due to the Finnish market being so small. He considers Finland a cultural backwater, where the public share of the budget can be over 50 %, an element which scares off private investors, as seen from a traditional investment perspective, the business presents itself as not having enough risk involved. Ari Tolppanen had

comparable thoughts explaining that if it goes a lot over 50%, then the payback model becomes complicated.

4.3 How does private financing contribute to the internationalization of Finnish films

The research indicated that all interviewees saw private financing and internationalization as assistance for one another. According to them, the Finnish film market has reached its audience limit and while the numbers are excellent, they cannot expand. Petri Jokiranta states that the national market does not grow. Growth according to him is only available on the international side. SES reiterates this, stating that the internationalization of Finnish films is a challenging task, albeit a necessity in order to develop the industry (SES Report of activities, 2018). Here, private financing can be a guiding instance, directing the business towards internationalization and commercializing Finnish films (Jokiranta, phone interview 12.10.2017).

4.3.1 The advantages of private financing for internationalization

Tom of Finland had a lot of international financing; from a cash flow perspective it was terrible. We received a million euros 11 months late from Germany.
(Miia Haavisto, interview 12.04.2018)

On the benefits of private financing Argillander states that they are helping the challenge films face when gathering financing; it takes too long. They tackle the hurdle that it wouldn't take five years to receive capital, enabling films to be released faster to the market. Haavisto remarks that with the trust of private financiers comes a greater degree of freedom. As an example, she mentions that with private financing you can explain that while you have absolutely certain financial commitments from different instances in Germany, they cannot activate the payments. With private financiers you can negotiate more readily and ask if it is possible to advance their capital. While the interest rate will begin immediately, the cash is not bound by bureaucratic and strict grant guides.

With public grants and financing filmmakers have to deal with different forms of reporting and control mechanisms, while Haavisto admits these necessary, they can be painstaking, especially with developmental projects. She says the most frustrating thing is to seek small grants every 2 months, as it's time-consuming and binds bureaucrats at their end of the process. She hopes private financiers could come in at an earlier phase, with a potential higher reward. This could even have its benefits for public financiers, where they see a considerably further developed project. Haavisto wishes private financing would be disruptive, kicking forward project development with their

investments. Currently, IPR.VC does this, by offering developmental loans for concept creation. The loans range from 25 – 50 thousand euros.

Petri Rossi states that the average budgets of Finnish films are 1.3 million euros, which is less than half compared to that of Sweden's and Denmark's 3 million or Norway's 4 million.

We would have to triple our budget to be equal with the Nordics. My personal opinion is that the Veikkaus assets will not grow, they might even decline.

(Petri Rossi, interview 13.9.2017)

The future he argues, is in new actors in the field such as teleoperators and private financing. Karppinen agrees that we are currently lagging behind the Nordics stating that grants are smaller for example with TV-shows and you need money to make something decent. Haavisto says that with the help of private financing, filmmakers can produce bigger and more professional films, which have a high chance of breaking internationally. She admits that budgets are not a guarantee for great films, however private financing does improve the foundations for production in Finland. Karppinen believes that while it is absolutely possible to make accredited films conventionally, private financing can be a partial element in enabling more ambitious productions that seek commercial success and a higher production value.

According to Jokiranta private financing increases the mentality of risk taking. He reinforces the notion of needing to take risks, as it brings a healthy perspective into the business. In his opinion private financing wants a return for their investment, so they naturally gravitate towards projects where this is achievable. This increases the volume of Finnish films with commercial potential.

The productions want to increase their budgets, as many times a bigger budget corresponds with higher quality, so you want to make more ambitious content what the traditional tripartie-model allows for'.

(Johanna Karppinen, interview 25.04.2018)

Karppinen says that while both internationalization and private financing are important for the Finnish film industry, it could be private financing which helps filmmakers elevate their level and aid in the internationalization process. Leino believes internationalization takes the slight edge, as audience is too small in the Finnish market.

4.3.2 The Finnish film industry and continued global ambitions

I made rare exports with Jalmari. It's still one of the most successful international Finnish films, despite it being in Finnish.

Petri Jokiranta (phone interview, 12.10.2017)

Internationalization would mean Finnish films and talent to spread globally, which in turn would increase networking among industries and filmmakers. The author questioned whether or not the moving of national talent would be detrimental to the national industry, as seen with Denmark where their most talented leave for foreign productions. Miia Haavisto (interview, 12.04.2018) states:

If people want to go international, then by all means! They can help other Finns abroad, help them network. It's fantastic if they receive a chance to make it overseas, international agents for directors, it would be terrific.

Petri Rossi shared this mentality, stating that SES encourages for internationalization. His personal opinion is, that internationalization benefits also the people who don't leave. The interest for Finnish film grows and the filmmakers will eventually come back and found studios as seen with Iceland. From an organizational standpoint, SES actively furthers the internationalization of Finnish filmmakers by participating international project developments and degree programs.

Additionally, SES seeks to increase the international appeal of Finnish films by collaborating actively with Germany and China, as well as being present at international festivals. This strengthens the possibilities of distribution, exposure and financing for Finnish projects (SES Report of activities, 2018). According to the Ministry of education and Culture, international financing will be a necessary part in Finnish film production. The production companies need support in creating networks, increasing recognizability and finding suitable financial solutions (Ministry of Culture and Education report 2018, 65). This is excellent news, as many Finnish filmmakers and producers lack the knowledge and resources for internationalization. Companies are concerned that going abroad might jeopardize their core operations, taking away from their total capacity (Jokiranta, phone interview 12.10.2017).

IPR.VC's Timo Argillander encourages internationalization, noting that one should strive to go global and expressing interest in franchise films. He sees the future as bright:

I see it positively. Lots of young people going to the world doing things. The basic thing is that there is a lot of wasted potential because we don't set up the projects to succeed.

(Timo Argillander, interview 18.9.2017)

Petri Jokiranta adds that the process of internationalization is already happening, Finnish companies are expanding their markets and have begun making content fit for the global markets, even though we are still lagging behind general Europe.

4.3.3 Possible threats for the domestic industry

With the increase of non-English content, Finnish films and TV must compete against an ever-growing wave of entertainment. The industry is becoming more polarized. Big studio films take in a larger share of the available audience, while indie films will be strained to find an audience at all. Larger streaming services will view the Finnish industry as a lingual oddity, with a market size too small to motivate production.

I believe the biggest threat is that Finnish films do not understand the necessity to internationalize. I believe these agents (streaming services) are looking for English language global content. Finnish filmmakers and producers must look for content that will spread outside Finland's borders.

(Petri Jokiranta, phone interview 12.10.2017)

Finnish filmmakers are still behind in terms of networking as well as producing films in non-native languages. This increases global networking amongst their respective movie industry. Compared to other EU countries, there was the lack of industry-wide internationalization strategies. According to Petri Jokiranta private financing will not invest into Finnish films for solely cultural preservation reasons and if they do not see returns for their investments, they will become bored. The biggest threat Petri Rossi identified is that production companies should be able to maintain their rights or at least receive enough fee for the producer so that the companies can remain standing. If they weaken, producers might not be able to have necessary capital to develop new ideas.

Geo-blocking has been at the heart of a heated discussion within the European Parliament. The EU planned on abandoning geo-blocking, causing an uproar amongst producers and TV channels. Producers rely on territorial sales of their film. This is a substantial part of calculating their production budget, the abolishment of geo-blocking would effectively kill this component, as viewers would have virtually total geo-free access to content within the EU. While this would be threat to the traditional production process, private financiers would see it as an upside, as it would mean an instantly larger share of profits, without the traditional third-party distributors taking their share.

Johanna Karppinen talks about the growing polarization within the Finnish film industry: She explains that there are certain movies that blow-up the box office, like 'The

Unknown Soldier’ or ‘Class Reunion’ and then there are high quality movies such as ‘The Euthanizer’ that just don’t find an audience. This sentiment was shared by Miia Haavisto (interview 12.04.2018) saying that:

After France, we have the second highest national viewership in Europe. However, it is very polarized. There are movies that have a lot of viewers and ones that have almost none. The cycle is so quick, is very dependent on the release weekend, word-of-mouth, social media.

Timo Argillander concurs that the industry is becoming increasingly polarized; bigger studio movies grab viewers, whereas indie productions are finding it harder to find them. He continues explaining that only time will tell if it will become a worthwhile business, stating that compared to the game industry, the numbers are still relatively small.

Since DVD players were adopted in the early 2000’s, DVD sales guaranteed movie producers a formidable amount of revenue post-release of their film. While the children’s film DVD sales are as good as always, generally DVD and Blu-Ray sales have been dropping yearly by a staggering amount. From a producer’s point of view, streaming services such as Netflix, Amazon or Disney+ cannot replace the lost DVD revenue. Miia Haavisto states this is really problematic as they do not generate profits like before and VOD’s do not replace it. This is echoed by Petri Jokiranta who believes that the possibility of capitalizing Finnish film within the Finnish territory is shrinking as these mediums are disappearing, and digital distribution is going in a direction where profit is difficult to grow. In the long run this will mean that the available financing in Finland will decrease. The study by the Ministry of Education and Culture remarks that the fall of traditional DVD-sales and fragmentation of distribution channels has been significant. Digitalization has brought about new forms of internet-based distribution channels to the market, which has changed how movies are distributed to the markets and affected movie financing. After the theatrical release revenue for movie productions has dropped significantly (Ministry of Culture and Education report 2018, 65).

These days it up to the producer of the film whether or not they sell the rights streaming services such as Netflix. The upside of SVOD’s is that the demand for non-English content has grown.

If you are a French tv-station, it is not very smart to buy the rights for a Finnish crime drama and market it, but Netflix can, they bought Sorjonen.

(Timo Argillander, interview 18.9.2017)

The underlining thought here is that the film or tv-show is not bound by a traditional programming slot or day, to be seen. Half of the European content from Netflix is consumed by viewers outside of Europe. Tolppanen argues that Netflix views Finland as a ‘backwater’ country. The growth of streaming services increased the demand for quality produced series-format content which have universal appeal. SES have permitted grants for a select few (Kinnunen 2019, 145). Petri Rossi (interview 13.9.2017) supports this stating:

TV-shows are growing fast, but we give them marginal sums. If we fund them, then that would be one or two less films per year. It will be a political and strategic decision’

TV-series indeed seem to pose a threat for the movie industry. The setting is rich in irony; the once looked-down upon TV-format has become lucrative. Budgets are double that of traditional Finnish films, work is plentiful and so is the money. This creates increasing pressure on filmmakers to make the switch. Jalmari Helander for example, went on to direct TV-series Kommando. Due to the series format these filmmakers are bound for months in their respective positions (Kinnunen 2019, 145).

4.3.4 The Financial payback-model

It is time to inspect (Finnish film financing) from a critical point-of-view. Does it motivate filmmakers and companies to become international?’

(Petri Jokiranta, phone interview 12.10.2017)

The Finnish film financing consist of SES grants, TV pre-distribution sales and some private financing. In 2018 the Ministry for education and Culture released a report on the effect of public grants in national film production. The report found that there is a growing importance to increase funding outside of public grants. This translates to financial incentives, networking and improving the recognizability for outside investors. The creation of financial incentives for international joint productions was seen as a valid possibility for attracting international financing. However, the national public financing needs to be sufficient enough to allow for the projects authority to remain majority Finnish (Ministry of Education and Culture report 2018, 65).

Leino and Karppinen see the biggest threats for the industry would be failed politics of SES, smaller grants, ending of incentives and making the grants recoupable. Leino identified that the grant becoming recoupable would be the biggest threat. According to the report regarding the financial payback-model from Ministry of Education and Culture

(2018) the prospect of having to pay back the grants is a double-edged sword. This table highlights the pros and cons of having a refundable grant, as seen in table 2.

Benefits	Weaknesses/Negatives
Increased volume for grants	It is an economic challenge and threat to the production company's stability and ensured future continuance
Enables bigger productions	Weakens the risk-taking capabilities for production houses
Larger grants enable bigger risks and more revenue	Can negatively affect the production quality
Added revenue adds available capital into circulation	Economic predictions for production companies are increasingly difficult
Correctly targeted and executed is may strengthen production company's competitiveness	Depending on the return model treats the productions profits differently
Payback principles are not at odds with the aims of the grants	May encourage optimization of minimizing pay back and manipulation of the financial statement
The pay back model is used throughout many European countries	May scare away investors

Table 2 Benefits and weaknesses of the payback-model (Ministry of Education and Culture report, 2018)

For a large majority of the production companies in the movie industry business is either weakly profitable or not profitable at all. The volatile nature of the movie business dictates that the yearly profits can vary greatly and from a profitability standpoint hybrid companies have fared the best. These companies produce both films and TV-productions. Films are inherently riskier whereas TV tends to be financially more secure. These companies tend to have a turnover of several million per year (Ministry of Education and Culture report 2018, 63).

The findings conclude that outside financing is necessary alongside public financing. This necessitates incentives, networking and improving the recognizability for outside investors. The industry remains lackluster for domestic and foreign investors. One way

to increase the appeal foreign investment was the encouragement and creation of financial incentives international joint productions. International financing will remain a necessary part in increasing financing for Finnish productions. Companies will need help in international networking, increasing recognizability of the Finnish film industry and finding suitable financing options. At the same time Finnish domestic grants need to support the production companies sufficiently, so that the productions Finnish ownerships remains strong (Ministry of Education and Culture report 2018, 65-68).

Jokiranta believes incentives could entice international productions to Finland, which in turn would be beneficial for the well-being of the domestic industry. He adds this would enable Foreign money would flow into the domestic industry and increase networking towards abroad. Jokiranta concludes that while incentives can be good, but they don't solve the problem by itself. The domestic industry needs to encourage internationalization, so that people and companies within the industry are willing to take risks.

5 CONCLUSIONS

The purpose of this study is to examine private financing in the Finnish film industry. Seen as this is a relatively new phenomenon, it acts both as an interesting subject matter as well as a challenging one, due to there being little to none background data or information regarding it. This study will be further dissected into three sub-questions. They are as follows:

- What different agents are related to private financing?
- Why have private financiers entered into film investing?
- How does private financing contribute to the internationalization of Finnish films?

The following chapter will dissect each sub-question and examine and reflect the findings with the similarities and differences in current theories and literature. The second chapter will explore the practical contributions and the third and final chapter will look into the future research and limitations of the study.

5.1 Theoretical contributions

The author conducted six interviews with seven experts from the Finnish film industry, with knowledge regarding private financing. The experts were chosen as they would present a well-rounded view of the current state of private financing within the Finnish film industry. Data collection was performed through semi-structured interviews, after which were transcribed and analyzed.

The first sub-question *'Which different agents are related to private financing?'*. The results were indicative of Cohen's theory (2017, 68) whereby film production is built upon joint-ventures. The cast consists of diverse cast of agents, including production houses, producers, directors, foreign sales agents, investors, etc. Essentially, these agents acted together to form short-lived joint-ventures to successfully produce a film. This also supported the theory proposed by Hollensen (2007, 349), whereby collaborations have several positive effects for the parties involved, as it allows for pooling of resource, reduction of market related risks and increases the speed of market entry, which in the case of film production translates to getting your movie released to the market.

Furthermore, it was important to define private financing to understand the different agents involved in it. Karppinen defined private financing as capital which was not publicly attained in the financial plan of the project. This encompasses capital from agents such as angel investors, crowdfunding, teleoperators, partners, product-placement and private financing funds. IPR.VC and NFF are the two biggest private financing agents acting in the Finnish film industry. They operate as professional investment companies, with money pooled from larger institutional investors. These institutional investors are

pension funds, insurance companies, foundations, high net worth individuals, sovereign wealth funds etc. and are essential in the creation of the funds, for they provide the fund with the capital for investment. The creation of the funds was aided by the previous investment backgrounds of the venture capitalists. Due to their previous experience in the investment world, the venture capitalists could utilize their vast connections with institutional investors to pool together capital into the fund. As IPR.VC and NFF have substantial private capital capabilities, the author decided to focus the thesis on them. Both empirical evidence and literature supported the notion whereby the film industry is seen as a high-risk and unpredictable one. The producers and filmmakers have to gain capital from a myriad of sources; here equity investment is seen as one piece of the puzzle (Finney 2010, 64-65). The diversification of the investment portfolios by the larger institutional investors correlated with the opinion of Cohen (2017, 26-27) whereby film investing was the perfect addition to those seeking to diversify their assets. The data in this study showed that the funds were seeking to prove to the larger institutional investors that movie investments were a commercially viable investment. Crowdfunding for film production in the domestic market was not supported by the data, as the larger film productions did not rely on them.

The question '*Why have private financiers entered into film investing?*' was supported by the financial theory that the financial markets will redistribute the surplus capital to a sector facing a shortage of it. The interviewees agreed that the current influx of low-interest capital was a key factor in private financiers seeking alternative investments for their money. The fast turn-around for their investment was especially motivating. Films have a short life-cycle and ROI's can be expected within years, not decades. This is in line with the timeframe proposed by Cohen (2017, 84), where private equity's investments solemnly exceeded over 5 years. Petri Rossi and Timo Argillander identified that for some individuals investing in films was an exciting endeavor; to walk along the red carpet with stars on the films premiere has a lot more sex appeal than walking down a hall in a sawmill. These results were in similarly iterated by Cohen (2017, 121), where some angel investors enjoyed the glamour of the film industry rather than the scrutinous investment side of it. The data in this study proved that the due diligence procedures undertaken by the investment funds where the same as proposed by Cohen (2017, 2); they look at budget, cast, distribution arrangements, presales and incentives. Looking at the literature for investor profiles and the data in this study, the evidence pointed that there was an excitement factor in film investing, which traditional stock investing lacked (Cohen 2017, 115). Ari Tolppanen compares the current situation to that of venture capitalism of 1995 in Finland. Institutional investors are now ready to allocate investments into alternatives. This supports the financial theory of forwarding resources

available for market segments in need for it. The investment funds act as de facto brokers for the transfer of finances (Berglund 1993, 5).

The money involved in film financing can be roughly divided into 'soft money' and 'hard money'. The financing from the funds is 'Hard-money' i.e. capital loaned in advance for assets; intellectual property rights or royalties. Here, the funds can be viewed as the licensor, giving the producer or production house financial aid in exchange for royalties. This supports the theory of licensing, whereby the licensor provides the licensee something of value in exchange for payment (Benjamin & Margulis 2005, 81-82). Largely speaking, the business is unprofitable for most movie production companies. The volatile nature of the industry meant that the yearly profits could fluctuate greatly. Producers and production companies are at the end position of receiving profits, meaning that they are the most vulnerable in the financial chain. The position for private funds in the financial chain is stronger the earlier they are in the project. This means they will receive their investments back as soon as the project starts seeing profits, essentially easing risks involved in financing. This was supported by Finney (2010, 63) where the loanee is provided a higher position of security within recoupment chain, naturally the investors sought out for the film to break-even as fast as possible. A better position was also seen as an opportunity to act as disruptor in the industry. IPR.VC want to take the financial position of the distributor in the financial plan of the film. This is a disruptive move towards traditional distributors, which through their earn-out model would prove financially beneficial for both the fund and the producer, effectively cutting out the gross receives for the distributor. Furthermore, Ari Tolppanen sees themselves as a disruptor in the field saying that they we will try to expand private financing. He states that another disruptive procedure for them, would be the expansion into distribution. Tolppanen and Leino have built their own movie theater, which would create competition for Finnkino and their film rental fees. This supported the social network theory of Johanson and Mattson (1998) whereby networks are composed of customers, distributors and competitors. Disruptions in these networks might change the relationship between.

Arguably one the most important motivating factors for private financiers to enter the film industry was the growing significance of the media industry. Both IPR.VC and NFF believe that movie investment is sustainable investment opportunity. The media and entertainment industry continue to see growth yearly and financiers are eager to get their share of the profits. This supports the theory where culture through digitalization has become a valid form of business (Willenius 2004, 11). However, the movie industry not only faces competition from other movies or tv-shows, but from the whole entertainment industry. Netflix has stated that their biggest competitor is not Hulu or Disney +, but in fact YouTube (Bloomberg.com/biggestrival).

The last sub-question of the thesis was *'How does private financing contribute to the internationalization of Finnish films'*. From a network theory perspective (Hollensen 2007, 62, 70), filmmakers have market specific knowledge in regard to film production. They are dependent on resources of others i.e. capital for budgets from other firms such as the private financiers' investment resources. Together, they can gain a competitive advantage to produce quality films and export a commercially viable product for the foreign market. Literature and the data acquired in this study support the notion that films are released to an increasingly competitive market (Finney 2010, 97). Success in the market is based on the universal appeal and originality of the content. Private financing was seen an enabling factor for more ambitious projects with global appeal. It seems the domestic market in Finland has reached its limit in terms of film produced per year and audience attendance. Finland is only behind France in terms of domestic viewership and the general consensus among the interviewees was that it could not grow further. Rossi stated that the domestic budgets are too small, believing that it was a small miracle for us to maintain home markets. He goes on to explain that private financings biggest benefit is in growth potential. Compared to the Nordics, Finnish film budgets are lagging behind. Private funds entered projects which had budgets in the excess of 1 million euros. Through private financing the films could garner an equal budget to that of their Nordic counterparts. While bigger budgets do not necessarily equal a better film, they do provide a stronger foundation for filmmakers to operate under and compared to public financing, private financing requires less bureaucracy.

While the private funds identified themselves as culture-friendly, they did state that investment needed to entail the possibility for profits. Specifically, a targeted 2-3 multiplier for their investment. This meant that projects which inherently do not possess this possibility were not likely to receive private financing from the funds. Jokiranta added that if public money is solely replaced by private financing, it would have no interest in funding projects with cultural importance. Although *'The Unknown Soldier'* as a project was culturally significant, it possessed the financial possibility of making profits, which it did. Based on the results private financing seeks out projects with international potential and actively encourages filmmakers to strive for international markets. The funds wanted to become increasingly international, which supported the networking theory (Ahokangas & Pihtala, 2002, 74), here the network of global players deepens as the business activities increase. The continuing polarization of the film industry, whereby larger studio backed films were hogging audiences at an increasing rate was seen as a detriment to smaller independent films struggling to find an audience. Private financing helped in accumulating a budget for films, that could provide a competitive edge on the international markets. In reality and Finland's case, the increased

budget only levelled the playing field for domestic projects aiming for the international markets.

From the network model perspective (Ahokangas & Pihkala 2002, 74), Finnish films that breakthrough internationally aid in expanding the network i.e. they introduce both the financial and creative side of the production to a global ecosystem of different agents; foreign production houses, sales agents and investors, which in turn can deepen and strengthen these networks. The data was inconclusive whether or not these networks integrated with one another. While private financing in the form of equity deals has a long-standing history globally, in Finland this is a completely new avenue. Observing the operations of the funds from a domestic perspective, they can be viewed as early adopters of within the network of financing, while globally they would be viewed as late starters. No data in this study did provide evidence for the internationalization scenarios of the lonely international or international among others. Both funds became involved in the international market with the help of external agents in the form of sales agents and companies (Hollensen 2007, 72). Ari Tolppanen stressed the importance of a committed sales company that puts their soul on the line to get the film sold. He says there are plenty of Finnish films deserving of an international release. These sales companies negotiate the territorial sales of the films, which is vital for exposure and profits of said film. The author speculates that the gained experience with domestic film industry aids in the ambition to become gradually more involved in foreign productions. This supports the Uppsala model whereby there is a sequential pattern of entry into foreign markets (Hollensen 2007, 61). Similarly, this model can be applied to the Finnish film industry, as they import their films to neighboring countries with low-physical distances such as Sweden, Norway, Denmark and Estonia.

Private financing according to the interviewees was also an enabling factor for the continued process of internationalization for the Finnish film industry. It made larger joint venture productions possible. Literature (Finney 2010, 75) stresses the strategic importance of these partnerships, as essential for success in present age of moviemaking. Internationalization will remain the biggest key element for a strong and healthy domestic industry in Finland. The results indicate that there remains a clear need for increased networking and a support system which enables artists and filmmakers to take the leap abroad. Companies are naturally weary tying their already limited resources to operations overseas. Films with larger budgets tended to have financing from a multitude of sources. Essentially the funds provide financial resources for the producers or production company who make a film with the help of investments. This establishes a strategic relationship between the private financiers and producers or production companies. The funds provided the filmmakers with financial loans and the filmmakers produced a movie with their knowledge in filmmaking. This supports the internationalization theory of joint

ventures, where typically one partner provides financial resources, or in this case loans, for the others market specific knowledge such as making films. The collaboration has multiple positive effects for the companies involved (Hollensen 2007, 349). Filmmakers provide the knowledge of filmmaking, while the private financiers provide the necessary capital to the films made in the first place. The positive effect can be viewed as the attained profits from the film, as well as, the gained experience and knowledge for both parties involved. This also supports the idea of Willenius (2004,12) where the creation of products and services necessitates creativity, while the business side requires systematic processes and established business models to flourish.

Finland is at a disadvantage from a lingual perspective, the Finnish language is completely different to that of our Nordic neighbors. This was perceived as a hurdle for Finnish films to overcome, as Nordic audiences would rather see films that had a similar language to theirs. While, the need for content with international potential was very important for the private funds, the study found no evidence of evaluating the economic viability of the films according to the two key parameters of culture and economy set by Finney (2010, 98). All of the interviewees hoped that filmmakers and scriptwriters would tell stories that possess universal appeal for global audiences. If the content and stories are original and inventive, people will watch it regardless of the origin and more importantly pay for it. Petri Jokiranta hopes that private financing would encourage risk taking from filmmakers. The funds gravitate towards projects with international potential, meaning that projects tailored for domestic viewers would be viewed as ‘safe bets’ for success in Finland, while garnering little or no interest abroad. Internationally successful productions, act as gateways for more prestigious projects as seen with current generation of Finnish filmmakers who are establishing themselves globally.

5.2 Practical contributions

This study aims to provide insight into the field of private financing within the Finnish film industry. The thesis shows the various agents and networks involved in private financing and how and why they operate in it. Specifically, it answers how one can attract private financing from the different agents related to it. The private financing network consisted of small-scale investments and larger investments that had a considerable impact on the total budget of a film. Motivation were varied; ranging from simple marketing benefits for ones’ company or product to the meticulous profit calculations for their investment in the project.

The information provided in this thesis can benefit students, researchers, filmmakers, producers, production companies and potential investors seeking to branch into the filmmaking industry. With this data, they can understand what motivates private financiers to invest into different projects and what they should expect when showcasing

their projects to them. Filmmakers, producers and production companies can prepare their project pitches more thoroughly and recognize what exact key elements or factors play a crucial part in attracting investments. A well-prepared pitch and understanding of these factors will be of great value for filmmakers and producers alike. The data also provides an understanding on what different procedures are in place when dealing with private financing; the reporting and communication one has to undertake when dealing with the investors. Both literature and empirical evidence supported that the fundamental principles of venture capital are the same for the film business as they are for any other industry. With this knowledge potential future investors can expand their investment horizon and break into the filmmaking world.

Based on the findings, new sources of funding and investment are essential for a continued and growing domestic industry. To elaborate, global industry and Hollywood hegemony of entertainment will be a constant threat to for the attention of domestic viewership. This competitive nature and growing demand for high quality productions calls for budgets that can provide a quality end product. Economic support from the government in the form of public grants from SES are essential for the continued operation of the entire domestic industry. In the future, researchers can use the data provided in this study for further research into the field of private financing.

5.3 Future research and limitations of the study

This study focused on private financing in the Finnish Film industry. For the study the author conducted six interviews with seven experts from the Finnish film industry, with knowledge regarding private financing. The limiting factor here is that four of the seven interviewees were from the fund founders and two from film producers. The study could have benefitted from a more varied set of interviewees from different identified agents in private financing. For example, an interview from a distributor, teleoperator or a commercial partner.

Another limitation of this thesis is in the time frame to complete this thesis. All of the interviews were conducted by spring 2018, while the thesis was finished in 2021. During this timeframe data may change and expire to some degree. This was apparent in the interviews conducted with Tolppanen, Leino and Karppinen. At the time of the interviews their fund was still in a development phase as detailed in this study and was known as Nyland Film Fund. While investing and financing of projects did occur during this developmental phase, they decided to keep their business model as a professional boutique financing company and renamed it as Friday Capital. They provide lending and gap financing for film and TV, with a focus on Nordic and European content. Unlike the original fund, Friday Capital does not have the typical venture capital fund structure i.e. there is no pool of capital from larger institutional investors. Instead Friday Capital

coordinates private financing from family offices. The fundamental principles of acquiring lending from Friday Capital are similar to those described earlier in this study. Friday Capital negotiates with the producers or production company, after which they agree on the private investment sum. Their form of financing are interest-based loans, with a processing fee. They loan sums up to 800k€ and if the loan amount exceeds over this, they will bring in a bank for further investment capital. Friday Capital has been involved in the production of Finnish films 'Nimby' and 'Tove'.

The film industry is very agile in nature, with yearly fluctuations in profits. As private financiers are dependent on successful projects to motivate further investment. The study does not address how many of the projects in the fund portfolios were financially successful. However, IPR.VC seem to have had a successful run with their first fund, as they have created a new fund called IPR.VC Fund II with a worth of 42 million euros. They plan on increasing the capital to 60 million euros within the next year.

One where to be amiss, if the subject of the coronavirus would not be brought up. COVID-19 has affected the global economy on an unforeseen scale, rivaling that of 2009 financial collapse. Time will tell what repercussions this pandemic will have on the global economy and especially the movie industry. According to the article published by Helsingin Sanomat, Finnish film and TV production companies have to rethink their current way of conducting business. Productions are on hold, and films cannot be released due to theaters being shut down. This has already affected the way films are distributed. Swedish distributors began to team up with streaming services to release new films and assist closed cinemas.

Data from 2019 shows that while the Finns were eager movie-goers both for international and domestic releases, the domestic attendance has unfortunately dropped to slightly over 15% (SES Report of activities, 2019). The coronavirus will have an immense impact on the economy, with future repercussion that are impossible to predict. Vulnerable and already risky industries such as the Finnish film market, are especially susceptible to the effects. Private financing is an exciting and developing business in the Finnish film industry, which is worthy of further inspection. Further studies examining the domestic industry post-corona virus and the effects it has had on investments from private financiers, as well as, comparing the commercial successfulness of projects with and without private financing would be of great value.

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APPENDICES

APPENDIX 1 The interview questions

1. Which different agents are related to film financing?
2. Who are private financiers?
3. What is the role of private financiers in movie production?
4. Which kinds of films receive private financing?
5. Which different factors contribute favorably to private financiers entering projects?
6. How do you find private financiers?
7. Why has private financing become more common lately?
8. How much influence do financiers have in the creative content of a project?
9. Which is more important for the growth of Finnish films; internationalization or private financing? Why?
10. What potential negative effects do you see in private financing?
11. How do you see the Finnish film industry developing in the future?
12. What are the biggest threats to the Finnish film industry in the future?
13. What role do you see streaming services having in the future?