

Business Symposium

Wed, Dec 3rd

9:30 - 17:30





Welcome

Today's Schedule



Time	Session
9:00 – 9:30	Welcome and Introduction
9:30 – 10:45	Panel: Experiences in Asian Expansion
10:45 – 11:00	<i>Break</i>
11:00 – 11:30	Talk: Asian Games Market Strategy
11:30 – 12:00	Talk: Lessons of a Serial Entrepreneur
12:00 – 1:00	<i>Lunch</i>
1:00 – 2:15	Interview: One-on-One with Scott Ross
2:15 – 2:30	<i>Break</i>
2:30 – 3:45	Panel: Success in Asia by Asia
3:45 – 4:00	<i>Break</i>
4:00 – 4:30	Talk: U.S. Intellectual Property Law for Asia
4:30 – 5:00	Talk: Future of Cloud and Production
5:00 – 5:15	Closing Remarks and Feedback



Who am I?

- Software Engineer
- Product Manager
- Chief Technical Officer
- Consultant





Who are we?

- Revolutionary
 - Passionate
 - Technically and Artistically Creative

 - Service Industry
 - In Decline
 - And Lacking Profitability
- similar to all service industries
- as all industries are eventually
- without applying our skills



We are not unique snowflakes

...but we are about to melt

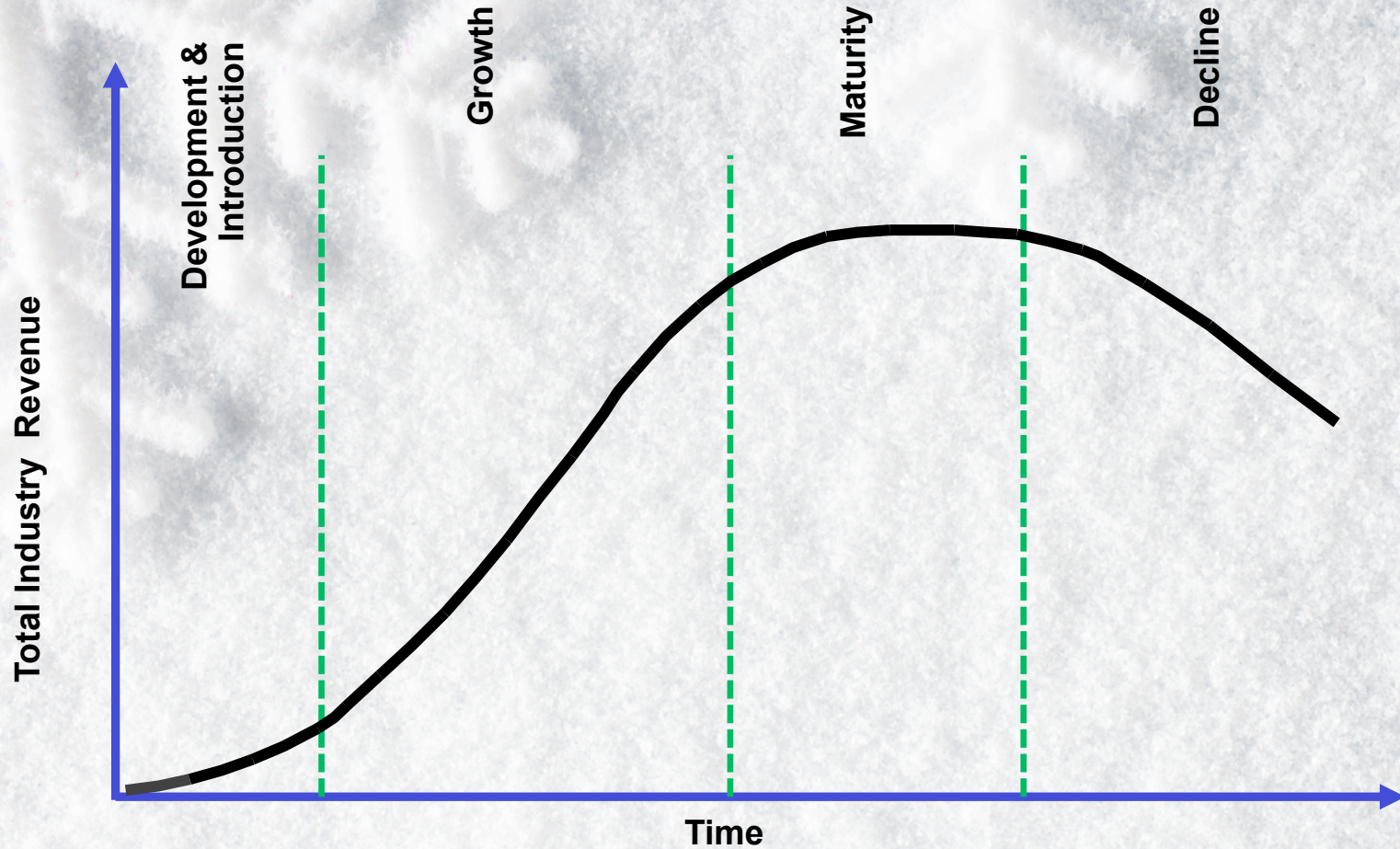
...but we can still fix that



My position

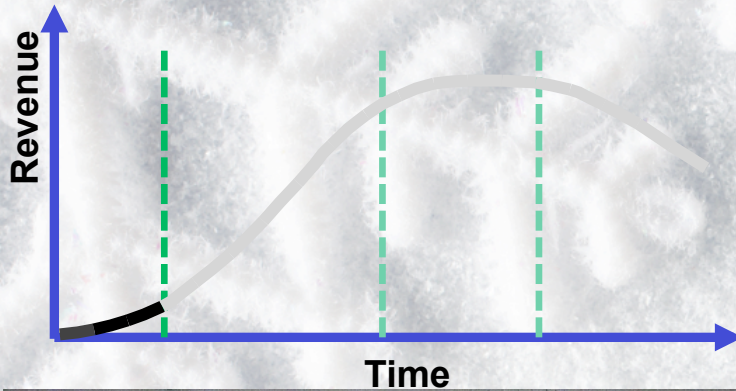
- VFX Industry follows the standard Industry Lifecycle and is now in its decline.
- There are several ways to maintain profitability in this phase through key observations.

Industry Life Cycle



Courtesy of Coleago Consulting LTD

Industry Life Cycle: Introduction

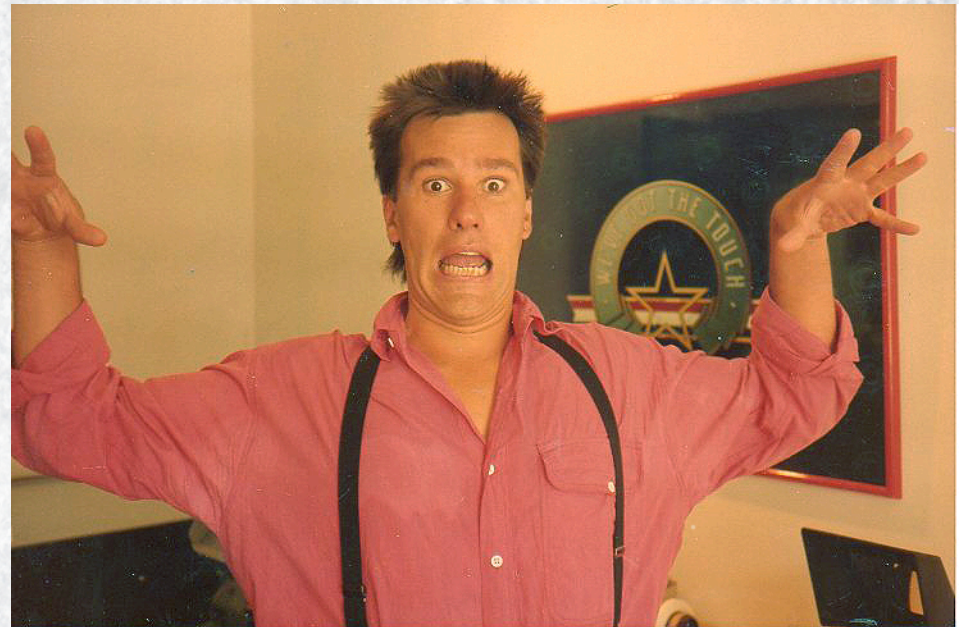
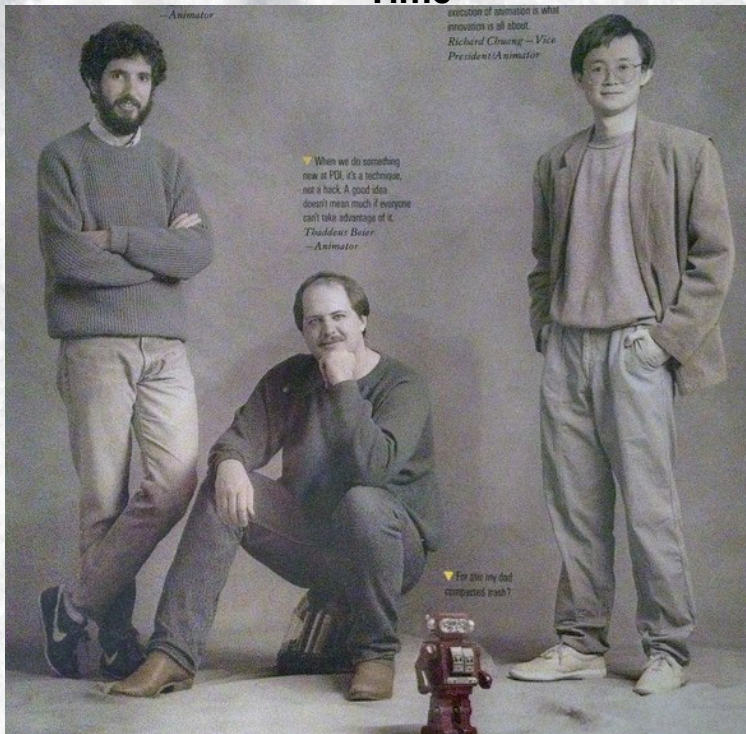


1980's: Development

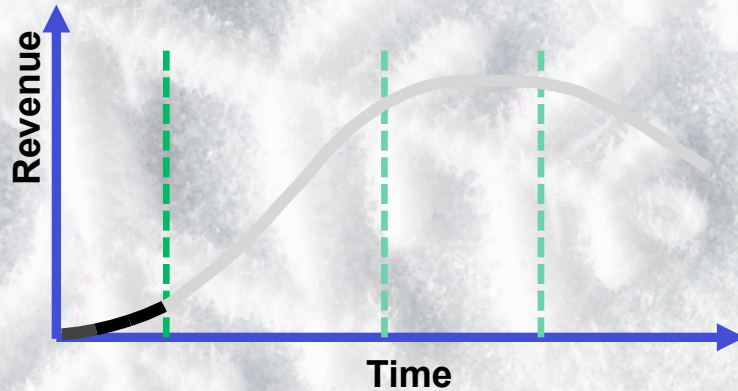
Innovators

No profits as revenue used for R&D

Significant promotion efforts to differentiate



Industry Life Cycle: Introduction



1990-1996: Introduction

Few competitors, no substitutes

Buyers have no power as supply is low

Industry Suppliers exert power because market is small



R&H

DIGITAL
DOMAIN



SONY PICTURES

imageworks

sgi



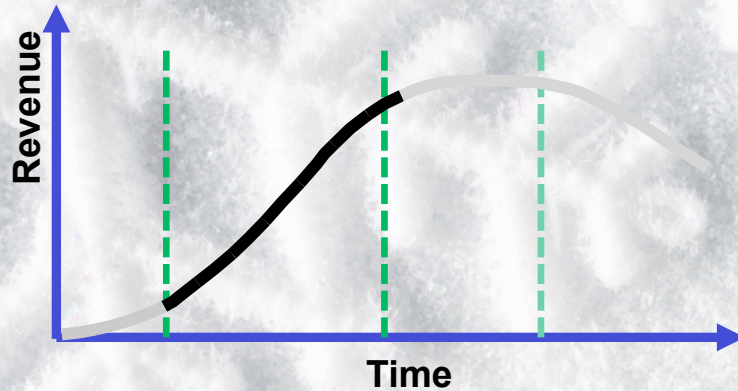
SIDE EFFECTS
SOFTWARE

Alias

wavefront

SOFTIMAGE®

Industry Life Cycle: Growth

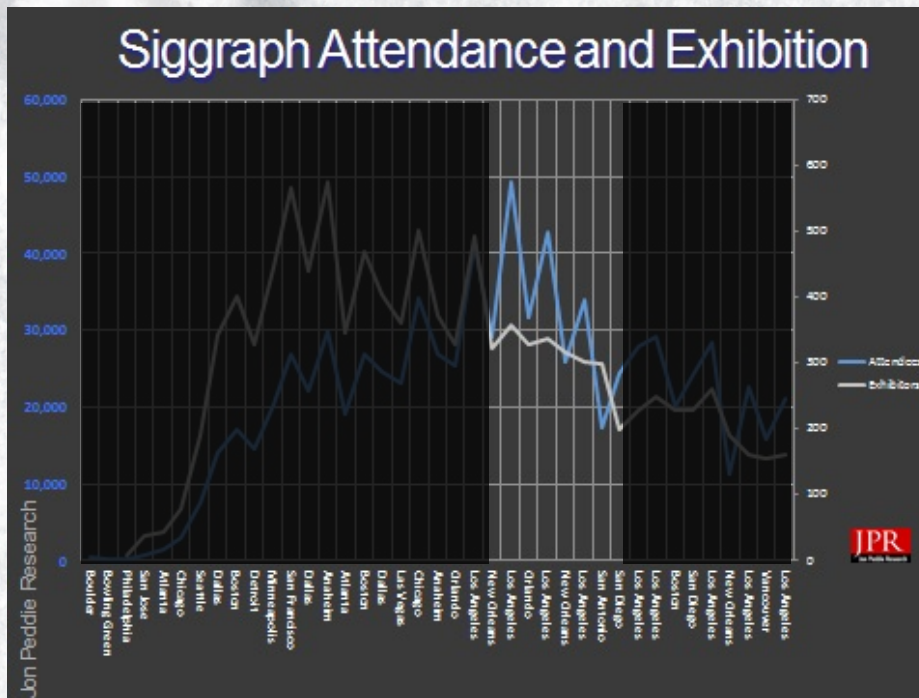


1997-2003: Growth

Rapid increase in competition

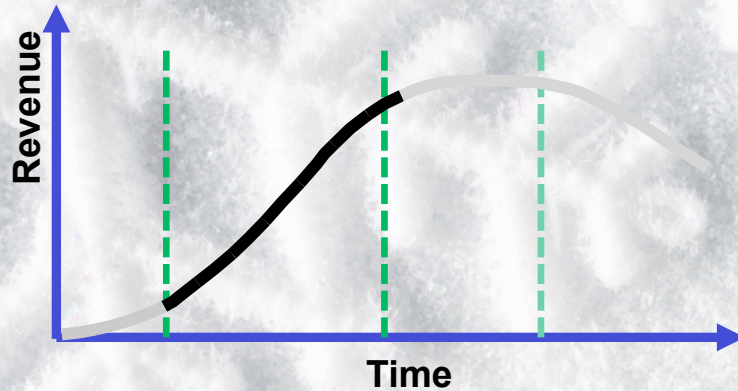
Buyer's power still low as demand exceeds supply

High profitability...



A <ul style="list-style-type: none"> The Aeron Sano Company AccAnimation Animal Logic Atmosphere Visual Effects 	C <ul style="list-style-type: none"> Cafe FX Centro Digital Pictures Limited Cineflex Company 3 CoreFX2 	P cont. <ul style="list-style-type: none"> Panthera NYC Panorama Pacific West Pelago Image Pera Studios
B <ul style="list-style-type: none"> BAKED FX Bendito Bone FX Blue Sky Studios Blur Studio Bone Film Studios Brand New School SLP - Compagnie 	H <ul style="list-style-type: none"> Humble (production studio) Hybris Technologies Hydraux 	Q <ul style="list-style-type: none"> Quadrant
C <ul style="list-style-type: none"> Cafe FX Centro Digital Pictures Limited Cineflex Company 3 CoreFX2 	I <ul style="list-style-type: none"> Identity FX Image Engine Image Metrics Imaginer Systems Industrial Light & Magic Information International, Inc. Intelligent Creatures Intrepid FX 	R <ul style="list-style-type: none"> Reel FX Creative Studios Rhythm and Hues Studios Ring of Fire Studios Ring Sun Pictures Robot (company) Robert Abel and Associates Robot Communications Robot Science VFX Robotics Postproduction
D <ul style="list-style-type: none"> Digital Domain Digital Media Factory Digital Productions Dot & Effects Double Negative (VFX) Dream Quest Images 	J <ul style="list-style-type: none"> Jim Henson's Creature Shop 	S <ul style="list-style-type: none"> Scout24 VFX Scout24 VFX Snow Business (company) Sony Pictures Imageworks Spartan Spartan Studios Storm Studios Summit World
E <ul style="list-style-type: none"> Effects Associates The Embassy Visual Effects Encore Hollywood Escape Studios 	K <ul style="list-style-type: none"> Kerner Optical 	T <ul style="list-style-type: none"> The Foundry Visual Effects Tippett Studio
F <ul style="list-style-type: none"> Flash Film Works Foundation Imaging Framestore Freelance Grand Central Freelance Films Frigate 	L <ul style="list-style-type: none"> Look Effects Luma Pictures 	U <ul style="list-style-type: none"> Uncharted Territory, LLC
G <ul style="list-style-type: none"> GenArt, Inc. Glennscape Gloria X GVP-X 	M <ul style="list-style-type: none"> Mac Guff Macro Visual Effects Mathematical Applications Group, Inc. Matte World Digital MementoFX Metacore Studios Method Studios The Mill (post-production) Modus FX Moving Picture Company 	V <ul style="list-style-type: none"> Vision One Unlimited VisionArt
H <ul style="list-style-type: none"> Humble (production studio) Hybris Technologies Hydraux 	N <ul style="list-style-type: none"> Native Digital Nine Shoes 	W <ul style="list-style-type: none"> Weta Digital Worship Studios
I <ul style="list-style-type: none"> Identity FX Image Engine Image Metrics Imaginer Systems Industrial Light & Magic Information International, Inc. Intelligent Creatures Intrepid FX 	O <ul style="list-style-type: none"> The Ophelia (company) 	X <ul style="list-style-type: none"> Xpansive CGI
J <ul style="list-style-type: none"> Jim Henson's Creature Shop 	P <ul style="list-style-type: none"> Pacific Data Images 	Z <ul style="list-style-type: none"> Zoe Studios

Industry Life Cycle: Growth



1997-2003: Growth

Rapid increase in competition

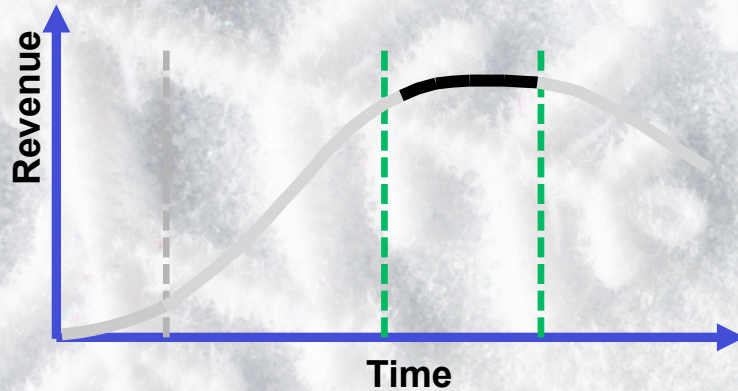
Buyer's power still low as demand exceeds supply

High profitability...

...profit spent to gain market share



Industry Life Cycle: Maturity



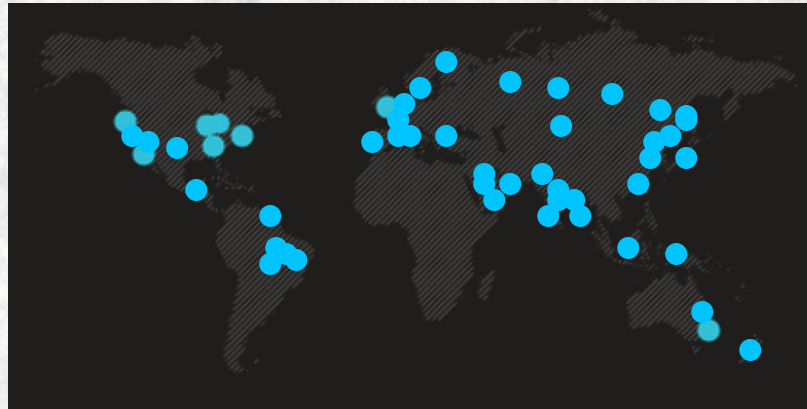
2004-2009: Maturity

Buyer's power grows as capacity exceeds demand

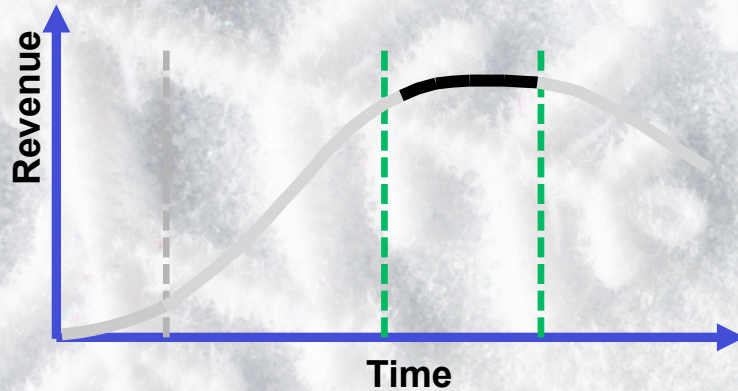
Supplier's power declines as volume increases

Threat of substitutes

M&A industry consolidation`



Industry Life Cycle: Maturity



2004-2009: Maturity

Buyer's power grows as capacity exceeds demand

Supplier's power declines as volume increases

Threat of substitutes

M&A industry consolidation

Maya
(Perpetual license)

Delivery

- ☒ Download
- ☐ Physical Shipment
(See shipping rates)

Add Maintenance Subscription

Save on future upgrades and gain cloud features.

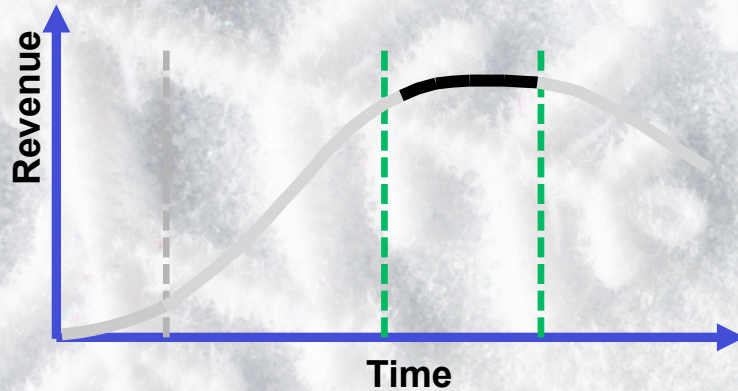
- ☐ Yes
- ☒ No

ADD TO CART

Pricing Information

\$3,675.00

Industry Life Cycle: Maturity



2004-2009: Maturity

Buyer's power grows as capacity exceeds demand

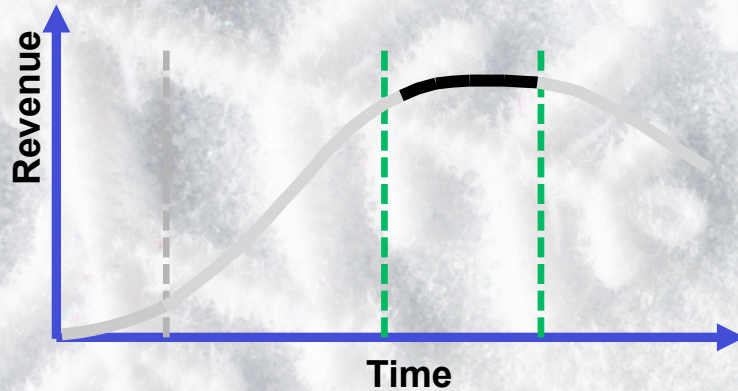
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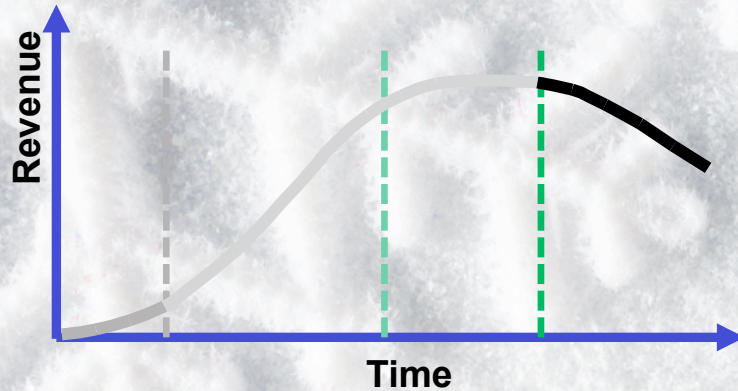
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M&A industry consolidation

FRAMESTORE CFC



Industry Life Cycle: Decline



2010-present: Decline

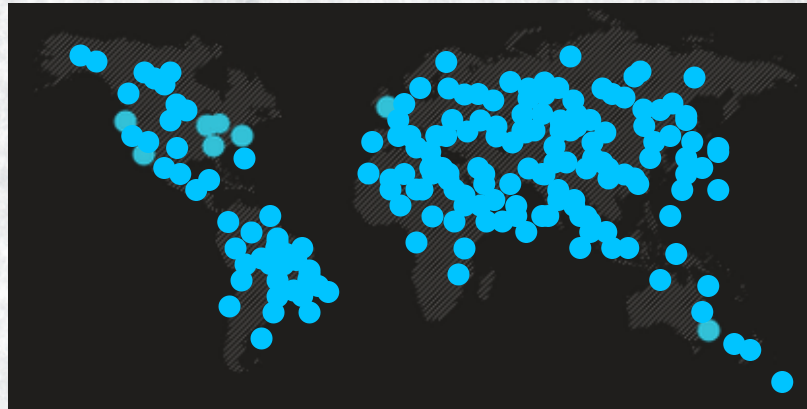
Buyer's market as capacity exceeds demand

Mega-mergers and competition withdrawal

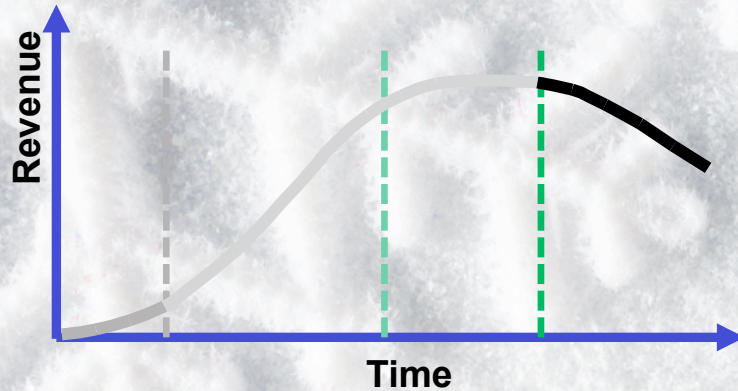
Government subsidies to protect industry

Substitute threat heightened

Product innovation declines



Industry Life Cycle: Decline



2010-present: Decline

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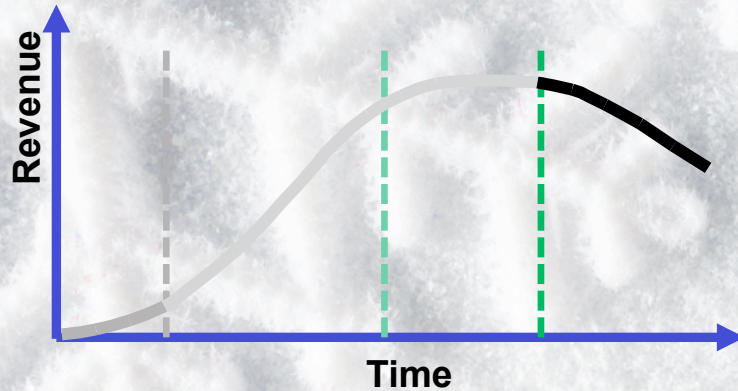
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Industry Life Cycle: Decline



2010-present: Decline

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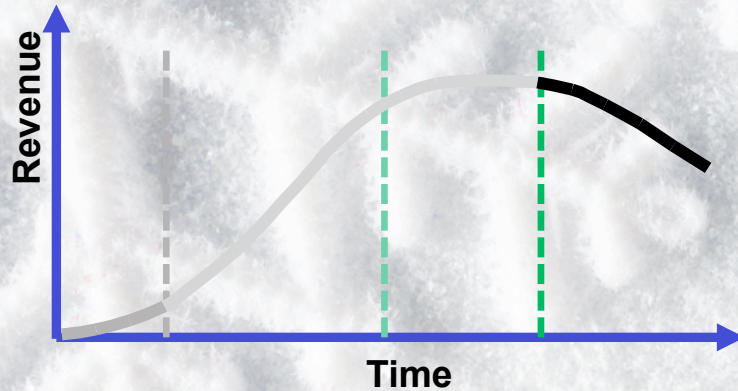
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Industry Life Cycle: Decline



2010-present: Decline

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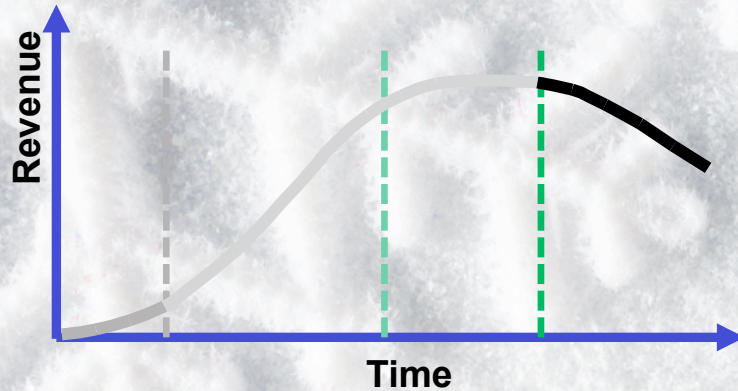
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Industry Life Cycle: Decline



2010-present: Decline

Buyer's market as capacity exceeds demand

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Product innovation declines

CTO





Why are we here?

- **VFX is now a declining commodity service industry**
 - Lack of competitive advantage between competitors
 - Lowered barrier to entry allows new entrants to market
 - Greater capacity allows a buyer's market
- **Fixed cost bids equal Death in a commoditized service market**
 - Completion of work is a qualitative judgment
 - Lack of connection between cost and work accomplished
 - Lacks client incentive to get things done with less time or money.



What is the obvious Answer?

- **Migration to a Time and Materials Business is the key to Survival**
 - Lowered Capital Investment allows reduced cost for flexible capacity
 - Qualitative decisions are more directly driven by financial constraints
 - Most importantly: insures the survival of an industry on which its clients are wholly dependent



What's the non-obvious answer?

- **Establishing client transparency to the work is the key to migration to a time and materials model.** It Allows:
 - A shared responsibility and opportunity for efficiency
 - A sense of trust to be established between client and vendor



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- **Establishing client transparency to the work is the key to migration to a time and materials model.** It Allows:
 - A shared responsibility and opportunity for efficiency
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How do we achieve this?



- Observation: Film Crews
 - Pop up a VFX Studio as one would a Cinematographer
 - Direct payroll employees for the duration of need
 - No overhead between productions (except occasionally key talent)
 - Previously attempted through vendor acquisition:
 - VFX failures: VIFX, Mannex, ESC, etc.
 - Animation successes: Pixar, MacGuff Ligne, Blue Sky
 - Difference: project duration and studio feed.
- What's needed?
 - Studio in a Box
 - VFX used to require large upfront capital investment
 - Infrastructure, R&D, Pipeline, Physical Plant
 - Substitute using the lessons from the internet
 - Flexible Compute, Licensing, I/O models, Security
 - Both financial and social escrow
 - Key Creative Buy-In

Separate Design from Manufacturing



- Observation: Apple
 - Designed in California, Manufactured by Foxconn
 - VFX manufacturing can be achieved digitally
 - VFX currently intermixes design and manufacturing making this efficiency impossible
- Observation: Finishing / DI / Post
 - Today there is no connection between the client and VFX workers
 - Single operator provides more transparency to the task at hand
- What's Needed?
 - Separate Design from Manufacturing through architected workflows
 - Artists are currently Designers and Manufacturer
 - Utilize massive compute to eliminate manufacturing time and change the design experience
 - Cloud solutions – scale up the cheapest labor (compute)
 - UX Design – rethink interface

Data-Driven Production



- Observation: Film Crews (again)
 - Spend and progress captured live with regular re-estimates
 - Elimination of arguments regarding sunk costs
 - Provides warning regarding overages
- What's needed?
 - Instrumentation and standardization of VFX production pipeline
 - General Contractor / Producer Services
 - Business Metrics / Dashboards / Data Science



Conclusion

- VFX Industry follows the standard Industry Lifecycle and is now in its decline.
 - Fixed Bids remove profitability in a commodity market
 - Lack of investment in innovation
- There are several ways to maintain profitability in this phase through key observations.
 - Time and Materials models can be achieved through transparency
 - Innovation in business models (VFX as Film Crew)
 - Innovation in interaction models (Design Driven VFX)
 - Innovation in production models (Data Driven VFX Production)



