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A Strategic Audit of A24

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A Strategic Audit of A24

Undergraduate Honors Thesis
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Abstract

A24 is an independent film production and distribution company founded in 2012. The company performs both duties for independent films as well as television programs, and a small portion of company revenue comes from merchandise it sells in an online kiosk. As of 2021, A24 had around 300 employees while maintaining a large catalog of movies and shows. Using a focus strategy, the company targets a more cultured audience for its unique (and sometimes outright bizarre) subject matter. To achieve this, A24 attempts to cast top B-list personnel both in acting and technical roles in order to corner its market. To understand the company's strategy, PESTE and Porter's Five Forces analyses were completed. While there are many outside factors that influence the independent film industry, A24's consistency of adhering to its core strengths should carry it far and help it continue to grow.

Keywords: A24, film, distribution, production, strategy, strategic audit

A24: MERGING INDEPENDENT AND POPULAR FILM MARKETS

Company Background

A24 is an independent film and television producer and distributor in the United States. The company was formed in 2012 by Daniel Katz, David Fenkel, and John Hodges. A24 has had a hand in the production and/or distribution of over 100 small films and has received 25 Academy Award nominations. The company more recently produced and distributed 30+ television shows as well, including the hit show *Euphoria*. It is one of the leading independent film distributors, with firms like Neon and Focus Features competing in the same niche of the cinema industry.

A24's highest-grossing film to date is the 2021 thriller-comedy hit *Everything Everywhere All at Once*, which grossed over \$100 million (Nash 2022). A24's other indie chart-toppers include *Midsommar*, *The Lighthouse*, *The Witch*, and *The Green Knight*. These films will not be found on the top of the box office rankings, but each takes in a modest return, and, most importantly, A24 has built a cult following and generated brand recognition for each of these pictures. A24 thrives on this model of the small, cult, indie film, and it is one of the best at its craft.

A small, but not insignificant, part of A24's business model is its merchandise store. While merchandise sales may not make up a substantial percentage of revenue, it is an important part of the A24 brand as well as its social media presence. Much of the company's strategy involves catering to a younger audience on social media; not only do A24 movies receive attention on the internet but so do its shirts, hats, cups, and calendars.

Film Production/Distribution Industry

In a movie's opening sequences, there are often numerous logos of companies with which the viewer may not be familiar. These companies more than likely have a hand in the movie's distribution and/or production. In the end credits, one might also see the title of "producer" or "executive producer." However, many patrons of cinema likely do not know what these terms mean. When one thinks of "producing" a film, one might think of the actual shooting of the movie, with the director, actors, and crew on a set. This is only a small part of it, however. Most of what the producers do is the "business" side of the film. It is the producers' task to ensure that all parts of the film come together for shooting. First a script is needed, then actors, crew, location, logistics, and financing. Millions of dollars and numerous people are involved in making a movie, so the producer (or, in the case of A24, production company) needs to keep everything and everyone in line to meet deadlines.

The pressing question is the following: who would want to foot the entire bill for a movie that may or may not flop? Answering this question differentiates mainstream blockbusters from the independent movie industry. Large-production films with nine-figure budgets (*The Avengers*, as an example) have an easier time acquiring funding from industry giants like Warner Brothers, Disney, or Paramount. This is because their movies have tried and true financial track records; they are seen as less risky and consistent assets for investors. On the contrary, a medieval fantasy epic horror movie such as *The Green Knight* may not garner as much ogling from the industry because there are more uncertainties associated with its release. There are few films to compare it to, so it is difficult to predict how the movie will perform. This is where firms like A24 step in; its brand is independent and artistic films, so it deploys capital and use its proven strategy in the industry to ensure the films generate a favorable return.

PESTE Analysis

A PESTE (Political/Legal, Economic, Social, Technological, Environmental) analysis is useful to identify external factors that affect a company. Understanding these factors can help the firm make better and more efficient strategic decisions when entering a new market or simply adapting to changes within the current market.

Political/Legal

The political and legal factors that affect A24 are significant. One example of a political factor concerns working with other countries to gain approval to film within their borders. For example, 2021's *The Green Knight* was filmed in Ireland. Since A24 is an American company, it must work with governments in Ireland to coordinate a production schedule and complete necessary bureaucratic tasks associated with an international project. Reception of subject matter may differ by country as well, so the company would be cognizant of the governments to which it would be requesting access. It may be more easier to make a film in a country like Ireland, since it has favorable relations with the United States. Conversely, filming in China or Saudi Arabia would present more of a hurdle.

A legal factor affecting the company when producing and distributing films is handling source material for each movie. While a key feature of indie films is their originality, some are still based on previous works. An example is the 2019 A24-distributed film *Native Son*. The picture is based on a novel by Richard Wright; this circumstance adds an extra layer of work for the producers and distributors of the movie.

Economic

A24 is easily influenced by economic factors because the financiers that control indie film funding are risk-averse (Segal 2022). While a movie by itself is a large risk for investors,

independent films accumulate further risk because they have a smaller audience, are released in fewer theaters, and typically have subject matters that are less desirable..

To provide another example of an economic factor, COVID-19 was a massive blow to A24 and the industry not only due to the closure of theaters but also because film festivals, which usually provide a material marketing boost, were canceled. In the event of a recession or financial downturn, indie movies are almost always adversely affected.

Social

An important aspect of A24's marketing campaign and brand image targeting. In general, independent movies are seen by more cultured audiences who desire an alternative to mass-produced blockbusters that big studios churn out summer after summer. The company's films have a large following on Letterboxd, an app for logging and reviewing movies. The app has 3 million users, most of which are likely millennials or Gen Z. Much of A24's advertising is done via social media, and the growing population of these two generational groups provide a favorable outlook for the company's future brand building.

Technological

While many technological factors have impacted A24 and the industry, one pertinent item among them is the transition of theatrically released films to direct video-on-demand releases. Although the pandemic reduced opportunities for A24 to produce sleeper hits that excelled in theaters, it was a boon for some of the smaller (even for A24) releases to have access to an audience confined to their homes. One testament to this boon is the drama film *Minari*, which was scheduled for a theatrical release but had to rely on virtual releases due to the pandemic. The film was a hit; it was the fifth-highest rental choice on Apple TV during the week

of March 1, 2021 (Brueggemann 2021). This contributed to the film netting nearly \$16 million on a \$2 million budget (Nash 2022).

Environmental

Environmental factors impact firms like A24 significantly because shooting “on site” is often required to make a good film. This means that a movie is often filmed outside on land that is often protected or used for other purposes. In addition, the crew relies on favorable weather so that the director can obtain the shots he or she desires for the final cut of the film. Given these stipulations, the production company must plan around all roadblocks that may occur (and they do). The set must be accommodated for environmental needs, and the equipment ought to be used in a sustainable way to not destroy the land on which the movie is made. *The Lighthouse*, a 2019 release, shows an example of the environmental factors that the company faced. It was shot in remote Nova Scotia, with the stormy weather not only affecting the set but also being a key part of the movie’s plot.

Porter’s Five Forces Analysis

Porter’s five forces (rivalry, intensity, bargaining power of suppliers and buyers, threat of substitutes, and threat of new entrants) are used to analyze the competitive environment within a particular industry. This analysis involves power dynamics between the companies within the industry as well as the supply chains that influence them. (Porter 2008)

Rivalry

The indie film industry, like the blockbuster film industry, is only saturated with a few major players. According to box office data group the Numbers, A24 has a worldwide gross (as of 2022) of roughly \$1 billion dollars spread over 117 pictures (Nash 2022). Neon, another independent film distributor and film producer with a global presence, has earned \$470 million

on just 67 films. The two companies are remarkably close in ticket sales—Neon has had its own hits such as *I, Tonya* and *Parasite* (which won four Academy Awards). Neon also averages significantly less on production budgets (roughly \$6 million) than A24, which reports a cost of \$6.7 million per picture (Nash 2022). While Neon may not have as significant of a brand presence in the cultural landscape, the company is inching closer to A24’s status.

Supplier Power

As an independent film producer and distributor, A24 is situated in a “complex supplier” environment within its industry. The process of producing a film is arduous, and there are many bureaucratic elements to consider. As previously noted, a production company handles much of the “business” elements of kickstarting the making of a movie. Obtaining a script, signing actors, and hiring crew all involve forging relationships with many different parties, most of which are unionized. An example of this is the Screen Actors Guild (SAG 2022). One of the rewards of membership is that the organization “negotiates wages and working conditions to maintain minimum standards for its members” (SAG). While this is just one example of an extra step in the process, it is easy to see how suppliers impact the independent film industry and A24. Due to the strength of the unions, suppliers have significant leverage in the indie industry; actors (or the labor supply) can command fair and just rates for their work.

Buyer Power

Within the indie movie industry, the buyers are the theaters and ticket purchasers. Theaters and movie goers have more power with indies than with blockbusters. This is because the market for independent films is much smaller, so they can more easily walk away if the films produced and shown in theaters do not interest them. Theaters also have significant power because they are aware of consumer preferences. So, they are less likely to show an independent

movie in their building if they do not believe it will attract viewers. Theaters contract with distribution companies (like A24) to acquire a copy of the movie and show it for a certain number of weeks. This window of time is the linchpin on which negotiations can be based; in this industry the theater has more leverage because blockbusters are more likely to turn a profit. Thus, independent films will have to fight for a spot at a theater.

Threats of Substitution

Independent films face a high threat of substitutes. At the same theaters where indies are shown, mainstream hits from major studios and franchises are also showing. These circumstances are the main reason that independent films turn less of a profit at the box office; it is simply that more popular and appealing movies are showing at the same theaters. It is possible for movies to be distributed to indie theaters, but to generate a modest return, distributors must also take a chance on major theater chains. A24's 2019 production *Uncut Gems* represents a successful example of overcoming the threat of substitutes. The film, while on a higher budget with \$19 million, grossed \$50 million with a wide release in December 2019; it became A24's highest-grossing film of the year (Nash 2022).

Threat of New Entrants

The threat of new entrants within the independent movie industry is low. To succeed, it takes passion for art and cinema to help projects pay off. If the objective of firms is to maximize profit for shareholders, investing in indie entertainment companies will not typically be highly profitable. Because of the low probability of profitability, new entrants are not clamoring to break into the industry.

A24 Strategic Objectives

A24 uses a focus strategy. Independent films are marketed towards a select group of people in the United States, and the company has been successful in implementing this strategy. Some of the ways it embodies this strategy is choosing unique subject matter for its film/television selections and choosing B-list actors to fill roles, hitting a happy medium of name recognition and modest budget.

The company's focus strategy (choosing unique subject matter) requires it to distinguish itself from the larger film producers, and its eccentric, and sometimes outright wacky films help this separation. One example of this is 2021's *Everything Everywhere All at Once*. Given the title, one would expect this movie to be unique, an intentional decision on part of A24. The film follows an Asian family through a multiverse with comedy, action, drama, and science-fiction seemingly mashed into a single mega-genre. Clearly the company's angle of strange and unique film choices paid off, as the movie was A24's highest grossing project globally, raking in over nine figures over multiple theatrical releases (Nash 2022).

A24 has also demonstrated it is willing to take a risk on B-list or rising actors to breed the success of its films: 2020's *Minari* for instance. Starring Steven Yeun, who had a few roles in other Asian-produced films like Bong Joon-ho's *Okja*, emerged after the film's release as a coveted Hollywood star. An Oscar campaign for Yeun, which did not succeed, nevertheless cemented him as a familiar face in Hollywood. 2019's *The Lighthouse* also followed a similar track to *Minari*. A24 selected previously scorned Robert Pattinson to star alongside powerhouse Willem Dafoe. With a combined budget of \$4 million, the two delivered *tours de force* and shook-up critics' views of Pattinson. Since the film's release, Pattinson has appeared in multiple big-budget pictures and restored his reputation as a dedicated actor.

Even if all A24's films are not box-office hits, it makes a material cultural impact as well as build up a powerful brand image.

Competitive Advantages

A24's primary competitive advantage is its brand recognition. While its primary objectives are unique subject matter and a diamond-in-the-rough actor selection approach, the company is not alone in holding these objectives. With this in mind, it is clear the brand power is what separates A24 from its competitors. But how is brand recognition be measured? Consider Twitter and Reddit as indicators that A24 eclipses Neon and other independent producers based on recognition.

Reddit is a platform where fans of any hobby, subject, person, or group can discuss all related items. There are two Reddit communities dedicated to discussion of all things A24, r/A24 and r/A24 films with a combined 84,000 subscribers. No other independent film company has such a presence on the site, which hosts over 400 million monthly users. A24 effectively owns indie film discussion on Reddit, which is a significant victory.

Twitter is another social media site full of discussion about movies. A24 has 1.7 million followers, Annapurna has 195,000, and Neon has 105,000. Something that can be inferred by these numbers is that A24 does a better job of engaging with their consumers outside of the movie theater. It releases trailers, drops merchandise, and engages with actors in its films as well as film fans on the actors' official pages.

A24's podcast also supports the claim of engaging with consumers outside of the movie theater. The company produces a high-quality episode each month featuring big names such as Willem Dafoe, Robert Eggers, and Nathan Fielder who are typically a part of one of the company's projects (on screen or behind the camera). With the accelerating trend of podcast

creation, A24 has placed itself in a unique position as a film production company, as few companies are producing such content that holds itself to a high standard of quality.

Resources

The primary resource that will help A24 maintain its competitive advantage is the legion of directors and actors who return to partner with the company. It is a common phenomenon to witness names that draw theatergoers. Such names could be cast members, directors, producers, or studio names. A24's brand image is its primary competitive advantage, and its cast partners are those who prop up the brand. Directors that have consistently worked with the company include Robert Eggers, Ari Aster, Alex Garland, Josh and Benny Safdie. The same group which the company targets for its audience is one which is allured by a favorite director. For example, Warner Brothers no doubt sells movies simply if Christopher Nolan has elected to direct the project. According to movie data site, *The Numbers*, movies directed by Nolan have averaged over \$400 million worldwide gross. Investors would no doubt be attracted to a new project with Nolan at the helm.

This same effect, albeit on a smaller scale, is witnessed in A24 productions. When directors work with the company again to make a film, the marketing will play up their individual impact on the film. Because art films pride themselves on giving more creative control to the director, it follows that production companies would emphasize this. There is empirical evidence for this as well; in trailers for *Midsommar*, *The Lighthouse*, and 2022's *Men*, a title card reads "From" the director (Aster, Eggers, and Garland, respectively). This is a clear address to audiences drawn in by name recognition, specifically a director. A24 knows that a director's name alone can attract the company's target audience.

Major Issues Facing the Company

One primary issue that the company will encounter in the near future is the acceleration of streaming as a legitimate alternative to in-theater film releases. During 2020 and 2021, A24 was ahead of its competitors in this sphere, premiering films such as *Saint Maud* and *First Cow* on streaming platforms to great success. Disney, conversely, was criticized for its releases of *Artemis Fowl* and *Mulan* on its streaming platform. The key issue seems to be how each company handled marketing, with Disney teasing in-theater premieres of its pictures, while A24 shaped its messaging toward at-home viewers.

A second threat that could face A24 within a few years is vertical integration. Recent years have been loaded with mergers and acquisitions in the film industry. In 2021, Amazon purchased MGM, and Warner Bros purchased the Discovery Channel. It was reported during 2021 that A24 was actually for sale, but no buyers offered a sweet-enough deal for the company. A24 and Amazon have an exclusive deal, where the logistics (and now streaming) powerhouse can host the company's catalog on its Prime platform. This existing relationship opens up the possibility for Amazon to purchase A24 in the future. However, a purchase by a larger conglomerate could hurt the company, as it thrives on an image of separation from and resistance against the large Hollywood studio. Selling itself to a company like Amazon could stain the pristine reputation A24 has thrived on since its inception in 2012.

Strategic Recommendation

One recommendation is for A24 to maintain its market share going forward is to institute another medium through which it can reach consumers outside of the theater. Currently the company has a podcast and a merchandise store. One option would be creating an app. The app would be a consolidated platform to purchase merchandise from the company, listen to the

podcast episodes, view trailers from upcoming films, purchase tickets, and even view exclusive behind-the-scenes content. For the app to succeed, it would need a unique user interface and design that would fit with the company's sleek brand image. It would also need to be well-functioning with very few bugs. While this may seem like a common-sense characteristic, a pitfall that companies in every industry face is not dedicating enough time and effort to their app creation and maintenance. If this app is to accomplish its goal, it must be up and always running and have a minimalist design.

In addition to the app, the company could benefit by posting more content on its YouTube channel. The podcast has no issues reaching a high standard of quality, so it would likely not be difficult to upgrade its YouTube channel. Currently trailers of upcoming pictures and short clips populate the page, so the recommendation follows to add podcast episodes, episode clips, and other content to the page. An example of this additional content could be behind-the-scenes footage from filming. 2019's *The Lighthouse*, for instance, had a very intense shoot in Nova Scotia during the fall and winter. Seeing the process of making the film would be engaging, and it could appeal to its current audience and attract new consumers.

Conclusion

A24 has built up a powerful brand through its low-budget, strange, and macabre filmography. Not only have the movies themselves contributed to this, but the way the company has interacted with consumers online with its merchandise store and podcast has cemented A24 as a powerhouse in the production and distribution sphere of the movie industry. As an independent company, A24 has had more hurdles to overcome than other big-budget studios, but the company's adherence to its goals and objectives has carried it to the top of the market.

Provided it continues to maintain its brand and rely on its core competencies, the company is sure to trailblaze in the industry and continue a growth trajectory.

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