Movie exhibition industry

To provide an analysis and make recommendations to increase revenue in the movie exhibition industry. Overview: Ticket sales for movie theaters are at their lowest point since 1996. With the core demographic group expected to grow slower than the US population and with technological advances growing at speeds faster than the industry can keep up, ticket sales will continue to decline if the current business strategy continues to be followed.

Concession sales and ticket sales are the two biggest sources of revenue for a movie theater. Both continue to increase in cost to the consumers and may have reached a price point that is starting to drive consumers away from going to see a movie. With the advancements in home entertainment systems consumers are investing thousands of dollars into their own home viewing systems. They have several options to stream video content into the comfort of their own homes. Theaters have implemented digital content and 3D but it’s not enough to keep up with the competition of technology.

My analysis will give you information on the threat of competition from substitutes and the change in buyer behavior and demographics. I will use the five-forces model of competition and a SWOT analysis along with other sources of analysis. The information and recommendations that follow will provide you with the insight and building blocks to compete in the movie exhibition industry. Analysis: ? SWOT 1. Internal strengths: digital technology, 3D capability, the current real estate/locations of theaters, the venues lend themselves usable for many alternatives, economies of scale gives them buying power in the concession industry 2.

Internal weaknesses: marketing of their product (movies), innovation, no competitive advantages, and the split of box office sales with distributers, reliance of concession sales and advertisements for revenue, costly to test products in advance, no focus on social experience of moviegoers, concession prices, rely on production companies for content, ticket price, disposable income drives sales, product differentiation 3. External opportunities: broader target audience, the growth of middle class globally, enhancing the consumer experience, healthier concession options 4.

External threats: 3D televisions, home theater systems, shorter release windows to DVD, illegal downloads, streaming video, production studios innovating before theaters and going direct to consumers, new entrants with digital media skills, cloud computing, mobile apps ? Five-forces of competition 1. Rivalry among the sellers: Among the top 4 movie exhibition companies the rivalry is a weak force. There is no product differentiation and costs to consumers are relatively comparable. The consumers are attracted to a theater by location (close proximity to home), what the dining options are nearby, and the sound/seating quality. 2.

The threat of new entrants: Entry barriers to the movie exhibition industry are high. Start up costs is high, the market is on the decline, and there has been a lot of vertical and horizontal integration in the business. Major companies have formed investment ventures with each other and the movie production and distribution industries in order to reduce digital conversion cost. Regal, AMC and Cinemark formed a joint venture in 2007 called Digital Cinema Implementation Partners (DCIP). DCIP has established a financing model between these theaters and several major movie studios to install digital projection and sound equipment in theaters.

These theater companies also co-own National CineMedia, which organizes in-theater advertising, business meetings and non-feature content distribution. (1) Currently the threat of new entrants is low. 3. The bargaining power of suppliers: The movie theaters are very dependent on suppliers. Production studios control the movies being made. Distribution companies control marketing the film and when it will be released. They also initiate the contracts with the theaters and negotiate the percentage of box office sales they will receive.

Many of the distribution companies are integrating with the production studios because the need for distribution is diminishing with the conversion to digital. This makes these suppliers a strong force. On the concession side the bargaining power is weak due to economies of scale. Theaters earn most of their profits on concessions so they use their power to reduce their costs from their suppliers. 4. The bargaining power of buyers: The outlook for the target market isn't favorable for the movie industry because it will not be growing as fast as the overall population.

Buyer power is a strong force because of the target market and several other factors including: the undifferentiated product offered, switching to an alternative is simple and low cost, and customers can stay home and watch movies. The consumers are also complaining about concession and ticket costs, along with the advertisements before the film is shown. 5. The threat of substitutes: This is the strongest force of competitive pressure that the movie exhibition industry faces. Not only are they competing among each other but they have to compete with every leisure activity a consumer has to choose from.

Consumers are also investing in home theaters. TV’s are bigger than ever and have digital and 3D capability. As the costs of all the components go down consumers are finding it an attractive alternative to theaters. Buyers also have many options as to how the content is delivered to their home. Conclusion of analysis: Given the facts of my analysis there aren’t many reasons why a consumer will want to go to a movie theater in the near future. According to moviegoers many of the reasons they go are easily substituted. As technology advances consumer options for receiving content is also going to increase.

Why wouldn’t the studios capitalize on a direct approach of business to consumer? Cloud computing is being implemented for data storage among many businesses which will make it even easier for businesses to go directly to the consumers through their various devices. The movie theaters are also relying heavily on studios for a good product. The suppliers (concessions and movie rentals) are reaping the benefits by taking up to 38% of the profits as shown in Figure 1. Figure 1 *source: February 2012 report from IBISWorld Movie theaters have prime real estate to capitalize on and most have xcellent sound and viewing capabilities. The floor plans of theaters also make them attractive options for other uses. Recommendations: There are alternatives for the use of a movie theater as we know it today. Since most theaters fall in between a miniplex and a megaplex with multiple screens and individual viewing areas, various test alternatives can be conducted without disrupting the current business. My recommendations of some alternatives are: 1. Try going local. Conduct some surveys; see what interests the community in the form of local entertainment (music, comedians, plays, sporting events).

Any of these options would make an excellent choice for theater viewing and the theaters would benefit by keeping all the profits from tickets sold. 2. Have some areas available in morning and afternoon hours for business rental. Many businesses cannot accommodate large groups of people for training and other functions and often are forced to rent spaces from hotels or other facilities. There is usually no parking or services for providing food and drinks. 3. Construct some box seating for moviegoers. Going to the movies is looked at as a social engagement and often movies are attended in groups.

Box seating with sound barriers would enhance the experience for these groups. They would be able to talk and not disrupt others. 4. Add a restaurant. A large percentage of moviegoers dine out before a movie. With the buying power the theaters have on the concession industry they could do the same with the food industry. Dinner and ticket deals can also be sold as an attractive package. Healthy options can be made available rather than the current options. 5. Remove seating and add a fitness area. Exercise programs could be shown on the screen. zumba or yoga would be low budget options to try.

These recommendations can all be tested in the current screening rooms with minimal investment. Theater owners would have the benefit of receiving all of the profits earned in these scenarios. Technology isn’t going away and the demand for movie theaters will continue to decline. We are becoming accustomed to having everything instantly and conveniently. If theater owners test some of these options they will find one that works for them and begin to earn a profit that is rightfully theirs.