

The motion picture industry value chain

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Falling ticket sales and the amplified costs connected with developing megaplexes promoted the consolidation among exhibitors. Four companies control the exhibition market: Regal, AMC, Cinemark, and Carmike. Regal focuses on mid-size markets using multiplexes and megaplexes. In 2009, Regal's average ticket price of \$8.15 is the uppermost among the leaders. AMC operates more in urban areas with megaplexes and focuses on the large population centers, such as California, Florida, and Texas. Cinemark operates in smaller markets and is often the sole theater chain in over 80 percent of its markets. Cinemark's average ticket price of \$5.46 was the lowest of the major competitors. Carmike focuses on small to midsized markets. Carmike's standard ticket price in 2009 was \$6.56, but at \$3.21, their average concession revenue per patron is the uppermost among the majors.

There are three main sources of revenue for exhibitors: concessions, advertising, and box office receipts. Moviegoers regularly complain about the high prices for concessions. In 2009, concessions reached an average of 30 percent of exhibitor revenues. Direct costs are a smaller amount than 15 percent of the selling price, which makes concessions the principal source of exhibitor profit. These are affected by three factors: attendance, pricing, and material costs. The most central is attendance: more attendees mean more concession sales. Exhibitors also produce revenue through pre-show advertising. Even when it makes 5 percent of revenues, it is highly lucrative. Ticket sales constitute two-thirds of exhibition business revenues but yield little or no profit. From 2005 to 2009 ticket price increase rates attained an average of 3.8% per year. 3D premiums had been premium opportunities,

but experience showed that there is a cap to high prices.

The late 1990s witnessed the move toward digital distribution. Digital cinema is becoming economically practicable. It uses a high resolution (4096×2160) digitized image projected onto the screen. The cost of a digital projection system is substantial, averaging \$75, 000 per screen. 3D capability can add costs of \$25, 000. The costs for digital “ release prints” are far lesser than traditional film, but these costs savings mostly benefit the studio whereas costs to change theaters are the exhibitors’. Financing these investments was an important issue for exhibitors due to the total costs and their fragile balance sheets. Two financing avenues were performed.

Carmike went solo after entering an agreement with Christie Digital Systems with a lease-service approach. Under the ten-year agreement, digital and digital 3-D systems are set up with an upfront cost of \$800 per screen.

Christie gives equipment service and maintenance totaling to \$2, 340 per screen yearly. AMC, Cinemark, and Regal financed the conversion through the DCIP partnership, which collected \$660 million in financing to renovate nearly 14, 000 screens or more than 90 percent of their screens.

While the industry hypes the continuing transition to digital projection and the newest 3D as the lure for the box office, the magnetism may be more elementary. Moviegoers explain the appeal of going to the theater as an “ experience” based on 1) the giant theater screen, 2) the chance to be out of the house, 3) not experiencing the delays of watching a certain movie on home video, 4) the incident of watching movies with a theatrical sound system, and 5) as a location choice for dating. The ability of theaters to supply these benefits is decreasing lately, however. The theater as a place is

the only essence immune from substitution. Few teenagers date at the movies too. Other factors that impact the lower viewership of films are better home viewing technology, content expansion, and the recession.

Through a studio-based film exhibition model, exhibitors have just two options for revenue streams: advertising and concessions. They are limited, however, in raising revenues, especially when many moviegoers detest numerous commercials before actual viewing. Despite the prospective for alternative content, practically all admissions continue to be for studio movies. The evidence indicates continued problems with profitability with the studio-dominated model. The increase in revenues from 3D does not greatly impact profitability.

The recommendations for exhibitors are 1) to change the business model to a cost and differentiation model and 2) to develop complementary services and products. In reality, the high ticket prices are one of the greatest sources of low theater viewing, based on the case study and actual experiences. I used to watch movies and see them packed, but nowadays, I sometimes feel like watching in a ghost town, because of low attendance. It is important for exhibitors to change the business model to a cost and differentiation model, by lower ticketing prices and finding other means of revenues. This is based on Porter's mixed cost and differentiation business strategies that can be highly advantageous for a fragmented and highly competitive market with numerous substitutes. Ticket prices can be decreased by reducing exhibition and distribution costs. This can be done through having longer contracts for paying concessions and other movie costs. The theaters should also be differentiated in terms of benefits, such as adding places for family and

dating entertainment purposes. Theaters should be near or integrated into malls that are helpful one-stop shops for all needs and want. The demographics of the market are changing, according to the case study and government reports, with the increasing middle class, heightening diversity, and the higher population of the elderly. Theaters should work to serve and please different markets. Companies should also find other main means of revenue and should not focus on ticket revenues only. They should develop complementary services and products, such as aggressively marketing the cinemas as a location for different social gatherings, such as conferences, anniversaries, birthdays, and reunions. These theaters should diversify in its approach, so it can serve differentiated market segments more successfully.