

Internal and external environment analysis for imax



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*Strategic Management: An Integrated Approach (8th edition) by Charles Hill and Gareth Jones. *Strategic Management : Creating Competitive Advantage (5th edition) by Gregory Dess, G. T Lumpkin and Alan Eisner

*Strategic Management (6th edition) by John Pearce and Richard Robinsons

Environmental Analysis

IMAX as a global firm interacts with multiple environments. Company takes inputs and distributes its output. Like every organization, IMAX has its internal and external environment which affects its outputs.

Internal Environment

IMAX's internal environment includes procedures and inputs which are used to achieve its strategic goal. Company had successfully developed 3D cameras and other equipment to produce nearly realistic 3D images. Images screened by IMAX are brighter and sharper than those found in conventional movie theater. The company had also invented new techniques of 3D directional sound, offering its customers audio clarity and depth.

One of the main focuses of IMAX Corp. is Research and Development, as it wants to present movies using newest technological methods and systems available on the market. Quite big chunk of its revenue is redistributed towards R & D part of its business.

Worth mentioning is the fact that as a part of lease, IMAX is advising its customers on theater design, supervising the installation of their systems, training entire theater staff and is maintaining the installed system.

External Environment

Opportunities:

Increase in the demand of Hollywood productions,

High popularity of watching IMAX format movies,

Joint ventures with other studios,

Opening more IMAX theatres within existing Multiplexes or converting existing multiplex screens into IMAX format,

Opening up IMAX theatres in emerging developing countries (e. g. BRIC),

Lack of competitors converting movies into large format,

Special significance given by Motion Picture Association of America to documentary movies segment.

Threats:

Piracy of movies ,

High quality DVD's and BluRay Disks,

Home theatre entertainment systems,

Joint partnerships (AMC with its own big screen theatres),

Political Intervention,

Change of Taste of consumers.

There are multiple external factors and forces that affect IMAX's performance.

For example customers represent potential uncertainty to the IMAX. It is due to their taste changes. Knowing that fact, IMAX should create more educational and entertainment movies and show them in full screen format. Demand for animated and technological base movies is growing and IMAX should consider merging with some larger players in the industry (e. g. Pixar) to be able to fulfill the needs of consumers.

Despite the fact that IMAX had developed the knowledge, skills and capabilities to design and assemble the complicated 3D movie systems, most of the components included in the equipment were purchased from the contracted suppliers with whom IMAX had maintained long term relationships.

Presently IMAX faces tough competition from digital cable, satellite, DVDs and the internet. All these media offer customers a much broader choice than only few years ago.

One should also remember about socio-cultural, political/legal, demographic and technological environments that indirectly affect the IMAX's overall performance. Movies presented in IMAX theatres should represent the high socio-cultural content, due to the fact it is mostly viewed by university educated or college audience. Most of the IMAX customers falls in the age range between 19 and 65, and IMAX's current and future projects should fulfill desires of that group.

IMAX Current strategy

Vertical Integration

IMAX is into vertical integration as it is into processing, distribution and exhibition of its own films.

IMAX initially was focused on large format films that were educational yet entertaining and the theatres were located in institutions, museums, aquariums and national parks. IMAX forward integration took place when it became the distributor of its own produced films. IMAX is relatively small when it comes to rival studios and theatres but in itself IMAX is the leader in the industry when it comes to producing image in large format. IMAX not only played its films in its own theatres but gives its films to other theatres so that they would further promote them.

As it was earlier discussed, IMAX was mainly focused on producing films that were of large format. To do so obviously they would require special cameras, projectors, screens etc. From past 15 years IMAX has acquired few companies listed below:

Imagery Rentals (1995) - whole ownership

Mainframe Entertainment Inc. (1999) - minority shares

Sonics Associates Inc. (2009) - whole ownership

David Keighley Production (2009)

Digital Projection International Ltd. (2000)

Cinema Plus Ltd. (2006).

IMAX has a subsidiary company (51% ownership in that company) – Sonics Associates Inc., which is an audio development company. It manufactures the sound systems for IMAX. David Keighley Production, which is wholly owned by IMAX, works on the post production.

Most of the firms mentioned above were the suppliers to IMAX. Through integration IMAX has reduced the chances of suppliers effecting the prices. When IMAX has made itself independent in manufacturing all the aspects required to deliver high quality large format film, it gained access to all the new technology which is an essential element in IMAX survival.

Through backward integration IMAX has made itself stronger by being its own supplier. It has gained control over the technology and cost of manufacturing the systems that produce 2D or 3D images as well as audio systems.

Horizontal Integration

Direct competition

IMAX had only two competitors that produced images in large format. One was Iwerks, another one was Megasonics. IMAX has expanded its operations to the commercial business (e. g. converting 35mm Hollywood films into large format), Iwerks did not do that. It limited itself to ride simulation packages that are located in theme parks or museums and similar locations. Megasonics, formerly producing projection systems, recently stopped doing that, renamed itself to Polaris, and now is only involved in

consultancy services of the large format film theaters. IMAX, Iwerks and Polvision all were the manufactures of high definition image projection systems, and presently the only organization left in the market, that converts commercial movies into large format is IMAX.

Indirect competition

In the category of studios and theaters, IMAX is relatively very small. In my opinion it would not affect IMAX, if it did not merge with other studios. It is due to the fact that consumers have become fully aware of IMAX format movies, and there is an increasing demand for watching movies in large format. If it merges with one major movie studio (e. g. Disney), it will not be easy to cooperate with other studios.

The good option for IMAX would be launching more commercial theatres, where it can run converted to large format Hollywood movies, so that it can compete against large theatres like Regal Entertainment Group.

Porter's Five Forces Model

Threat of Substitute Products

Threat of substitute products means how easily IMAX customers can switch to IMAX competitors product. IMAX is the largest and most exciting film format in the world, with crystal clear images, ten times larger than traditional cinema format. There would be a high threat of substitute if there would be many substitute products available against the ones offered by IMAX, customer could easily find the product or service that Imax's offering at the same or less price, quality of the Imax competitors product would be better.

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IMAX customer can easily switch to substitute products (e. g. film cinema), but the screens in IMAX theatres are the biggest in the world offering different experience than regular screens. Sound is also critical to the IMAX experience. The film soundtracks are delivered through a top class digital surround sound system manufactured by Sonics Associates Inc. – one of the world leaders in sound system design.

Presently it is easy to find DVD's and VCD's with great resolution. Even in regular cinemas the quality of the projected films is really good. That might be the reason for customers not to go to IMAX theatre and pay an extra \$4-\$5 to watch a movie in 3D.

Threat of New Entrants

A new entry of a film theatre into the market would also weaken IMAX market power. Particular segment is more attractive if there are high entry barriers and low exit barriers. According to market research carried out by World's Biggest Screens Pty Ltd., IMAX can sustain a positioning as a premium cinema destination not simply because it offers a better experience than other cinema destinations, but because it offers a very different cinema experience. IMAX is perceived as being at the cutting edge of new cinema, potentially offering new experiences in film. It is also about the strong sense of realism of the film style which allows visitors the feeling of destination exploration, the feeling of “ being there”.

Industry Rivalry

Industry rivalry means the intensity of competition among the existing film theatres in the market. Intensity of rivalry depends on the number of film

theatre and their capabilities. Poor film line up, combined with the aftershocks of company restructuring in year 2000, resulted in low attendance figures. Presently IMAX's marketing key objectives are to release a minimum of 6-8 new films in each market it operates in, introduce a group sales program with a key focus on niche visitor groups (e. g. schools, organized groups) and develop value-based promotions to drive business in traditionally softer trading periods. This marketing objectives are going to be executed using the full range of the marketing mix including.

Bargaining Power Of Suppliers

Bargaining Power of suppliers means how strong is the position of a film theatre. How much film theatre's suppliers have control over increasing the price of supplied products. It's quite obvious that film marketing takes the form of a combination of elements (i. e. advertising, publicity & promotions, word of mouth, website and e-communications). Films are released usually every 6-8 weeks in a staggered program timed to coincide, where possible, with key school holiday periods. The release of a new film is the prime driver to attendance.

Recently 3D movies have surpassed 2D films as the most popular. However, there is a limited supply of 3D films to choose from (they are much more expensive to make). Movie makers often examine the success of previous titles and the potential audience reaction to new titles. If particular film has performed well overseas, it may do well in some other foreign markets as well. Research is conducted on regular basis to find titles that present an opportunity to draw a new market into the theatres and encourage trial.

When suppliers have more control over supplies and its prices, as it is in movie industry, segment appears to be less attractive. The best option is to make a win-win relation with suppliers and have multi-sources of supply.

Bargaining Power Of Buyers

According to market research carried out by World's Biggest Screens Pty Ltd., 78% of people who have seen an IMAX film express the intent to return. There are some specific activities, which encourage people to do so. Most often the interior of the theatre is utilized to highlight new releases. There are usually light boxes featuring coming soon movies and stands with “coming soon” brochures. Also presenting trailers at least 3 months prior to the feature release is an appropriate strategy.

Bargaining power of buyers can be decreased by offering differentiated types of movie theatres. If IMAX is providing service to few huge quantity tickets ordering buyers, then they would have the power to dictate IMAX the price.

Competitive advantage

According to Michael Porter, there are three different base strategies which allow company to gain competitive advantage. These are:

Differentiation strategy,

Cost leadership strategy and

Focus strategy.

In the case of IMAX, a main reason for pursuing forward, backward and horizontal strategies is to gain cost leadership benefits. IMAX as quite diversified firm might be considered a part of three different industries:

Photographic equipment and supplies,

Motion pictures and video tape production and

motion picture and video distribution,

that are integrated horizontally. The purpose of such an integration is to keep overhead at minimum level, and cut firm's costs as much as possible. It would be reasonable for IMAX to produce and distribute its movies in digital format, what would allow company to lower its operational cost significantly.

As it is going about differentiation strategy, IMAX has a unique feature of its large format films. That differentiated company with others production houses and filmmakers.

IMAX's library of films and fact of locating itself in prestigious venues had created a unique brand image. The goal of IMAX is to provide his customers with high quality entertainment and documentary movies with 3D images and top quality sounds.

If only IMAX would be able to continue improvements of the quality and reliability of its products, it may gain even larger competitive advantage that won't be easy to be taken away. To create such a strong competitive advantage a firm must be able to sustain that its core competencies. IMAX must be developed the skills, knowledge and capabilities to design and

assemble the critical elements in its equipment and follow fast pace of technological changes.

When it comes to growth opportunity for IMAX, firm should focus on retention of the current customers and attracting new audience. According to IMAX website, more than 20 percent of its audience were school group, about 70 per cent of its viewers were between 19 and 65 years of age, and the majority were college or university educated. IMAX needed to find a way to attract this demographic group. Company should stay focused on entertainment movies and documentaries.

Conclusion

The BCG matrix is a strategic tool used to identify that which business of the organization offers high potential and which were draining organizations resources.

In year 2007 over 50% of the total revenue was generated by IMAX system sales like cameras, screens, projection systems. As IMAX has an advantage over the technology of larger-than-life image production, it should invest more in R&D of the systems used to produce 2D and 3D films.

Presently many studios convert their movies into IMAX format, but IMAX gains not that much from it. As IMAX is not part of any studio, it does not get big share in the profit. It seems like the growth in converting movies is high but the IMAX's market share is low.

In the motion picture industry, documentary segment is considered more significant than the others. The Motion Picture Association of America gives

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out separate awards for documentary movies in the grand Oscar Award.

IMAX is originally known for producing documentary movies. Since year 2008 IMAX itself produced only one documentary - Space Station, and it looks like it's not growing on the pace it should.

Corporate Strategy

A corporate strategy is one that specifies what business a company is in or wants to be in and what it wants to do with those business. It's based on the mission and goals of the organization. Mission on IMAX as stated by co-CEO Gelfond is :

“ It's[IMAX] is designed to deliever the worlds most immersive movie experience”

IMAX designs and manufactures large image producing format cameras and projection system as well as film development, production, post production and distribution to IMAX affiliated theatres worldwide. IMAX has about 400+ theatres in 47 countries.

IMAX's strategy is to entice consumers happiest in front of 60-inch plasma screen TV. In order to get a consumers out of their homes and make them go and watch an IMAX format movie, the company needs to give them something amazing and something special. And IMAX does it.