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Are movie theaters doomed? Do exhibitors see the big picture as theaters lose their competitive advantage?

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Abstract

After three straight years of decline, movie theaters in the US may have recently ended a period of crisis with an increase in annual admissions (+ 3%) in 2006. This article argues, however, that major problems are not over for the industry. Most movie theaters in the multiplex era have adopted a remarkably similar strategy, one which is also very vulnerable to recent trends such as the explosion of home cinema, pay TV, video-on-demand (VOD), discounting by mass merchandisers of DVDs, computer games, and the collapse of video windows. Just as technological convergence has created a challenge for movie theaters, as it has in the past, so too can new technologies and creative use of assets (combined with multiple target marketing) offer a counter measure for at least some movie theaters; at least, until the next challenge arises. What is unlikely to succeed is the status quo, especially when so many multiplexes offer the same format as their competitors, appear to adopt a narrow definition of what business they are in, and manifest a 'one-size-should-fit-all' approach to customers. The industry has employed differentiation and niche marketing much less than other industries. As the extensive variety of necessary strategies cannot comprehensively be explored herein, this article focuses on two new technologies from the IMAX Corporation, DMX and MPX, as an example of how a theater operator might counter audience declines.

1. The impact of new technologies on movie attendance

Innovation is fundamental to continued business survival (Schumpeter, 1975). A sustainable competitive advantage facilitates long term firm profit-

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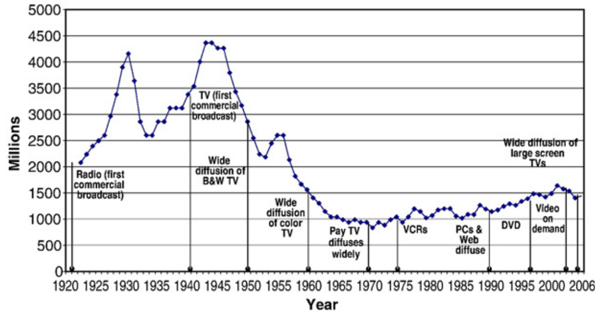

Figure 1 Admissions and innovations.

ability (Aaker, 1998), but relies upon ongoing environmental consonance and the position of defendability that is achieved if the advantage provides value that cannot be copied, substituted, or eroded by competitors (Barney, 1991; Porter, 1980). Now a century old, the cinema has historically enjoyed a competitive advantage over other forms of entertainment, as built upon two foundations which are currently being undermined. During the movie industry's first century, movie theaters represented the first-release retail market for the American film industry. Until movies were first broadcast on television in the late 1950s, and later became available on video, they could only be seen in a movie theater. Moreover, until the recent introduction of alternative digital delivery technologies and big screen televisions, the primary medium for watching movies on large, wide screens has also been in movie theaters.

American movie theater attendance has, in the past, been impacted by the emergence of competition from product substitutes created by technological innovation. During the Great Depression, commercial radio provided Americans with free home entertainment. As a result, annual theater admissions declined from 1930 to 1936, with Fox Film President, William Fox, attributing the deleterious effect to the influence of radio (Sinclair, 1933). Booming once again following World War II, the box office racked up an almost two-fold increase in annual attendance between 1937 and 1946. Then, during the 1950s, American families migrated to the newly developing suburbs in search of cheap housing, an exodus which coincided with the widespread diffusion of television into American homes (Sklar, 1978). Annual movie attendance declined steeply as the weekly cinema-going audience began staying home to watch TV (Puttnam, 1998). The impact of this cultural and technological phenomenon was highlighted by a 1951 *New York Times* survey across 100 cities hosting television stations: movie attendance had declined between 20% and 40% in those locations (Gould, 1951). As summarized by Sklar (1978, p. 272), "By 1953, when 46% of American families were estimated to own television sets, motion picture attendance had dropped to almost exactly half of the 1946 high water mark."

Fig. 1 plots annual US movie admissions from 1920 to 2005 and illustrates that the introduction of new competing technologies (radio and TV) broadly corresponds to declining movie theater attendance over time. It also indicates that the mass moviegoing audience fragmented after World War II as more product substitutes (black and white TV, color TV, Pay TV, home video, PCs) emerged over time to provide alternative entertainment options.

Fig. 2 compares the decline in American movie theater attendance with the rising penetration of television into US households, during the focus period of 1950–1978. In sum, it illustrates the impact that television had as a product substitute (Stuart, 1976).

Owing to the relatively recent, dynamic growth of the home video market, current release windows between movie theaters and videos have been shrinking. As such, movie theaters are facing an uncertain future, one in which they might well no longer hold the firm competitive advantage that they've historically enjoyed.

This article considers how the US movie theater industry, in light of direct threats from new technologies, can re-establish a sustainable competitive advantage today. In addition, it identifies some innovations that may be relevant toward that end.

2. The new economics of the movie business

The economics of the movie business have changed fundamentally since the Studio Era, when Hollywood film company giants not only made pictures, but owned theater chains in which to show their

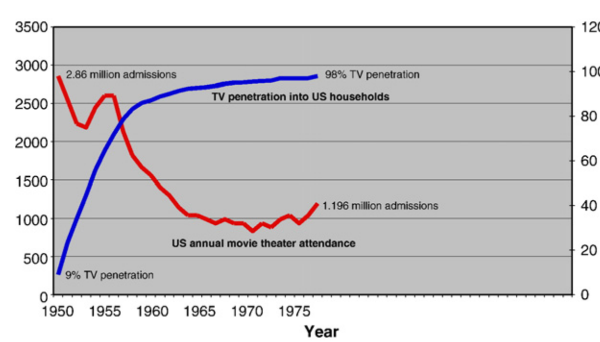

Figure 2 Movie theater admissions vs. TV penetration into US households, 1950–1978.