Theory and Evidence…

The Changing Relationship between Movie Studios & Exhibitors Due to the Rise of Movie Theater Consolidation

by

Anu R. Ganti

An honors thesis submitted in partial fulfillment

of the requirements for the degree of

Bachelor of Science

Undergraduate College

Leonard N. Stern School of Business

New York University

May 2005

Professor Marti G. Subrahmanyam — Faculty Adviser

Professor Al Lieberman — Thesis Advisor

Table of Contents

Introduction

The motion picture industry has evolved considerably since the nineteenth century. From 1916-1948, we saw vertical integration by having studios purchase exhibitor chains. However, in 1938, the United States v. Paramount case charged eight studios with anti-competitive dominance of the industry. The Court ordered the five major studios to spin off their theater holdings. Therefore, the Paramount decree created two distinct categories in the motion picture industry: studios and exhibitors. Since the 1990's, there has been a dramatic increase in consolidation in the movie theater business. For instance, the Columbia Pictures studio acquired the Loew's chain in 1986. The Sony Corporation then acquired Columbia in 1989, and in March of 2002, Onex Corporation of Toronto and Oaktree Capital Management bought the theater chain as it came out of bankruptcy protection. Recently, Loews was again sold, this time to Bain Capital and two other investment firms for $1.46 billion. Some other examples of exhibitor consolidation include J.P. Morgan and Apollo Management buying AMC Entertainment for $2 billion, Madison Dearborn Partners acquiring Cinemark for $1.6 billion, and Regal buying 52 cinemas from Hoyts for $200 million (see Exhibits H-J). The consolidation issue is important because it can significantly change the nature of business in the motion picture industry by shifting power towards exhibitors. The contribution I'd like to make is to investigate how movie theater consolidation will affect the relationship between studios and movie theaters and the overall industry. I want to illustrate the future implications of consolidation by exploring the chances of a power shift between the studios and exhibitors.

Problem Statement

"Will the increased concentration of movie theater chains create any influence on the power relationship between studios and exhibitors?"

Hypothesis

I will test the following hypothesis: "The increased concentration of movie theater chains will cause a power shift in the studio-exhibitor relationship by giving exhibitors an upper hand in areas such as the possible transition to digital cinema, the future of co-op advertising, and the upward trend in on-screen advertising."

The Transition to Digital Cinema

One of the bargaining chips that newly consolidated theater owners have involves a switch from celluloid to digital projection systems. This switch is capable of saving the studios around 90% of their film distribution costs, mainly because they won't have to spend money buying numerous prints. However, the theaters have to comply in order for the switch to occur smoothly. One possibility is that the theaters will use digital technology to offer additional entertainment offerings such as digital broadcasts of sports and concerts. This means that the theaters will have more alternatives and can rely less on the studios' products. The studios, on the other hand, have bargaining power of their own. They have more alternative sources of revenue than theater owners plus they control the distribution of films. (McKinsey Quarterly).

The key issue in the digital transition debate is "Will the cost be borne by the exhibitors or the distributors, or will it be shared?" Also, industry insiders are worried that films may become vulnerable to piracy, since digital projection allows access to movies through the Internet and/or satellite. The National Association of Theater Owners (NATO) is pushing the industry to develop digital-security standards and business models that the exhibitors and studios will be satisfied with. It is interesting to note that Regal Cinemas, the largest cinema chain in the U.S., has introduced a type of digital projection technology with quality that is acceptable for advertising and concerts, but it is not yet appropriate for film. (Sharp)

The truth is that nobody really knows the answer to the question posed above concerning who will bear the cost of upgrading to digital projection. One of the reasons for the present confusion is the inability to determine a solid price per screen. Doug Darrow, business manager of commercial entertainment at Texas Instruments, says, “There really is not a price per screen today because there is really not a market for digital cinema. Without an idea of the market – Is it 10 screens next year, or 10,000? – manufacturers have no way to price a product.” Top industry executives such as Sony distribution chief Jeff Blake and Regal Entertainment Group co-chairman and co-CEO Kurt Hall predict that it will cost $100,000-$150,000 to upgrade each screen. If so, then the price required to outfit all 30,000 plus screens in the U.S. is more than $3 billion. From the exhibitors’ perspective, they definitely feel that they shouldn’t have to shoulder most of the total cost of the transition. AMC Entertainment Inc. senior VP Rick King states, “We think that the costs should ultimately be paid by the parties in proportion to how they benefit from the technology. But we have not developed any kind of formulas on the issue.” Also, NATO president John Fithian says, “The studios stand to save millions of dollars in film print costs and distribution costs. We do not see any similar savings for cinema operators." The exhibitor community is clearly united in their position. (von Sychowski)

The studios will save anywhere from $700 million - $1 billion a year on release prints and shipping costs. However, the savings per screen are estimated at $26,000, which is much less than the per-screen cost of the digital upgrade. We should also remember that the upgrade costs do not include the cost of adding a computer maintenance staff to monitor the operation. Looking at the studios' perspective, they do feel that the transition has several advantages for exhibitors, in contrast to Fithian's earlier remarks. Julian Levin, executive VP for digital exhibition and nontheatrical sales and distribution at 20th Century Fox, mentions some of these advantages: Digital content delivered to multiplexes can be moved from one auditorium to another and expand to multiple auditoriums at a rate that doesn't exist today. Second, a digital infrastructure provides exhibition with an opportunity to increase their advertising as a source of revenue, given that delivering advertising content to the theater on a digital platform is far cheaper and more efficient and has a much higher quality than currently exists. Third, the ability to have alternative programming such as sports, concerts and things of that nature is a benefit they do not enjoy today and an incremental source of funds." Levin's statements imply that the studios feel the exhibitors ought to chip in as they have much to gain. Both sides' opposing views have caused a current standstill, although some discussions are taking place with groups such as NATO. (van Sychowski) Evidence of some efforts being made concerning this issue is the Digital Cinema Initiatives, LLC or DCI, which was formed in March 2002 as a joint venture of Disney, Fox, MGM, Paramount, Sony Pictures Entertainment, Universal and Warner Bros. Studios. As stated in their website, “DCI’s primary purpose is to establish and document voluntary specifications for an open architecture for digital cinema that ensures a uniform and high level of technical performance, reliability and quality control. DCI will also facilitate the development of business plans and strategies to help spur deployment of digital cinema systems in movie theaters.” A few months ago, DCI announced their completion of overall system requirements and specifications for digital cinema, the terms of which their member studios agreed to. Therefore, although attempts are being made, there is still a long way to go to resolve this issue. (Ordway)

Four Possible Solutions To The Digital Dilemma

It seems that there are four possible solutions to this industry dilemma. The first possibility is that the studios will pay for the digital upgrade, considering the fact they are the ones who will likely benefit the most from the transition. The movie audience will benefit from a better presentation of the movies. The theaters will benefit because less staff will be needed. Someone will just have to keep an eye on the digital linkup and load the data into each projector. But the studios clearly stand to gain the most. They won’t have to pay print labs anymore to produce copies of the films and pay the associated shipping costs. They won’t have to worry about prints becoming damaged. The studios would accumulate gigantic savings. The problem here is that deep down, the studios would prefer to pass the buck and let somebody else take care of the transition. The second possible solution is that the theaters will pay for the upgrade. We should keep in mind that it seems a bit unlikely that the studios will have the theaters pay for a $3 billion overhaul just to decrease the studios’ expenses. One way out is to make the theaters’ investment financially stronger by having the studios pass along part of the savings to the theaters. For instance, the savings could take the form of an annual rebate or reduced gross-percentage formulas. (Meek)

The third possibility is that a third party will purchase and install the equipment in the theaters and in return, will get a piece of the theater's net box-office proceeds. This is after the studios receive their initial portion of the box-office proceeds. This way, there will be no capital outlay on the theaters' part. The fourth possibility consists of simply passing on the expense of the digital conversion to the public in the form of higher ticket prices (see Exhibit G). This is one idea that the studios and theaters would probably have no issue with. However, it does not seem proper to have moviegoers pay in order to enable significant studio savings. (Meek)

Having analyzed the debate over digital transition that is taking place between the studios and the exhibitors, we need to examine what role, if any, movie theater consolidation will have on this emerging debate. In my initial hypothesis, I speculated that the increased consolidation of exhibitors would give shift power towards the exhibitors and give them an upper hand over studios in the digital debate. To see if my hypothesis was correct, I talked with three industry sources: Donald DeLaria, Vice President of Investor Relations, Regal Entertainment Group; Terrell Falk, Vice President of Marketing & Communications, Cinemark U.S.A.; and Christopher Woods from Screenvision Inc. and formerly of Loews Cineplex. From their insights, I realized that the movie theater consolidation will not have a significant impact on the power relationship between studios and exhibitors, at least in the immediate future. Mr. DeLaria stated that exhibitor consolidation might make negotiations between the theaters and studios easier and more efficient, since there are now fewer exhibitors to deal with. He believes the timeframe for the complete transition to digital cinema will be around five to seven years. Ms. Falk of Cinemark agreed that the theater owners will eventually have to adapt to the demands of digital cinema and she sees it happening in the future. She mentioned that Cinemark has a few digital screens which they operate as test sites in partnership with Texas Instruments. Falk also said that there is more room for consolidation in the industry and that consolidation will not have an immediate impact on exhibitors' power in the digital transition deliberations. Christopher Woods states that because of consolidation, he does see exhibitors having increased power over their suppliers of concession items. But he doesn't think that the negotiation terms with studios over the digital transition will change. He thinks consolidation could play a role by making negotiations easier, since Regal, Carmike, and Loews' control sixty percent of all the screens. Clearly, the insights from these industry insiders disprove my initial hypothesis that consolidation would enable the exhibitors to gain leverage over the studios in the digital transition debate. The consolidated exhibitors might gain leverage over suppliers of concession items and speed up the deliberation process, but there won't be a significant power shift in the studio-exhibitor relationship.

On-Screen Cinema Advertising

Cinema advertising is an area that is growing at almost a fifty percent rate. Spending on movie ads reached $356 million in 2003, up 37% from 2002, according to the Cinema Advertising Council (CAC), a trade group formed last year to address the needs of the cinema media industry. CAC members, which include many exhibitors that accept advertising, reported revenue growth of 48% for the year, to $315.1 million, and collected $38.4 million for other promotions such as ads in theater lobbies. The reason for this growth is that top brands such as M&Ms, Buick, and Unilever, and Clairol are adding cinema advertising to their media mix. Advertisers are promoting various products and services ranging from candy, electronics, fashions, military recruitment, video games and amusement parks. Matthew Kearney, CAC president and CEO of Screenvision, the largest U.S. cinema advertising company, states, “While many of the traditional, more established media have seen their growth slow to the single digits, cinema advertising is growing at a nearly 50 percent rate. In light of the box-office records set over the Memorial Day weekend, cinema continues to generate strong audiences, which advertisers and their agencies need.” One of the reasons advertisers are turning to theaters is that TV advertising is experiencing many problems due to commercial-zapping technology and more TV channels than ever. Kearney also mentions, “Advertisers are trying to find ways to attract younger people, and the best place to find the younger demographic is in cinemas.” Exhibitors seem to be gaining leverage because of the fact that movie patrons are a captive audience and they don’t seem to mind the increased number of commercials on movie screens. (Nason)

Now, we need to examine what role the increased trend of movie theater consolidation will have on the rise of on-screen advertising and exhibitors’ power in this area. From talking with Terrell Falk of Cinemark U.S.A. and especially Christopher Woods of Screenvision, I was able to find out inside information to answer the question posed above. Woods said that because of theater consolidation, it is likely that exhibitors will have increased leverage over the advertising revenue that they receive. For instance, exhibitors with strong presence such as Loews will be offered better five to seven year deals. The way it works is that the cinema advertising brokers aggregate and sell advertising to advertisers while paying a percentage of the revenue to the exhibitors in partnership with them. Therefore, it looks like increased consolidation will enable the theaters to receive a bigger percentage of the ad revenue from the brokers. The three main cinema advertising brokers are Screenvision, Regal CineMedia, and National Cinema Network (NCN), which is partially owned by AMC Theatres. Screenvision is the dominant leader of this group with the largest share of screens and the strongest presence in key markets. They are partners with 20 of the top 25 exhibitors in the United States. NCN is second largest, representing more than 10,000 screens in the U.S. and partnerships with 14 exhibitors. Regal CineMedia is the third largest broker, representing 17% of screen s in the U.S. They also have the largest digital network among U.S. theater operators. Since they have a built-in digital network, they can be flexible by selling advertising with shorter lead times. We should also note that Regal and AMC have recently merged their cinema advertising businesses into an entity called National CineMedia. Terrell Falk of Cinemark, which is a partner of Screenvision, stated that the terms of the deals with the brokers are based on cost per thousand. The number of the screens and the demographics that the theaters can offer determines the percentage of the revenue that the theaters receive. We can infer that if newly consolidated exhibitors can now offer more screens and higher quality demographics, they will have more leverage over Screenvision, NCN, and Regal CineMedia as they will be able to demand deals that are more favorable to them. Woods believes that cinema advertising will continue to grow and this growth will increase exhibitors' power in this arena, as on-screen ads also become more customized for different audiences. Although we do not see a direct shift in power from the movie studios to the exhibitors, we find that there will be an indirect power shift from the studios to the theater owners as theaters' ancillary revenue streams in advertising become increasingly large. Consolidated exhibitors will be more profitable in the future, and it is likely that they will have more of a say in any negotiations with the studios due to the fact that they are financially stronger. Therefore, we can conclude that the part of my hypothesis predicting that exhibitors will gain an upper hand in the area of on-screen advertising is correct.

Movie Co-Op Advertising

The final issue that we will look at is how movie theater consolidation will impact the studio-exhibitor relationship regarding co-op advertising. First, let us examine how co-op advertising works. After speaking with Andrea Korpita of the co-op advertising department at the LA Times and Jim Nowicki of the ad agency McDonald & Associates (which handles print advertising for major studios), I learned that the studios directly deal with newspapers such as the LA Times. Therefore, the newspaper bills the studio for a particular ad campaign. The studio then bills the exhibitors. In this typical scenario, the newspaper does not maintain any contact with the exhibitor (see Exhibits A-C). In other cases, the exhibitors place their own ads with the newspapers, especially if they are small exhibitors located in small towns (see Exhibit D). This is due to the fact that studios do not find it profitable to support advertising in smaller markets. Hence, newspapers such as the LA Times have separate studio and exhibitor rates, depending on who is directly placing the ad in the newspaper. (See Exhibits on studio/exhibitor rates). As for the typical scenario mentioned above, where the studio places the ad and bills the exhibitors afterward, there are a few different formulas that are used to determine how the cost is split between the studios and exhibitors. Historically, if the exhibitor share is less than

$100, the advertising cost is split 50/50. For instance, if an ad costs $600 and there are 6 exhibitors mentioned in the ad, the studio pays $300 and the 6 exhibitors pay the remaining $300. Therefore, each exhibitor pays a share of $50. However, if the ad campaign is much more expensive at around $10,000, the studios and exhibitors may negotiate the terms differently because the exhibitors might not be willing to pay half the cost of such an expensive campaign. In this case, the first week might be a 50/50 split, the second week it might change to 40/60 etc, so the terms for each week will be negotiated. Finally, another formula for co-op advertising is based on box-office grosses of the particular movie being advertised. For example, AMC may be willing to pay 1.5% of the box-office gross to cover their portion of the advertising cost for a movie. In a way, it also makes sense because advertising by the studio is based on box-office grosses. If box-office grosses rise, studios continue to advertise and exhibitors continue to pay their share of the advertising cost. The advertising cost increases in proportion with the box-office revenues (see Exhibit E for data on total box office grosses).

Now, let us explore the impact of movie theater consolidation, if any, on the studio-exhibitor relationship in the co-op advertising arena. According to Jim Nowicki, exhibitor consolidation will give movie theater chains more leverage in co-op advertising by enabling them to conduct business in a more efficient manner. Specifically, as exhibitors expand, they will usually only need one or two people instead of ten people to manage the co-op advertising negotiations with studios and bill out exhibitor shares, thereby reducing their overhead. Usually, the larger exhibitor chains tend to use the box-office formula for co-op advertising because it helps them to streamline accounting and take a long-term perspective to negotiations with studios, further increasing their power.

In essence, greater consolidated exhibitor efficiency equals greater leverage. In addition, Andrea Korpita of the LA Times mentioned that exhibitors automatically have leverage because they bring a certain cache and entertainment value to newspapers through their print advertising. As a result, we can conclude that the part of the hypothesis stating that exhibitor consolidation would lead to greater exhibitor leverage over studios in co-op advertising is indeed correct.

Threats to Movie Theater Chains

In order to further analyze the changing power relationship between studios and exhibitors, we need to examine the nature of threats facing the exhibitor industry. These threats encompass the home video market, including Netflix, Blockbuster, and WalMart, as well as other outlets such as video on demand, home movie theaters, and downloading films on PCs. Regarding the downloading issue, film piracy is a growing concern for movie theater chains and the movie industry as a whole that is in the process of being addressed. Theater owners at the recent ShoWest convention discussed the increased pervasiveness of piracy of feature films. Bill Shannon, director of anti-piracy operations at the Motion Picture Association of America, stated, "Camcorder piracy is a major threat to the entire film industry, both at home and abroad. It typically involves organized criminals that illegally record theatrical films with camcorders in the first hours and weeks of - and in some instances – even prior to a film's U.S. release." He also mentioned that the copies can surface days or even hours later on the Internet on peer-to-peer networks or chat rooms. Since then, theater owners have combated the problem of illegal camcording at special preview screens with reasonable success using measures such as metal detector wands, bag searches and night-vision goggles. Loews Cineplex

Entertainment is rewarding employees with $100 if they catch someone recording a movie inside their theaters. (Hernandez) Other initiatives taken by exhibitors include running public service announcements prior to the starting of a film, which warn people against copyright infringement. (Joshua) If piracy is not handled in an effective manner, we can infer that exhibitors' leverage over studios due to exhibitor consolidation will be less pronounced because theater chains will be hurt by declining ticket sales (see Exhibit F).

Another threat facing theater chains is the gigantic nine billion dollar home video rental market, which encompasses businesses such as BlockBuster, Netflix, and Wal-Mart. Blockbuster has recently eliminates their late fee policy. Netflix offers the benefit of having movies sent directly to people's mailboxes. Chains such as Wal-Mart and Best Buy offer bargain prices on DVDs. Competition also rises from movies on-demand, which is available to consumers through cable providers or satellite dishes, and the Internet, where viewers can watch movies via steaming video connections. Specifically, the increase in online mail-order rental services is a trend movie theater chains ought to be aware of. Netflix subscribers pay a flat monthly rental fee and can rent films without worrying about late fees. Blockbuster and Wal-Mart have also launched online subscription services, and it is rumored that Amazon.com may enter the fray soon. (Graham)

As for the Internet's role as a threat, movie buffs with a broadband link can download movies from sites such as CinemaNow or Movielink for $2-$5 and view the films on their computers. Movielink offers around 400 movies of reasonable quality. Although many people do not enjoy watching movies on computers, it is great for travelers and people who use computers as a form of entertainment. As technology develops, it will become easier to run a movie from a PC to a television, making companies such as Movielink an even bigger threat to theater chains. In addition, video on demand (VOD) is one more threat that theater chains need to keep on their radar. Cable subscribers usually pay an additional $5-$10 to use the digital capability needed for VOD. They might pay $3.95 for recent releases and $2-$3 for older films. So far, VOD has not been a viable threat because of little marketing by cable companies, limited offerings, and a complex navigation system. However, this can change as cable companies have better equipment in place and can take advantage of improvements in storage and file-compression technology to increase movie selection for consumers and decrease the cost of delivering movies in this format. Currently, the best cable systems offer about 100 movies at a time by VOD. But industry insiders believe that this number will grow to several thousand over the upcoming years. Mike Antonovich, senior vice president for global sales and marketing at PanAmSat, a company that beams content to cable storage facilities, states, "I think you are going to see a tremendous explosion in the amount of content that is out there." The VOD threat to exhibitors will clearly become stronger as a result of cable companies spending $65 billion putting in new equipment in the past five years with the expectation that every household will be reached by cable connections with digital capability within two years. (Brush)

One additional threat that should be mentioned is the rising use of home theaters among movie-loving consumers. While having a home theater was once an experience reserved only for Hollywood stars and executives, it is now within the reach of middle-class America. According to the Consumer Electronics Association (CEA), an industry trade group, almost 33 percent of U.S. households currently have these types of setups. Prices vary depending on how sophisticated and technologically advanced the setup is. They can range from as low as $2300 to as high as $130,000. Regardless of the price, the usual elements of a home theater include a big-screen TV and an audio system that delivers superior sound effects. Although home theater customers only used to represent stereo buffs, now more people are becoming interested in this product. Comparing the home theater experience to a night out at the local megaplex, Curtis V. Havens, owner of Advanced Audio Systems of Tacoma, states, "The picture quality is as good as you can get in the theater, and the sound quality is better because all theater systems are not nearly as good as a really high-performance home system." In addition, he mentions that people do not have to worry about finding a parking space at the theater or strangers talking during the show. And the picture can be paused in order to take a break. However, the National Association of Theatre Owners (NATO) does not believe that home theaters are posing a threat to movie theaters, as TV did in the 1950s. Jim Kozak, director of communications for NATO, says, "The last three years have been the biggest years in terms of movie-theater admissions since 1957. People are going to movies in numbers we have not seen in four decades." Although NATO maintains a confident stance, it is possible that theater chains will be negatively affected as the home-video boom and the popularity of home theaters expands. (Andersen)

Overall, we can deduce that if the threats caused by the home video rental market, the Internet, VOD, home theaters and others become dramatically stronger, consolidated exhibitors will experience decreased leverage over their suppliers, and especially studios. We must remember that movie theater chains do not participate in ancillary revenue streams such as the home video rental market and VOD as studios do, so they are more likely to be detrimentally affected. In this worst case scenario, whatever increase in power consolidation has brought to exhibitors will be reduced.

Movie Marketing

One significant area that continues to shape the changing relationship between movie studios and exhibitors is the gigantic business of movie marketing. With more movies opening worldwide on the same day and date, the marketing and distribution of movies is evolving into a complete global event. At the recent ShoWest Marketing Summit, Jeff Blake, vice chairman of Sony Pictures Entertainment and president of worldwide marketing and distribution for Columbia TriStar Motion Picture Group, stated, "We don't think domestic and international anymore. Day-and-date is something everyone will continue to do. With piracy concerns, you almost can't do it." Blake mentioned that awareness among the movie-going public is dissipating more quickly than before. This means that studios have to work even harder to market their movies. Although websites on the Internet, instant mail and advertising are working to reach younger audiences, TV spots and theatrical trailers are widely regarded as the best marketing vehicle for a movie. We can assume that since theatrical trailers are viewed as the most significant marketing tool to sell a movie, the newly consolidated theater chains will have increased leverage when booking trailers from the studios. After all, the theater chains are the ones that make the decisions of which trailers to accept and which to reject. As for other marketing tools used by the studios, these include newspaper advertising, global promotion tours, cable advertising and promotional partners such as Kellogg's. (Thompson)

Given the importance of movie trailers to a movie's financial success, we should further examine the role of exhibitors in placing these trailers. Every week, theater owners and movie studios negotiate to determine which trailers go where. Ken Foreman, director of distributor relations for Regal Cinemas, the nation's largest theater chain, constantly deals with 30 different movie executives. He is in charge of deciding which trailers will be placed before which movies and which trailers won't run. During certain time periods, such as the holiday season, studios are under a great deal of pressure to put the right trailers before the right movies so they can reach the captive audience in the theaters. As studios have become increasingly dependent on movie trailers, the actual booking of trailers has become even more time-consuming. Major theater chains can take advantage of studios' apparent dependence on trailers. For example, Jeff Blake of Sony Pictures Entertainment paid a theater chain $100,000 to make sure that a specific Sony trailer was positioned before the correct movie. Other methods that studios use to reward exhibitors include picking up the cost of newspaper ads and giving them a larger portion of gross ticket sales. It is important for exhibitors to balance meeting studios' needs with the moviegoers' patience and interest in viewing trailers. Generally, the industry believes that 20 minutes of trailers is the utmost limit. Theater executives such as Foreman make trailer decisions by trying to keep everyone happy and make sure that a trailer fits the movie that it precedes. Clearly, movie theater consolidation will only act to strengthen the upper hand that theater chains hold over studios in the trailer business. (Munoz)

Along with traditional theatrical trailers, online trailers and trailers on cell phones have garnered immense importance in the past couple of years. An important part of movie marketing for studios is purchasing exclusive movie trailers and clips on websites such as AOL and Yahoo. As for cell phone trailers, one prominent example is the way Disney and Pixar Animation Studios marketed *The Incredibles* over mobile devices. By simply picking up their phones or logging onto Disney Mobile, the company's call-centric website, people can download *Incredibles* wallpaper graphics, video games and dozens of custom-made ring tones. Cell phone trailers help promote movies in a creative manner, but are also a new revenue stream for content and service providers. Studios are discovering that the mobile format is an easy way to reach out to young consumers. This is due to the fact that half of all children between the age of 11 and 17 have their own phones, according to the Yankee Group. Children are valuable consumers because they use more minutes on their cell plans and are quick to use premium services. Cell phone users under age 18 account for almost a quarter of the $100 million a year cellular service market. Larry Shapiro, executive vice president of business development and operations for the Walt Disney Internet Group, comments on this trend by saying, "We have content on all the major carriers, and on 40 or so carriers worldwide. I think we are one of the few companies in the space who are in every category, with ring tones, wallpaper, games, data applications…We've been pretty pleased with our success and our balance." He justifies the steadily increasing revenue from mobile products by stating, "We appeal to a relatively broad base of family and kids, but in some aspects our growth has to do with the expansion of cell phones into the hands of teenagers." The way it works is that a videogame or ring tone can cost someone several dollars, charged to his or her phone bill.

The content providers such as Disney share the revenue with the mobile network operators, which make the services extremely lucrative for both businesses. (Ewalt)

Conclusion

To summarize my findings, I have discovered that due to the increased trend of consolidation, there will be a power shift in the relationship between movie studios and movie theater chains in key areas. Although exhibitors will not gain any specific leverage in the negotiations concerning the transition to digital cinema, they will have increased power in the on-screen advertising, co-op advertising, and movie trailer arenas. Regarding on-screen advertising, consolidated exhibitors will have more power over cinema advertising brokers due to their large size, thereby guaranteeing them a greater portion of advertising revenue. As a result of cinema advertising, it is likely that exhibitors will be placed in a financially stronger position in their dealings with studios. As for co-op advertising, consolidated movie theater chains will develop greater power over studios by acting in a more efficient manner. Consolidation will enable exhibitors to put less people in charge of negotiating newspaper arrangements with studios. Efficiency leads to cost-savings and power. Finally, the power shift between studios and theaters will also be illustrated in the movie marketing business, and specifically, by the booking of theatrical trailers. Since movie theater chains have the last word in deciding whether or not to accept a studio’s trailer, they hold a great deal of clout. Consolidation will only increase this apparent leverage held by the exhibitors. In addition, theater chains tend to be given monetary rewards for accepting favored trailers. These rewards will act to further bolster the exhibitors’ financial health. Clearly, it seems that theater consolidation will only work to shift power towards the exhibitors and away from the studios.

However, we should keep in mind that theater chains face threats from numerous sources such as the home video rental market, piracy, downloading of movies through the Internet, VOD, and the increase in home theaters. Furthermore, another factor is if the digital cinema debate will be resolved in the theater chains' favor by making the studios pay the majority of the cost of digital transition. If the exhibitors are required to contribute a significant portion of digital upgrade cost, they will be in a less powerful position to negotiate with studios, even with theater chain consolidation. Time will tell if the exhibitors come out ahead of the studios in the coming years.

References

Andersen, Soren. "Giant screens, amazing sound bring cinematic experience to the living room." *The News Tribune* 5 February 2005. 20 March 2005. <http://www.springfieldthurston61.com/Previous%20News/69/Lyle%20Fox.htm>

Brush, Michael. "Is Blockbuster doomed?" *MSN MoneyCentral* 17 September 2003. 15 March 2005. <http://moneycentral.msn.com/content/P58723.asp>.

Ewalt, David M. "An 'Incredible' Marketing Ploy." *Forbes.com* 30 November 2004. 20 March 2005. <http://www.forbes.com/technology/personaltech/2004/11/30/cx_de_1130kidphone.html>.

Graham, Adam. "Video stores get squeezed by Internet, on-demand." *The Detroit News*. 22 February 2005. 21 March 2005. <http://www.detnews.com/2005/screens/0502/22/A01-97331.htm>.

Hernandez, Greg. "Theater owners get an earful on piracy." *Arizona Daily Star* 26 March 2004. 20 March 2005. <http://www.azstarnet.com/dailystar/relatedarticles/15328.php>.

Joshua. "Theaters to Combat Piracy." *The Associated Press*. 21 August 2002. 25 March 2005. <http://www.theforce.net/episode2/story/theaters_to_combat_piracy_65511.asp>.

Meek, David. "The Future is Digital." *Box Office Prophets* 23 May 2002. 20 November 2004. < http://www.boxofficeprophets.com/meek/thefutureisdigital.asp>.

Munoz, Lorenza. "Trailers: How a small time slot adds up to a big industry headache." *The Seattle Times* 16 February 2005. 22 March 2005. <http://seattletimes.nwsource.com/html/movies/2002181046_trailers16.html>.

Nason, Pat. "Analysis: Onscreen movie ads growing." *United Press International* 14 June 2004. 11 December 2004. <http://www.upi.com/view.cfm?StoryID=20040614-070342-1821r>.

Ordway, Walt. "DCI announces completion of overall system requirements and specifications for digital cinema; member studios unanimously agree to extended term." *Digital Cinema Initiatives, LLC* 8 September 2004. 15 February 2005. <http://www.dcimovies.com/press/09-08-04.tt2>.

"Revenge Of The Multiplex." *The McKinsey Quarterly* 26 November 2002. 24 November 2004. <http://www.mckinseyquarterly.com/article_abstract.aspx?ar=1240&L2=17>.

Sharp, Jo Ellen Meyers. "The Sequel: Theaters Rise Again." *ICSC.org* June 2004. 15 November 2004. <http://www.icsc.org/srch/sct/sct0604/page1a.html>.

Sychowski, Patrick von. "Pay to play: Exhibitors bat the underwriting ball back to the studio court." *The Hollywood Reporter* 26 September 2003. 11 January 2005. <http://www.hollywoodreporter.com/thr/film/feature_display.jsp?vnu_content_id>.

Thompson, Anne. "ShoWest: Studios think globally about marketing." *The Hollywood Reporter* 17 March 2005. 27 March 2005. <http://www.hollywoodreporter.com/thr/marketing/brief_display.jsp?vnu_content -id=1000845007>.

Exhibits

<u>Exhibit A</u> (Data is from LA Times Co-Op Advertising Department)

Los Angeles Times

Movie Display Advertising Rates

Effective January 1, 2005

	PARTIAL*	FULL PAGE	DOUBLE TRUCK
Mon-Wed	**$340/col. inch**	**$42,570** ($330/column inch) based on 129 inches	**$92,235** ($330/column inch) based on 279.5 inches
Th	**$340/col. inch**	**$16,100** ($280/column inch) based on 57.5 inches	**$35,420** ($280/column inch) based on 126.5 inches
Fri-Sat	**$353/col. inch**	**$43,731** ($339/column inch) based on 129 inches	**$92,235** ($330/column inch) based on 279.5 inches
Sun	**$380/col. inch**	**$45,795** ($355/column inch) based on 129 inches	**$83,850** ($300/column inch) based on 279.5 inches

Rates are net.

* Partial ad pricing applies to modular-sized ads. Non-modular and combo ad units are charged a 10% premium.

<u>Exhibit B</u> (Data provided by LA Times Co-Op Advertising Department)

Los Angeles Times

Movie Display Color Rates

Effective January 1, 2005

Up to One Standard Page	4-Color
Full Run Daily	$8,275
Full Run Sunday	$8,490
Double Truck	**4-Color**
Full Run Daily	$16,550
Full Run Sunday	$16,975

Rates are net.

Exhibit C (Data provided by LA Times Co-Op Advertising Department)

Los Angeles Times Magazine

2005 Rates

Non-Commissionable

4-Color	**THEMED ISSUES**	**NON-THEMED ISSUES**
Full Page	$38,750	$25,000
4/5 Page	$33,300	$21,250
Junior Page	$29,100	$18,750
3/5 Page	$26,800	$17,500
1/2 Page	$22,850	$15,000
2/5 Page	$20,900	$13,750
1/3 Page	$16,700	$11,250
1/5 Page	$12,350	$8,750

Rates are net.

Exhibit D (Data provided by LA Times Co-Op Advertising Department)

Los Angeles Times

Exhibitor Advertising Rates

Effective January 1, 2005

Description	Monday-Thursday	Friday- Saturday	Sunday
Headers and Toppers	$340	$353	$380
Screens	$1.32	$1.32	$1.44
Extra Lines*	$0.97	$0.97	$1.38
Display Lines**	$26.76	$26.76	$29.93

*First three lines for each screen are free, including address.

**For non-showtime information within the directory.

Note: Rates are net.

Exhibit E (Data provided by National Association of Theatre Owners (NATO))

Total U.S. Box Office Grosses (in billions)

Year	Box Office
2004	$9.53
2003	9.49
2002	9.52
2001	8.41
2000	7.67
1999	7.45
1998	6.95
1997	6.37
1996	5.91
1995	5.49
1994	5.40
1993	5.15
1992	4.87
1991	4.80
1990	5.02
1989	5.03
1988	4.46
1987	4.25

Exhibit F (Data provided by National Association of Theatre Owners (NATO) website)

Total U.S. Admissions

Year	Admissions (in billions)
2004	1.53
2003	1.57
2002	1.63
2001	1.49
2000	1.42
1999	1.47
1998	1.48
1997	1.39
1996	1.34
1995	1.26
1994	1.29
1993	1.24
1992	1.17
1991	1.14
1990	1.19
1989	1.26
1988	1.08
1987	1.09

Exhibit G (Data provided by National Association of Theatre Owners (NATO) website)

Average U.S. Ticket Prices

Year	Price
2004	$6.21
2003	6.03
2002	5.80
2001	5.65
2000	5.39
1999	5.06
1998	4.69
1997	4.59
1996	4.42
1995	4.35
1994	4.08
1993	4.14
1992	4.15
1991	4.21
1990	4.22
*1989	3.99
1988	4.11
1987	3.91
1986	3.71
1985	3.55
1984	3.36
1983	3.15
1982	2.94
1981	2.78
1980	2.69
1979	2.47
1978	2.34
1977	2.23
1976	2.13
1975	2.03
1974	1.89
1971	1.65
1967	1.22
1963	.86
1958	.68
1954	.49
1948	.36

Exhibit H (Data provided by National Association of Theatre Owners (NATO) website)

Number of U.S. Movie Screens

Year	Indoor	Drive-In	Total
2004*	36,012	640	36,652
2003*	35,361	634	35,995
2002*	35,170	666	35,836
2001*	34,490	683	35,173
2000*	35,567	683	36,280
1999*	36,448	683	37,131
1998	33,418	750	34,168
1997	31,050	815	31,865
1996	28,905	826	29,731
1995	26,995	848	27,843
1994	25,830	859	26,689
1993	24,789	837	25,626
1992	24,344	870	25,214
1991	23,740	899	24,639
1990	22,904	910	23,814
1989	21,907	1,014	22,921
1988	21,632	1,497	23,129
1987	20,595	2,084	22,679

Exhibit I (Data provided by National Association of Theatre Owners (NATO) website)

Number of U.S. Cinema Sites

Year	Indoor	Drive-In	Total
2004*	5,629	402	6,031
2003*	5,700	400	6,100
2002*	5,712	432	6,144
2001*	5,813	440	6,253
2000*	6,550	442	6,992
1999*	7,031	446	7,477
1998	6,894	524	7,418
1997	6,903	577	7,480
1996	7,215	583	7,798
1995	7,151	593	7,744

Exhibit J (Data provided by National Association of Theatre Owners (NATO) website)

Top 10 Circuits
(as of June 1, 2004)

	Circuit	Headquarters	Screens	Sites
1.	**Regal Entertainment Group**	Knoxville, TN	6076	547
2.	**AMC Entertainment Inc.**	Kansas City, MO	3316	218
3.	**Cinemark USA, Inc.**	Plano, TX	2329	201
4.	**Carmike Cinemas, Inc.**	Columbus, GA	2221	291
5.	**Loews Cineplex Ent. Corp.**	New York, NY	1463	140
6.	**National Amusements, Inc.**	Dedham, MA	1101	94
7.	**Century Theatres**	San Rafael, CA	919	79
8.	**Famous Players, Inc.**	Toronto, Ontario	800	80
9.	**Kerasotes Theatres**	Chicago, IL	532	77
10.	**Marcus Theatres Corp.**	Milwaukee, WI	488	46