

TEACHING NOTE

Robin Hood

Structure of the Case

The case opens with Robin Hood entering his second year as leader of the Merry Men. He is contemplating which option he should pursue to successfully manage his campaign against his chief rival, the Sheriff of Nottingham. While this case can be viewed as a romantic tale or legend, Robin Hood also serves as an example of an entrepreneur who is managing a rapidly expanding startup business that is running out of capital. He needs to analyze his current situation, possibly reformulate his strategic plan, and then implement any changes deemed necessary. This case is well suited for use early in the course as an introduction to basic strategic management concepts, and/or may be utilized with later chapters to explore more subtle and complex issues such as strategy implementation and real options analysis.

The body of the case outlines how Robin Hood's campaign is rooted in his strong personal beliefs and desire to overthrow the Sheriff. The growing size of his band of Merry Men is both a strength and a weakness in a changing external environment (the Sheriff is gaining strength while the barons are seeking to overthrow Prince John). The primary issues for Robin include finding ways to procure the basic resources necessary to sustain the group's current activities while reevaluating his long-term strategy. A secondary issue is balancing Robin's personal agenda with the interests of his employees (the Merry Men) and his customers (the citizens of Nottingham).

The case closes as Robin Hood decides to take one more night to think through his options. He considers several potential scenarios, including changing his profit model (transit tax instead of robbery), territorial expansion, killing (attacking) the Sheriff (competition), and working together with the barons (strategic alliance) to secure King Richard's release from prison. As is typical in business analysis, it is not clear which choice is best; all of the options have some form of fallout or negative consequence. Nevertheless, students are left with the sense that something must be done soon or all of the work that Robin Hood has accomplished in the first year of operations will be undone, or worse.

One challenge that instructors may face is that students are likely to have varying levels of familiarity with the Robin Hood story from outside sources, whether from history, books, or films. Encourage them to stick to the facts presented in the case. This can also serve as an opportunity to illustrate the effects of prior experience on managerial decision making. When assumptions go unchecked and unchallenged, managers are likely to rely on preexisting heuristics and/or limit their search for potential solutions.

Suggested Questions

1. *What are the group's vision, mission, and values? What role does Robin play in determining the strategic intent of the group?*
 2. *Analyze the strategic challenges that Robin Hood and his men are facing. What external factors are important? What internal factors are important?*
 3. *Formulate a potential new strategy for Robin's organization.*
 4. *How would you implement this new strategy?*
 5. *Do scenario planning for Robin regarding the issue of killing the sheriff. What happens if Robin does not try? What happens if he tries and succeeds? What happens if he tries and fails?*
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1. *What are the group's vision, mission, and values? What role does Robin play in determining the strategic intent of the group?*

The revolt began as Robin Hood's personal crusade against the Sheriff. The overall *mission* is captured in the band's unifying motto of "Rob the rich and give to the poor." This motto identifies the market in which the "firm" intends to compete (Sherwood Forest) and the customer needs it intends to serve (giving wealth back to the poor), and is therefore customer-oriented in nature. The group's overarching goal or objective, put in business terms, is the takeover or elimination of a rival company (the Sheriff of Nottingham).

While the Merry Men do not have an explicit *values* statement, one of their philosophical underpinnings is a belief in equity for all. Their actions suggest that they place this value above a respect for the rule of law, and that personal agency is an appropriate response to injustice. To the extent that the group retains only enough of its spoils to support its continued activities, passing the bulk of the proceeds on to the poor, students may also argue that Robin Hood has altruistic or prosocial motives.

Technically, the group does not have a *vision* statement that paints an evocative picture of the group's future aspirations. The Merry Men arose out of a current need (unjust distribution of wealth at the hand of local government) and define themselves by the actions they undertake to meet that need (stealing from the rich and giving to the poor). An interesting exercise is to ask students to write a vision statement for Robin Hood and his Merry Men, and then have them discuss the various means by which the group could achieve that vision. What would Robin Hood's ideal future entail? Would it be a just society where the services of the Merry Men are no longer necessary?

Robin Hood is the founder of this organization and he set the original mission, much like Steve Jobs did for Apple. The Merry Men's *strategic intent* is to redistribute wealth from those who have an excess to those who are in need. This intent is a byproduct of Robin's personal desire to overthrow the Sheriff and to remove his administration. One year into this venture, Robin remains the clear leader of the band. However, due to the rapid growth in

numbers, he no longer knows all of the individual members of his team. As a result, the group's strategic intent is starting to weaken, and is no longer sufficient to sustain the Merry Men's competitive advantage.

Students are likely to list a variety of the roles that Robin Hood plays as a visionary leader. Mintzberg (1973)¹ describes managerial roles as follows:

- Interpersonal
 - Figurehead – serves as legal, symbolic, and ceremonial leader
 - Leader – motivates and develops subordinates
 - Liaison – serves as central node in network of contacts
- Informational
 - Monitor – gathers strategic intelligence
 - Spokesperson – represents the group to external stakeholders
 - Disseminator – transmits information internally
- Decisional
 - Entrepreneur – makes innovative decisions
 - Disturbance handler – handles conflict and unexpected events
 - Resource allocator – guides the distribution of organizational resources
 - Negotiator – negotiates with internal and external stakeholders

When the group was smaller, it was feasible for Robin Hood to perform all of these functions. Now that the Merry Men are growing rapidly in number, Robin must consider which activities he should retain and which ones he can delegate to subordinates.

2. *Analyze the strategic challenges that Robin Hood and his men are facing. What external factors are important? What internal factors are important?*

Robin Hood faces the typical challenges of a charismatic entrepreneur whose startup company has experienced rapid growth. In fact, the Merry Men might be equated to a company that is run by a social entrepreneur and funded by (involuntary) donations. Until recently, Robin Hood has been able to successfully manage the organization with the assistance of a few lieutenants, while maintaining centralized control and full decision-making authority. However, the current structure is not sufficient to handle the influx of new recruits, many of whom Robin does not know personally. The band now exceeds the local food capacity (creating supply chain problems) and is having trouble generating enough income to meet its increased expenses (cash flow problems). At the same time, the Sheriff and his company are growing in size and strength, indicating that Robin's strategic plan (to weaken and eliminate the Sheriff) is not having the desired effects.

The first step in the AFI framework is to analyze the external and internal environments of the focal firm. In this case, the significant *external factors* include industry structure and competitive forces. Robin's company is operating in the physical arena of Nottingham and the

surrounding area. The *industry* could be defined as the investment and financial protection industry, or the wealth-redistribution industry, and consists of two main *competitors*:

- *The Sheriff and his men* – The Sheriff is the recognized authority in the industry, and his company provides the standards for normal wealth protection, although at a high price to the local inhabitants. Due to the heavy taxes levied by the Sheriff, both the rich and the poor are considered *suppliers*, although the poor seem to pay a relatively higher fee than the rich.
- *Robin Hood and his men* – Robin Hood's financial *suppliers* are the rich, while his *customers* are the poor. This gives Robin Hood a potential *social competitive advantage* when viewed by the poor. By redistributing wealth to a greater number of citizens without consideration of the recipients' political power, Robin gives the poor the opportunity to improve their financial position. Another potential advantage Robin Hood enjoys is that of a more agile and flexible company, relative to the bureaucratic operations of the Sheriff. In this light, his group's *business competitive advantage* is its potential ability to distribute more wealth per unit of cost.

There are at least two additional *external stakeholders* who must be considered as well:

- *Prince John and company* – Although little is mentioned in the case about the Sheriff's techniques, Prince John is described as vicious and volatile. Therefore, his "competitive" activities should not be discounted. It is implied that the Sheriff and Prince John operate under the same mission and values, but this may not be true.
- *Local barons* – The barons in the area represent a form of union or advocacy group, in that they appointed Prince John to his position (but no longer support him). This leads to the wildcard in the situation, King Richard the Lionheart, who is currently in jail in Austria. Robin Hood has been invited to join this group of barons (in a strategic alliance of sorts), and possibly free King Richard and help restore him to power.

The significant *internal factors* include resources, capabilities, and competencies. Robin Hood clearly needs more *tangible resources* to feed and equip his company of men. Though food and weapons may be in short supply, Robin has several *intangible resources* of immense value. He has developed allies in Nottingham and throughout England, generating both a large recruitment base for him to draw from and political sympathy in the surrounding area. He is positively regarded by the local peasants, who help to shield his group from the Sheriff. The group's passion for justice helps to unite the Merry Men under a common mission and keep them motivated, despite physical hardships.

Key *capabilities* for the Merry Men include developing the ability to work as a unit, to move quickly and stealthily through the countryside, and to be able to fight the Sheriff's men. Core *competencies* might include operational effectiveness (being able to carry out a robbery

without being caught), fostering an organizational culture that motivates members, and the detection/assessment of business (robbery) opportunities.

3. *Formulate a potential new strategy for Robin's organization.*

The next step in the AFI framework is strategy formulation, which begins with answering the question of where and how a company should compete. For this case, the question of *where* to compete may address the selection of market segments (based on financial position) and their geographical location (in the area surrounding Nottingham). There are at least two potential strategic initiatives that could broaden the Merry Men's customer base beyond its current narrow focus, thereby bringing in additional revenues.

- *Additional market segments* – Robin Hood could rob from a broader citizen group, including residents from the next lower socio-economic status (that is, steal from the filthy rich *and* the relatively well-to-do) in his list of potential targets.
- *Geographical expansion* – Robin could broaden his operations to work outside of the forest and reach into other areas of England.

Both of these options have the appeal of providing additional work and territory for the increasing number of new recruits to the group. Potential downsides include the increased administrative burden (coordination and oversight) and the need for a new organizational structure. Robin is an autocratic leader, and delegation may be difficult for him. An increase in activity on the part of the Merry Men may also elicit an equally strong competitive response (retaliation) from the Sheriff.

The question of *how* to compete leads to several other alternatives. Robin Hood currently targets the wealthy as they pass through the forest as travelers where he and his men have established their operations – he confiscates the possessions that travelers are carrying on their journeys. Other possibilities might include:

- *Alternative revenue models* – As noted in the case, Robin Hood could shift from robbery to taxing people for passage rights through the forest. However, this mission may not have the same intrinsic appeal to the Merry Men and would also alienate the locals (who are used to receiving money from, not giving it to, Robin and his band). Perhaps another idea would be to create an insurance policy that travelers could purchase from "Robin Hood Travelers Insurance Inc." He could use his men to escort customers (who elect to pay the fees voluntarily) safely through the forest. While this would be a more socially legitimate enterprise compared to robbery, it is not clear that demand would be sufficient or that they could charge a high enough rate to offset the potential loss in business volume.
- *Alliance with the barons* – Robin is short on capital, possibly short on intelligence on the Sheriff, and while viewed positively by the peasants, he does not have the same

political clout as the local barons. Allying with the barons could provide access to these valuable resources while helping Robin achieve his overarching objective (removing the Sheriff from power). If the resources and capabilities that Robin brings to the partnership are valued highly enough, he might be able to negotiate amnesty for himself and his men. As with any alliance, however, there is the risk that the barons could act opportunistically (and renege on their promises), misrepresent their capabilities (offering amnesty when they have no legal authority to do so) or hold Robin's assets hostage (preventing him from earning income through other means).

Any strategy that is recommended should consider balancing Robin Hood's growing cost structure with the profitability of his operations. Based on the facts in the case, a strong point can be made that the profits per employee in Robin's company are on the decline (diseconomies of scale), and that he may no longer have a competitive advantage over the Sheriff's company.

4. How would you implement this new strategy?

Implementation is the third step in the AFI framework. Implementation considers the following questions: How should we organize to put the formulated strategy into practice? What type of strategic leadership and corporate governance do we need? How do we anchor our decision in business ethics?

Note that the specific implementation plan will differ according to the strategy that students recommend. Critical issues that must be addressed regardless of what strategy is chosen include:

- What steps are necessary?
- What is the projected timeline and order of events?
- Who should be responsible for which actions?
- What resources are necessary? How can they be acquired?
- What fallout or repercussions should Robin Hood prepare for?
- Should just one strategy be considered, or a combination of strategies?

For a start-up company, Robin Hood (the CEO) should be commended on having put a simple but effective leadership structure in place. While the company remains highly centralized with Robin making all the important decisions, he has recognized the value of appointing a skilled top-management team to help him implement the group's strategy:

- Will Scarlett is CFO and in charge of communication and competitive analysis.
- Little John trains new recruits in combat skills.
- Much the Miller's son is in charge of purchasing and logistics.

However, the Merry Men have grown in size so rapidly that they are outgrowing this simple structure, necessitating the transition to a more functionally based organization (*specialization*). The skeletal infrastructure is in place, but Robin needs to think critically about which leadership functions to retain and which ones can be delegated to a more empowered group of managers (*decentralization*). Decisions have been made informally up until now, but the size of the group is also going to necessitate a greater degree of *formalization*. Robin can no longer meet with each new member personally, and thus needs some standardized policies and procedures that can be used to train the recruits in the “Merry Men” values and way of life. Finally, Robin should remain open to adjusting his leadership style to the changing needs of the group (in other words, use situational leadership).

One glaring weakness in Robin’s structure is his lack of corporate governance. The group has no formal accountability to its external stakeholders, which leaves it open to the possibility of corruption and misconduct. When the group was smaller, Robin could manage stakeholder relationships on a personal level (visiting local peasants and conferring with the barons), but the group’s rapid increase in size is placing greater demands on Robin’s time and attention. One way to ensure that those relationships are maintained is to establish a “board of directors” or “advisory board” that meets semi-regularly for the exchange of valuable intelligence, feedback, and advice. This would help to ensure that the Merry Men continue to meet the needs of their customers in a changing external environment, while maintaining the support of powerful constituents who have a vested interest (financial and emotional) in the group’s success.

One source of outside directors is the barons. The barons should be able to provide Robin Hood with guidance on the growth of his business, and give him advice on cultural norms. One area that Robin will need to address is the impact of his bandit reputation on the long-term success of his operations. He needs to consider the transition to an ethics-based organization.

5. *Do scenario planning for Robin regarding the issue of killing the sheriff. What happens if Robin doesn’t try? What happens if he tries and succeeds? What happens if he tries and fails?*

Robin Hood has a personal motivation to get rid of the Sheriff. It is not clear from the case whether this is based on a personal run-in with the Sheriff, or Robin’s dislike of what the Sheriff has done to others. Robin hoped that the competitive pressure he put on the Sheriff’s tax collection process would cause Prince John to lose confidence in the Sheriff and remove him from office. This strategy does not appear to be working as the Sheriff has been gaining in strength and becoming better organized. One alternative strategy that Robin is considering but that has potentially serious consequences is to attempt to kill the Sheriff.

- *Reject killing as a viable alternative* – Robin Hood is already operating outside of the law by being a bandit, but nothing in the case indicates he has committed more

serious crimes. Robin could decide that attempted murder is not ethical for a variety of reasons: killing is morally wrong (deontological ethics), it is inconsistent with his character and the group's overall mission (virtue ethics), or the potential consequences outweigh the benefits (utilitarianism). Another utilitarian reason is that devising a murder plot would divert already-precious resources from the ongoing mission of helping the poor.

- *Successful attempt* – First, if Robin plans to kill the Sheriff, he needs to determine if he will do it himself or delegate the responsibility to one of his lieutenants. This is an important strategic question with the potential to send strong signals about his power and effectiveness as a leader. Second, if Robin Hood does manage to kill the Sheriff, there are several important repercussions that are hard to predict. On the plus side, his reputation as a defender of the poor and powerless may be enhanced. The resulting unrest and power vacuum may permit Robin to take control and establish a more just system of wealth distribution. He may also gain personal satisfaction from settling his vendetta. Alternatively, his constituents may view killing as unethical and/or inconsistent with the group's ethics, resulting in a loss of local support. The existing government may be willing to tolerate robbery, but the murder of an elected official is likely to bring swift retaliation. As opposed to Robin gaining increased influence, Prince John may step in himself or appoint an even stronger competitor for Robin to deal with.
- *Unsuccessful attempt* – If Robin Hood attempts to kill the Sheriff and fails, he may be viewed as a weak and ineffective leader. Not only would the Sheriff remain in power, but he would now be aware of Robin's intentions and motivated to attack the Merry Men even more harshly. Meanwhile, Robin's personal reputation as a "do-gooder" could be tarnished when people realize that he will utilize any means to accomplish his personal agenda. Therefore, there is significant risk to Robin Hood if he attempts to kill the Sheriff and does not succeed. The students should consider the circumstances that Robin Hood uses to set the stage for the attempt on the Sheriff's life. Under the right circumstances, even a failed attempt might work in Robin's favor. For instance, if Robin Hood draws the Sheriff into a skirmish while Robin is defending a group of citizens, or even defending his own life, then the Sheriff's survival might not be taken as a negative outcome.

Recent Updates

Given the fictional nature of the case, ask the students to write a short article about Robin Hood set one year in the future that might appear in *The Wall Street Journal*. The article should be based on their strategic recommendation for Robin Hood and the Merry Men. The article should have a suitable headline, be based on possible facts, and indicate what has changed during the last year as a result of Robin Hood implementing his selected strategy.

Additional Resources

1. <http://www.imdb.com/video/hulu/vi3240034329/> (1:35). *Robin Hood: Men in Tights Rap*. A very lighthearted and entertaining introduction to the mission of Robin Hood and his Merry Men.
2. For a map of Robin Hood's likely headquarters and areas of interest in Sherwood Forrest, see the following link: <http://www.boldoutlaw.com/images/dobsonmap.jpg>.

¹ Based on H. Mintzberg (1973), *The Nature of Managerial Work* (New York: Harper & Row).

TEACHING NOTE

Movie Industry (A) in 2008

Structure of the Case

The case begins by describing the paradox confronting movie theaters and their managers: despite record box office sales in 2007, the industry is in decline. Theaters are closing, attendance is flat, and people are increasingly choosing to watch movies through other delivery channels. Americans spend more than 3,500 hours annually on entertainment, but only 12 hours at the movies each year.

The second section describes the three main components of the motion picture industry value chain: studio production, distribution, and exhibition. *Motion picture studios* make the movies, and have seen increased revenues through product licensing, DVD sales, and international expansion. The top 10 studios produce over 90 percent of domestic box office receipts. *Distributors* are the “middle men” between studios and exhibitors, and take care of all steps after artistic completion, including marketing, logistics, and administration. They receive a percentage of gross profits from the studio or purchase rights to films in return for a percentage of box office receipts. While there are over 300 active distributors, a small minority (including divisions of studios) dominates in terms of market share. *Exhibitors*, classified by the number of screens per location, are the main focus of this case. Because theaters offer nearly uniform products and services, they compete primarily based on distance from home, parking convenience, and proximity to restaurants. Four companies with distinct geographic foci control 42 percent of all screens in the industry. Carmike operates in small to mid-sized markets with populations less than 100,000. Cinemark serves smaller markets, Regal focuses on mid-sized markets, and AMC concentrates on major metropolitan areas.

Theaters generate revenues from box office sales, concessions, and advertising. Ticket sales bring in two thirds of revenues overall, but have a low rate of return. It is not uncommon for the costs of film rental, advertising, and facility expenses to exceed the proceeds from sales. Concessions average 25 to 30 percent of theater revenues, but are the largest source of profit. More attendees mean more concession sales, and larger theaters are generally able to negotiate bulk discounts on supplies. Pre-show advertising is also highly profitable, though it constitutes just 5 percent of revenues (this number is anticipated to increase in the coming decade).

The case is set at the time when digital formats are starting to replace physical canisters containing reels of 35 mm film. While the costs of converting existing theaters to digital are significant (\$1.2 to 2.0 million) for exhibitors, digital production is much less expensive for the production studios (increasing their profit margins even further).

The final section details the appeal of the theater experience versus home viewing technology. Of all the reasons that people choose to go to the movies, only the place aspects (getting out of the house / going on date) are nonsubstitutable. Meanwhile, patrons are increasingly put off by high prices, interruptions (cell phones ringing), rude staff, and pre-show advertising. At the same time, the disadvantages of home viewing—waiting for releases, inferior sound systems, video quality—are declining. The case closes by asking students what theaters can do to remedy their seemingly bleak future.

Suggested Questions

1. *Perform a PESTEL (external environmental) analysis of the movie theater industry.*
 2. *Perform an industry analysis using Porter's five forces model.*
 3. *What is the profitability model for movie theaters (in other words, how do they make money)? How is this related to current trends in attendance?*
 4. *What are the key strategic issues facing movie theaters?*
 5. *What are some strategic actions/initiatives that exhibitors might consider to address these strategic issues? Which one(s) would you recommend? Why?*
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1. *Perform a PESTEL (external environmental) analysis of the movie theater industry.*

Ask students why people go to the movies. Create two columns on the board, one for historical reasons, and the other for recent/anticipated changes in motivation. Then ask students what PESTEL segment each change belongs to, and what its impact has been on competition, profit potential, and other factors.

One of the key driving forces affecting this industry has been *technological change*. Technological innovation has resulted in a proliferation of entertainment options. Movies are now readily available through DVD purchases and rentals, pay-per-view, HBO and Stars, and 100+ television channels on cable and satellite. Music is also readily accessible (more radio stations, satellite radio, Internet radio, CDs, and MP3s) and the Internet provides lots of ways to “waste” time. Technically speaking, a number of attractive *substitutes* have emerged, resulting in decreased demand for movies at the theater.

- The *giant theater screen* is not as unique as it once was, with many homes now equipped with large, flat-screen, high-definition (HD) TVs bundled with DVD players or BluRay. The average LCD screen is now 36 inches, with Sharp predicting it will be 60 inches by 2015. At the same time, prices for TVs are expected to drop from \$29 per diagonal inch to \$22 within five years. Moreover, the “big screen” is not as big as it used to be, especially in the “-plexes.” Theaters have different-sized screens, and the largest screens are reserved for the major opening weekend films.

- The uniqueness of watching the movies with a *theatrical sound system* is declining. People can buy a solid home theater system for \$1,000 to \$2,000. TVs come bundled with high-quality, relatively inexpensive audio systems that provide surround sound, just as in the theaters.
- *Not having to wait to see a particular movie on home video* – This was more of an issue when there were only three network TV stations and no cable, VCRs, or DVDs. Meanwhile, movies stay in the theaters for a shorter number of weeks, and the lag between theater and DVD release for top films dropped 40 percent between 2000 (average of 37 weeks) and 2007 (23 weeks). Studios are starting to experiment with simultaneous release to theaters, pay-per-view, and DVD, but this is not anticipated to become widespread in the next three to five years. This is still an important motive for people who want to see movies on opening weekend (a narrow market segment).

Other changes in the external environment relate to *sociocultural* attitudes toward leisure.

- *The opportunity to be out of the house* – Theaters now face greater indirect competition from coffee shops, book stores, and other venues. These alternative “hangouts” have emerged in the past 10 years, and represent shifting sociocultural preferences for where to spend our leisure time.
- The theater is still an *attractive location option for a date* - Anyone want a first date to be movie and popcorn with their date, mom, and dad?
- Sociocultural attitudes toward the movies themselves have changed. The *quality of the movie theater experience* is widely viewed as being in decline, due to cell phone interruptions, advertisements (pay \$9.00 for a movie and you have to sit through 20 minutes of ads and trailers), poor service, rude patrons, lousy movie choices, and so on. It is unknown if this is truly a decline in the theater environment or if it is fond (but false) memories.

2. *Perform an industry analysis using Porter’s five forces model.*

The movie industry is not very attractive in terms of investment or profit potential. The major film studios control access to a limited supply of movies and retain the majority of revenues from ticket sales. Without access to new releases, movie theaters would go under quickly. The proliferation of alternate sources for movies and alternative ways to spend leisure time has created strong substitutes, resulting in decreased theater attendance. Firm rivalry can be high when the “Big Four” have overlapping territories, but is dissipated to the extent that they focus on distinct geographic areas. Rivalry is exacerbated by negative or flat industry growth. Buyers individually do not have much power, but collectively exert pressure by deciding whether or not to go out to the movies (they have low switching costs, there is little differentiation among theaters, and it is cheaper to watch a movie at home). Only the threat of new entrants is low: capital requirements for theater buildings and video technology are high, and incumbents are likely to retaliate to hold on to their market share.

Factors Leading to...	Threat of New Entrants	Power of Suppliers	Interfirm Rivalry	Power of Buyers	Threat of Substitutes
High threat	<ul style="list-style-type: none"> • Customer switching costs are low • Incumbents lack proprietary technology and distinct brand equity 	<ul style="list-style-type: none"> • Suppliers can credibly forward integrate • Products (movies) are unique • Only 10 major studios • No substitute for having major films to show • Theaters have distribution contracts that tie them to studios 	<ul style="list-style-type: none"> • Slow or negative industry growth • High capital investment 	<ul style="list-style-type: none"> • Products are undifferentiated (movies, times) • Buyers have low switching costs • Buyers are able to backward integrate (movies at home) 	<ul style="list-style-type: none"> • Multiple movie delivery channels • Multiple alternative ways to spend leisure time and money • Home technology is virtually as good as theaters
Moderate threat					
Low threat	<ul style="list-style-type: none"> • Retaliation by incumbents is likely • High capital requirements • Limited access to distribution channels 		<ul style="list-style-type: none"> • Four large competitors, but each has distinct geographic focus 	<ul style="list-style-type: none"> • Multiple small buyers (individual consumers) • Buyers purchase in small quantities 	<ul style="list-style-type: none"> • “Place” aspects (get out of house / go on date) are nonsubstitutable • Theater experience remains unique for some patrons • Tickets for other entertainment events are much more expensive
Overall Assessment:	Low	Very high	Moderate	Moderate	High

3. *What is the profitability model for movie theaters (in other words, how do they make money)? How is this related to current trends in attendance?*

The “record revenues” reported in the headlines are accurate, but do not tell the full story. The reality is that attendance is off its historical high and has been flat in recent years (see Case Exhibits 1 and 2 for attendance figures, revenues, and ticket prices).

- 1946: 4 billion tickets sold
- 1997: 1.35 billion tickets sold
- 2007: 1.4 billion tickets sold

Exhibitors do not actually make a significant profit on box office revenues (loss leader), but poor attendance hurts sales of concessions and will eventually affect advertising revenues.

- *Box office receipts* represent two thirds of theater revenues, but provide minimal return as almost all profit goes to the studios. Ticket price increases in recent years have done little to increase theaters’ bottom line (average ticket price of \$5.81 in 2002 compared to \$6.88 in 2007).

Managers have little discretion beyond determining which movies to schedule at which times; all theaters show basically the same movies. Theaters have gained some negotiation power through consolidation, but this is offset by studio gains from international markets (sales were double domestic in 2007!) and DVD sales.

- *Concessions* comprise 25 to 30 percent of theater revenues on average. Direct costs are less than 15 percent of the selling price, resulting in an 85 percent gross profit margin. Concessions represent the largest source of exhibitor profit, and are influenced by three factors: attendance (more people = more concession sales), prices (based on profit maximization models), and material costs (volume discounts).

Managers could potentially try to increase attendance, increase per capita sales, or increase prices. However, moviegoer dissatisfaction with current price levels (\$3.75 for a soda? \$4.50 for popcorn?) is high. Per capita sales could potentially be increased by lowering prices, improving quality, or adding new items.

- *Advertising* constitutes just 5 percent of theater revenues, but has minimal costs and is therefore highly profitable. A Mintel report predicts that advertising revenues will increase at a rate of approximately 10 percent over the coming decade. However, audiences *hate* pre-movie advertisements. Balancing the revenues from ads with audience tolerance is an ongoing struggle for exhibitors.

Within the current business model, there is little opportunity to increase either revenues or profits (flat to downward trend). Exhibitors are being “disintermediated”—they were once the sole route through which movies reached audiences. Now there is DVD, cable TV, Internet downloads, and other options. Meanwhile, home viewing offers (near) equivalent entertainment value, at a lower cost (compared to ticket price and concessions), with fewer interruptions, less hassle, and the ability to skip pre-show advertisements. As a result, ticket sales are decreasing (both overall and per person). Anticipated growth in theaters’ core demographic (12- to 24-year-olds) is basically flat. Decreased attendance leads to decreased concessions and advertising profits, just as theaters must make significant capital investments to go digital.

What is the bottom line? Operating margins among exhibitors average a slim 10 percent; net income is marginal to negative. Across the last three years, the average net income for Regal, Cinemark, and Carmike was just 3 percent of revenues. In 2007, Carmike had a negative margin on operations. Analysts predict that at some point, the industry will lack sufficient scale to remain viable.

4. *What are the key strategic issues facing movie theaters?*

The challenge in framing all strategic issues is how to do so in a manner that is specific but does not restrict potential actions. Broadly stated, the key question is *how to create unique value in the movie exhibition business in the age of home theaters (HD, large screens, and widely available content) that produces above-average profits?*

List the key question provided above, and then cross out the word “~~movie~~” leaving just “exhibition business.” Next, write out (for comparison) the phrase: “how do we compete in the ~~horse and buggy~~ transportation business? See if anyone raises the point about dropping

the word “movie” and can explain the rationale (that is, shifting from a product-centered to a customer-centered mission). Other issues that students may raise include:

Issues	Counterpoint
<ul style="list-style-type: none"> • Reductions in the size of the core audience (low growth in customer base of 12- to 24-year-olds) 	<ul style="list-style-type: none"> • Just because the business has relied on this group in the past, must we make the same error in the future?
<ul style="list-style-type: none"> • Low revenues/profits 	<ul style="list-style-type: none"> • The business has focused on that for years—remember the box office records—but it has not fixed the underlying problem.
<ul style="list-style-type: none"> • Declining quality of the theater experience 	<ul style="list-style-type: none"> • Is the attendance decline due solely to bad experiences within the theater?

5. *What are some strategic actions/initiatives that exhibitors might consider to address these strategic issues? Which one(s) would you recommend? Why?*

Have students generate a list of ideas and then evaluate the degree to which each could potentially resolve the key strategic issue(s) facing the movie industry. How much would each idea cost? How difficult would it be to implement? Which, if any, of the ideas might serve as a basis for strategic competitive advantage? (In other words, are they valuable, rare, difficult to copy, and nonsubstitutable? Are the firms organized to capture the potential value?)

Note that the following are actions currently being undertaken by theater chains. The pros and cons of each are discussed in the following table.

Increase Revenues

- Increase *box office* revenues through differentiated pricing schemas.

Movie ticket pricing follows a simplified structure, with prices differentiated only by evening (\$9.50) and matinee (\$6.76). This is highly uncommon in the larger entertainment industry where prices vary widely based on show times, seating location, and the demand for a specific event. Under a revenue model, seat prices at the local theater would vary considerably for prime seats on a Friday night for the hottest new event film compared to a Tuesday afternoon for a largely unnoticed independent film.

- Increase *advertising* revenues by using crowd gaming technology (make it fun).

Sure moviegoers hate ads, but they are one of the few sources of profits for theaters. Why not make them fun using crowd gaming technology, an audience-level interactive game environment? Three Minds, a digital marketing firm, says “Think of it as the Wii on steroids. Motion sensors throughout the movie theater track the audience’s collective movement. Moviegoers swing, sway, and rock in their seats as

“human joysticks” that control the game. Working as a team, they direct the onscreen action using a ball and a long paddle like that in the classic Atari game “Breakout.”¹ *Brandweek* reported impressive results on a UK test of one form of the technology. Over 70 percent of audience members remembered the Volvo brand after they crowd gamed as a joystick to move an on-screen Volvo in an ad/game.

- Increase *concessions* revenues by serving better quality/increased food choices.

There’s not much room to raise existing food prices, but customers will pay more for better food (same margin on more expensive food = more profits). Most theater chains have upgraded both their breadth of food offerings (for instance, hot dogs and nachos in addition to popcorn and candy) as well as the range (for example, including Godiva chocolates as well as M&Ms). Theaters increasingly are incorporating a variety of food options such as ice cream, pizza, and high-end coffee in food court–style venues. Others have blurred the line between theater and restaurant, adding bars, lounges, and full-service restaurants within the theater complex, often just off the lobby. Some chains are licensing the spaces to restaurant management firms while others are diversifying internally.

Improve Quality of Experience

- Decrease interruptions.

Theater chains are adding more ushers and putting more thought into movie scheduling and theater assignments (think loud movies next to loud movies). Others are working with technology firms to introduce equipment to jam cell phones (currently illegal under U.S. federal law).

- Smell-O-Vision (*list this one for fun*).

This gimmick really existed. The 1960s’ innovation involved pumping smells into the auditorium. Think of a swamp smell in a Disney theme park ride. This option is not expected to return to popularity.²

- Offer expanded services.

Theaters have experimented with increasing service touch points such as babysitting, valet parking, order-from-your-seat food service, and so on. This approach would generally transition the industry back to a service industry.

- Go upscale.

The VIP lounge has arrived at the theater in many forms (think airline first class—still on the plane, but much more comfortable than coach). Examples include:

- *The VIP Room* – Individual theaters within a complex are designated as VIP areas, accessible only with a premium-priced ticket. From plush, assigned seating with waiter service to couch-style atmospheres with usher service, this approach seeks

to mimic a private screening room. Many bundle several services into a package. At the Oaks 14 multiplex in Thousand Oaks, California, for example, four auditoriums are converting to Premier VIP level. A \$16 ticket includes parking, popcorn, bar and lounge access, and reserved seating.³

- *The VIP Theater* – Gold Class Cinemas is seeking to establish 50 high-end-only theaters across the United States within five years. The *LA Times*⁴ quotes Gold Class chairman Robert Kirby as saying, “We’re redefining our business as a hospitality business.” On the menu are “seasonal menu choices such as lobster spring rolls, duck tacos, Wagyu beef burgers and crème brûlée.” Kirby explains the appeal: “We can all get from A to B, but people like to drive a BMW.”⁵ The concept has reportedly met with success in international markets.

Improve Viewing Technology

- Full digital.

Convert theaters fully to digital to maximize the quality of the image. A digital theater image at a resolution of 4096×2160 offers far greater clarity than even the best high-definition TV sets.

- IMAX[®]

Once near extinction, IMAX[®] (an acronym for Image **MAX**imum) has recently undergone a wave of expansion in theaters, locations, and content. The technology uses 70 mm prints (as opposed to the standard 35 mm) and a larger screen (minimum 72 ft \times 53 ft) that is engineered to surround the audience visually. IMAX[®] currently has over 150 U.S. theaters and over 175 titles in its library. Since 2002, the firm has had the ability to transform any standard title into the large-screen format. IMAX[®] now works in conjunction with studios to offer concurrent releases such as *The Day the Earth Stood Still* (December 2008). In 2008, IMAX[®] entered into a joint venture with Regal Cinemas to install 31 IMAX[®] Digital projection systems at Regal locations in 20 major U.S. markets. The deal expanded their existing relationship, and brought Regal’s total number of IMAX[®] theaters to 52 by the end of 2010.⁶

- 3-D

Used independently or in conjunction with IMAX[®], today’s 3-D is a much improved digital adaptation of 1950s technology which simulates depth of movement for the audience. Filmmakers are starting to go beyond gimmicks to integrate special effects more extensively into films. In 2008, mainstream family films such as *Bolt*, *Journey to the Center of the Earth*, and *Hannah Montana* were released in both standard and 3-D versions. Over 3,000 theaters were equipped with 3-D projection equipment for the 2009 release of the film *Monsters vs. Aliens*.

Diversification Strategy

- Go beyond motion pictures.

Once equipped with digital projection equipment, theater screens can easily serve as extra-large televisions with mass seating capacity. Look for more concerts, sporting events, television season openers and finales, corporate and shareholder meetings, and other “events” to appear at your local multiplex. The NFL, NBA, and college football have already experimented with showing broadcasts of sporting events in digital theaters. The 2009 BCS Championship game is being broadcast live, in 3-D, to 80 theaters across the nation, with ticket prices of \$20 on average.^{7,8} Some technological obstacles remain, such as satellite broadcast interruptions; most theaters also lack permits to serve beer (a staple at many sporting events).

Other (Less Attractive) Options *(not listed in table)*

- Charge more for existing goods/services.

Box office prices and concessions are about at maximum levels. When viable substitutes are available, you cannot expect simply to increase prices without providing additional value, without losing revenues.

- Exit the market.

This is likely a premature option for a \$10 billion industry with 1.4 billion ticket sales. Let’s try to improve it before abandoning ship.

- Eliminate DVD sales (or alternative distribution methods)

Studios gain significant revenues from DVD sales. Theaters would be attacking their own suppliers. Generally, it is hard to put any genie back into a bottle.

Strategic Initiative	Pros	Cons	Evaluation
Expand revenue			
Box office (differential pricing)	<ul style="list-style-type: none"> Technologically easy to implement May increase overall traffic Some may be willing to pay more 	<ul style="list-style-type: none"> Contracts are usually fixed per theater, per screening, per viewers Acceptable to customers? 	This approach is widely used for other entertainment events; Airlines have been criticized for debundling “free” services
Concessions (better quality/increased food choices)	<ul style="list-style-type: none"> Margins can be considerable (may not exceed the 75% premium on popcorn) 	<ul style="list-style-type: none"> Considerable overhead costs The food service business ranks high in number of firm failures 	Limited benefit, as better food is available <i>everywhere</i>
Advertising (crowd gaming)	<ul style="list-style-type: none"> Makes an unlikely aspect fun Overcomes negative of an existing evil 	<ul style="list-style-type: none"> Equipment costs Desirability? Implementation (spilled popcorn, etc.) 	Theaters could charge more / have more advertising; the technology could be incorporated into feature movies as well
Improve quality of experience			
Decrease interruptions	<ul style="list-style-type: none"> May reduce bad behavior (one of the reasons people stay away) 	<ul style="list-style-type: none"> Does not give customers a new reason to go to the theater 	Unlikely to create value
Smell-O-Vision	<ul style="list-style-type: none"> Movies that engage the nose as well as the eyes? 	<ul style="list-style-type: none"> May create new reasons for audiences to stay away – think sports flick! 	Unlikely to create value
Expand services (babysitting, valet, etc.)	<ul style="list-style-type: none"> Added value for some patrons Reduces reasons to stay away 	<ul style="list-style-type: none"> Is demand sufficient? Some require new facilities/staff in no-load/peak load business 	Possibly valuable, but doesn’t really give patrons a new reason to go to the theater
Go upscale	<ul style="list-style-type: none"> Redifferentiate the industry (for some) Follows the club VIP model 	<ul style="list-style-type: none"> What to offer? Reconstructing theaters is expensive. 	Attractive if value differentiation; most viable in upscale markets (Regal, AMC)
Improve viewing technology			
Digital	<ul style="list-style-type: none"> Superior image clarity Reduced distribution costs for studios Gateway for alternative programming? 	<ul style="list-style-type: none"> Very costly Will consumers pay higher ticket prices or will <i>more</i> stay away? 	May end up being a necessary transition to a new industry standard
IMAX	<ul style="list-style-type: none"> May bring in viewers, especially for big thriller pictures Experience not yet replicable at home New format standard? 	<ul style="list-style-type: none"> Not as much appeal for dramas Very high building/management costs High ticket prices (\$15/show) mean lower per capita attendance 	Valuable, but on a limited scale; most appropriate for Regal and AMC in larger cities – theaters need a large population base to justify the expense
3-D	<ul style="list-style-type: none"> New experience if done well New format standard? 	<ul style="list-style-type: none"> Viewed as a gimmick? 3-D at home? (DVD + glasses) 	Can it become part of the whole experience? Can it be replicated at home?
Diversify product line			
Go beyond motion pictures	<ul style="list-style-type: none"> Largely untapped revenues May bring in non-peak audiences (Sunday afternoon, Monday night) 	<ul style="list-style-type: none"> Beer permits needed Social limitations (dark, stuck in theater seat, talking permitted?) 	Real possibility; may need VIP-type areas to be most effective

Recent Updates

See The Movie Industry (B) in 2011.

Additional Resources

1. <http://bigthink.com/ideas/24553> (3:21). *All Films Must Entertain*.
A filmmaker talks about the nature of films as entertainment. This clip can be used to get students thinking about why people go to the movies, and what they are looking for out of the movie theater experience.

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- ¹ http://threeminds.organic.com/2007/06/crowd_gaming_changing_the_movi.html, posted 06/28/2007; accessed: December 11, 2008; for companies, see www.crowngaming.com, for example.
- ² Sources on Smell-O-Vision: To Boost Attendance, Industry Seeks Smell-O-Vision Sequel; T L Stanley; Brandweek; March 24, 2008 (49), 12: 8. Also see the University of Florida, George A. Smathers Libraries, The Belknap Collection for the Performing Arts, URL: <http://www.uflib.ufl.edu/SPEC/belknap/exhibit2002/smell.htm>; accessed January 5, 2009.
- ³ Josh Friedman, "Upscale chain aims to be the BMW of movie theaters," *Los Angeles Times*, Sunday, September 7, 2008.
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ Source: http://www.imax.com/corporate/pdfs/Corporate_Profile_March_2008.pdf, accessed January 6, 2009.
- ⁷ Source: "Joseph De Avila, for football fans, seeing TDs in 3-D," *The Wall Street Journal*, January 7, 2009: D1.
- ⁸ Ibid.

TEACHING NOTE

Movie Industry (B) in 2011

Structure of the Case

This case provides an update on changes in the movie industry since 2008. Theater operating profits remain largely unchanged despite steep rises in ticket prices and recession-driven increases in attendance. A credit rating agency warns that exhibitor revenues and profitability continue to face significant challenges, due to factors largely beyond management's control.

One of the most striking differences between 2008 and 2011 is the ongoing transition to digital and 3-D technology. The major theater chains took two different approaches to addressing the lack of a digital content standard and the need for financing. In 2007, AMC, Cinemark, and Regal formed Digital Cinema Implementation Partners to establish a technical standard and to negotiate with five of the major studios to provide digital content. They also financed their equipment conversion through the partnership, securing \$660 million collectively. Each pays a \$5,000 to 10,000 per screen conversion charge as well as a small royalty fee on each admission. Carmike took a different tact, negotiating a lease-service agreement with Christie Digital Systems. The firm pays an upfront conversion fee of \$800 and maintenance fees of \$2,340 per screen annually; any additional revenues belong to Carmike. By the end of 2009, Carmike had converted 90 percent of its screens, while DCIP firms had converted only 25 percent. Carmike also has an edge with 3-D capability on 22 percent of its screens, compared to DCIP's 10 percent. Notably, 3D screens generated one third of box office admissions, and 40 percent to 50 percent of theater revenues in 2010.

Meanwhile, the home theater threat continues to grow stronger. DVD sales (a major revenue source for studios) have dropped precipitously, due largely to the expanded availability of rentals and pay-per-view. Studios are trying to combat the increasing trend toward viewing/renting (as opposed to buying) movies by shortening the DVD release window and expanding direct-to-viewer delivery (actions which hurt exhibitor profitability). Acknowledging their mutual dependence, studios and exhibitors have negotiated an agreement that permits the accelerated release of one or two movies per year. International sales continue to outpace the domestic market by a significant margin, holding potential for studios and exhibitors alike.

As in the case with previous recessions, movies have provided an affordable escape. Same-period attendance rates have increased from 5 percent to 15 percent, but analysts note that admissions still remain below peak levels and are highly dependent on the release of blockbuster films. Theaters have taken advantage of the renewed interest by increasing prices, but at least one chain pushed too far (\$20 per ticket) and had to back down amidst a

public outcry. The most significant reason for increased revenues is the 3-D technology (3-D receipts grew 375 percent!). The technology appears to be drawing more people into the theater, and exhibitors have been able to sell 3-D tickets at a hefty premium to cover glasses, equipment expenses, and higher film rentals. Research indicates, however, that studios are appropriating a large portion of the 3-D revenue increases.

Other revenue streams have not seen as much growth. Virtually all admissions continue to be for studio movies, with only limited experimentation with other content (for instance, operas, the NBA all-star game). Per capita spending on concessions has not kept up with ticket prices. Many of the expanded services (babysitting, valet, VIP clubs) do not cater to the core demographic (teens and young adults), and it is not yet clear how much power they have to draw 30- to 50-year-olds back into the theater. Advertising continues to be constrained by patrons' tolerance and has only limited potential to bring in increased revenues.

Alarming, summer 2010 admissions posted a 3 percent decline from 2009. The increased costs of going to the theater (ticket prices, 3-D premiums, fees for added services, and so on) seem to be causing audiences to be more selective about which movies they see at the theater. The industry is pinning its hopes on future blockbusters to keep drawing people in. Otherwise, it is not clear what exhibitors can do to improve their financial performance.

Suggested Questions

1. *Has the outlook for the movie industry improved any by 2011?*
2. *What strategic actions might exhibitors take in 2011 and beyond to improve their situation?*

1. *Has the outlook for the movie industry improved any by 2011?*

Sadly, nothing has changed significantly. Revenues from 3-D are up, but theaters do not appear to be profiting. See the gross margin comparison between Q2 2009 and Q2 2010 in the following table (most 3-D price increases went into effect in Q2 2010). There is also some evidence that the novelty of 3-D movies may be waning.

	Q2 2010	Q2 2009
Regal		
Exhibition costs as % of revenue	53.3%	54.2%
Operating profits as % of revenue	9.0%	12.2%
Carmike		
Exhibition costs as % of revenue	56.8%	57.6%
Other theater operating costs as % revenue (unknown if this directly relates to digital or 3-D)	62.9%	59.6%
Operating profits as % of revenue	4.1%	8.8%

Meanwhile, studios are seeking to recover revenues and profits from declining DVD sales through increased pay-per-view, shortened release windows, and making films for international audiences. Note that these actions hurt the exhibitors (or at least provide no mutual benefit). While current agreements limit the number of accelerated releases, it is not clear how long studios will voluntarily limit their revenue potential from alternative streams to protect their revenues from theaters.

In many ways, the transition to digital and other events of 2008–2010 set the stage for whatever comes next. Retrospectively, we may ultimately define the phases of movie industry development as follows:

2000 – 2005	Blockbusters films and revenues
2005 – 2007	Dawn of alternative viewing modalities
2008 – 2010	Investments in digital enabling technologies
2011 – ????	Theaters beyond movies

2. *What strategic actions might exhibitors take in 2011 and beyond to improve their situation?*

- *Alternative content* – This approach has not been fully exploited, and could be a potent tool in lowering supplier power and increasing revenues. Simulcast of concerts is an emerging growth area. This is very attractive for bands that face declining music sales and decreased profits from touring (due to consolidation of tour operators and venues). Most artists are “self labeling” and seeking revenues.
- Continued experience enhancements (food, beverage, upscale environments, and so on) have potential, but must be developed with a particular target audience in mind. Adding upscale environments or providing babysitting to appeal to older market segments must be accompanied by advertising to lure them back into the theaters.
- *International expansion* – Of the four major exhibitors, only Cinemark has expanded significantly outside of the United States. The exhibitors face many of the same supplier power issues in overseas markets, but there is immense potential for growth. In addition, companies from other countries are trying to enter the movie production business (see two videos about Chinese efforts). An increased number of suppliers internationally will decrease the power of domestic suppliers. Foreign-made films may also have appeal to ethnic groups in the United States, if they are concentrated enough to generate sufficient demand. Consider the market data provided next:

	12/31/2009			12/31/2005		
	Theaters	Screens	%	Theaters	Screens	%
USA and Canada	294	3,830	78%	200	2,417	73%
US and Canada attendance	165,112		70%	105,573		64%
Avg attendance per	562	43		528	44	
International Locations						
Argentina	9	74	7%	9	77	7%
Brazil	46	388	36%	34	295	28%
Central America ¹	12	81	8%	10	67	6%
Chile	11	87	8%	12	91	9%
Columbia	11	64	6%	7	44	4%
Ecuador	4	26	2%	4	26	2%
Mexico	31	296	28%	29	282	27%
Peru	6	50	5%	3	30	3%
Total international	130	1,066	22%	108	912	27%
Total international attendance	71,622		30%	60,104		36%
Avg attendance per	551	67		557	66	
Total screens	419	4,986		308	3,329	
Total attendance	236,734			165,677		
Avg attendance per	565	48		538	50	

Recent Updates

1. Michael Cheply, "Charging a premium, at a cost: As movie prices rise, audiences shrink," *The New York Times*, August 1, 2011, B1.
<http://www.nytimes.com/2011/08/01/business/media/as-ticket-prices-rise-theater-audiences-shrink.html?scp=1&sq=charge%20premium&st=cse>.
 - A historical, temporary drop in ticket prices from \$8.01 in 4Q 2010 to \$7.86 in 1Q 2011. This was likely due to patrons opting out of 3-D movies in favor of cheaper 2-D.
 - The industry is still expected to see a 3 percent increase in average ticket prices by year's end. Theaters have seen price increases for 17 years straight, outpacing general inflation by more than one half since 1999.
 - Over this same time period, theater attendance has dropped 10 percent. The percentage is higher if taken as a share of the growing population.

- Domestic box office proceeds are down 5.55 percent from \$6.80 billion to \$6.42 billion. Leading directors like Steven Spielberg and Peter Jackson are advocating a drop in 3-D premiums (though some, like Jeffrey Katzenberg, favor 3-D).
 - What are theaters doing with the extra cash from 3-D sales? Regal and Cinemark have raised their quarterly dividends by 17 percent (18 to 21 cents). Carmike has paid down \$100 million in debt; AMC has also made debt payments.
 - The theater owners association estimates the 3-D add-on to be about \$3 on average. The studio and theater each get roughly half, and then each also pays about 50 cents to a technology provider (theater for licensing, studio for glasses).
 - Some local price increases, especially in major cities, have been significantly higher. Santa Monica, California, has seen increases of 47 percent on average, 67 percent for children's tickets, and 95 percent for seniors, since 2001.
2. Michelle Kung, "Corporate news: Unlimited theater pass tries again," *The Wall Street Journal*, August 31, 2011, B3.
<http://online.wsj.com/article/SB10001424053111903352704576540893088975316.html>
 3. Tim Molloy, "MoviePass tries unlimited plan again, this time with help," August 30, 2011. <http://news.yahoo.com/moviepass-tries-unlimited-plan-again-time-help-155634752.html>

MoviePass Inc (in partnership with Hollywood Movie Money) is planning to test a new subscription service that will allow patrons to attend unlimited movies for a flat monthly fee. Participants will be able to go to the MoviePass website and print a voucher for their selected movie, which they then present to the theater. Subscription fees will vary by market. The program had been announced previously in June 2011, but was discontinued when theater owners refused to participate. Theater owners are concerned that unlimited theater passes will erode the guest experience and object to external interference in setting ticket prices. MoviePass disagrees, likening its vouchers to traveler checks, and noting that theaters still receive the full admission price. Because most major theaters have preexisting contracts with Hollywood Movie Money, they will not be able to opt out of the program this time. MoviePass's profit model depends on subscribers underutilizing the service.

Additional Resources

1. <http://video.nytimes.com/video/2010/06/15/movies/1247468007561/china-s-blockbuster-gamble.html?scp=25&sq=china&st=cse> (2:29). *China's Blockbuster Gamble*. A short clip that illustrates the potential threat of China entering the film production industry.
2. <http://video.nytimes.com/video/2010/11/07/business/media/1248069266276/chinese-animation.html> (4:48). *Chinese Animation*. Another short clip that illustrates the extent of the transformation of the Chinese entertainment industry, with important implications for American filmmakers (and by extension, movie theaters).