

Marketing Strategy in Action

America's Movie Theaters

The price of admission to many of America's movie theaters sometimes buys an experience sensible people would pay to avoid. The blackened and musty carpet in the lobby could be a relic from the silent-screen era. The \$2.50 bucket of popcorn—that's the small size—holds about 10 cents' worth of corn covered with a strange liquid, perhaps derived from petroleum. Beneath the broken seats, sticky coats of spilled soda varnish the floor. The screen is tiny, the sound is tinny, and the audience is rude. Oh, and one more thing: The picture stinks.

Many theater owners bought into the business at low prices after antitrust rulings forced the major Hollywood studios, which had previously owned the leading theater chains, to give up their movie houses. The new owners got a great deal. They owned the only show in town (sometimes literally), and the studios promoted the movies. As the easy profits rolled in, many exhibitors lost contact with their customers. They milked the business and let their theaters deteriorate.

But the success of videocassette rentals and cable TV during the early 1980s converted many moviegoers to stay-at-homers. These changes forced exhibitors to recognize their folly. By 1985, theaters were no longer the only show in town. Attendance dropped 12 percent over 1984 figures. The \$5 billion-a-year American movie theater industry was fighting for survival.

This put the theater owners in a bind. To regain the loyalty of their customers, they needed to pour money into refurbishing, rebuilding, and restoring the glamor of moviegoing. But at the same time, they were being hurt by the new competing technologies.

To survive during these changes, exhibitors developed a couple of temporarily successful strategies. One was to develop their lobby concession stands as a source of revenues. To keep some of their customers, many theaters kept ticket prices fairly low—the average price in 2005 was about \$6.41—a price that lagged behind inflation. Once inside, though, moviegoers were a captive market for the popcorn, soda, and candy sold at markups of 500 percent or more. A well-run concession stand generated at least \$1 of sales and as much as 75 cents of profit per ticket buyer. Exhibitors found they could survive by charging ever more outrageous prices for popcorn and sodas.

The profits from concession sales can be considerable. For instance, a box of M&Ms that costs a dollar at a gas station goes for almost three times that at a movie theater. The markup on popcorn is astronomical—\$30 of corn can be sold after popping for almost \$3,000, and a soda that might cost 15 cents sells at the concession stand for nearly \$4. As it stands now, only about one-third of moviegoers buy anything from the concession stand.

The other strategy was the multiscreen theater. During the 1980s, exhibitors began chopping up their grand old theaters into smaller ones

that many moviegoers have come to hate. Individual exhibitors did great, though (as long as they were the only theaters in town). A theater with four screens, about the national average, is four times as likely to book a hit picture; the exhibitor then shows the hit in the largest room and less popular movies in smaller theaters. In the 1990s, the trend to multiscreen theaters gave way to the construction of multiplexes—theaters with 20+ screens (often with stadium seating) around a central core with restaurants, game rooms, and elaborate concession stands.

But at a macro level, huge multiplexes may not be what the industry needs. There simply aren't enough movies doing business at any one time to fill 20 screens. By the end of the 1990s, all four publicly traded theater chains in the United States were losing money and watching their stock prices plummet. Ticket sales have been basically flat in recent years—from just under 1.5 billion tickets sold in 1999 to 1.4 billion in 2005 (which translated to \$9 billion in revenue) in revenue. However, when you factor in the growing population, that translates into a 15 percent per capita decline in moviegoing (and a per capita decline of 73 percent from 1950). As a writer for *Variety* said, "Filmgoing used to be a part of the social fabric. Now it is an impulse purchase."

Marketers that understand their customers can gain an advantage. Many people believe that movie theaters are competing with the DVD player and VCR. But Madelyn Fenton, director of marketing for American Multi-Cinema in Los Angeles, says that DVDs and VCRs have actually helped movie theaters by addicting some people to certain actors, directors, or movie genres. Fenton claims that the real consumer decision is whether to stay home or go out. Most people have limited free time and many ways to spend it. Movie theaters need to make the "going out to a movie experience" more positive than the "stay-at-home experience." One way to do that is to offer a better experience when going to a movie.

As one exhibitor says, "We have to upgrade the quality of the moviegoing experience." His newest theaters have granite-floored lobbies with painted murals, spacious auditoriums, and first-rate sound and projection. The higher construction costs paid off in more customers at higher-than-average ticket prices and a splendid \$1.35-per-ticket take at the concession stand.

In areas with lots of competition, theater chains are increasingly attempting to differentiate themselves by modifying the moviegoing environment. For instance, AMC in Los Angeles has tried to develop an advantage over its competition by offering patrons something more than popcorn and Goobers at a concession stand. Many of its theaters contain a café offering premovie and postmovie taste treats such as crab cakes, salads, gourmet pizza, croissant sandwiches, and egg rolls. So, instead of going to dinner and a movie, consumers can go to dinner in a movie theater.

To make the movie experience more convenient (by cutting down on standing-in-line time), AMC allows customers to purchase tickets online or phone ahead and pay with their credit cards. In some theaters, AMC has installed self-serve dispensers of tickets and vouchers for the concession stand. AMC has tried some other marketing ideas to encourage moviegoing. It has a MovieWatcher program targeted at the frequent moviegoer. For every movie they attend members get points that qualify them for prizes, including posters and special movie screenings. "We are trying to develop a loyal customer base," says AMC's Fenton. Check out its Web site (www.amctheatres.com) to learn more about the AMC theater experience.

Of course, despite the recent trends and experiments with modifying the movie environment, there are still plenty of grungy movie theaters with the same old concession stands. Perhaps the bottom line is that the concession stand is very important to theater profits whether it sells Milk Duds and popcorn or cappuccino and cheesecake.

Discussion Questions

1. The VCR is a physical aspect of the marketing environment that has affected moviegoing behavior in the United States. Compare and contrast the consumption situations of watching a movie in a theater versus seeing the same movie at home on your DVD player or VCR. Discuss the reciprocal interactions among environment, behavior, and cognitive and affective responses. What long-term effects do you think the in-home VCR environments will have on moviegoing? What can movie theaters do to improve the situation?
2. What macroenvironmental factors might affect moviegoing behavior (both decrease and increase)? Consider their impacts on different market segments. What marketing implications does your analysis have for theater owners or movie companies?
3. Analyze the information acquisition, purchasing, and consumption environments of different movie theaters in your local area. What recommendations do you have for changing these environments to increase sales and profits?
4. Analyze the effects of the consumption situation at movie theaters on consumers' purchase of snacks at the concession stand. What could theater owners do to change the purchasing and consumption environments in their theaters to encourage higher levels of snack consumption and greater sales at concession stands?

Sources: Motion Picture Association of America Web site (www.mpaa.org); "Business: Apocalypse Now," *The Economist*, January 15, 2000, p. 70; Cyndee Miller, "Theaters Give 'Em More Than Goobers to Win Back Viewers," *Marketing News*, October 1, 1990, pp. 1, 6; March Magiera, "Theater Chains Applaud Fall Promotions," *Advertising Age*, September 16, 1991, p. 27; Alex Ben Block, "Those Peculiar Candies That Star at the Movies," *Forbes*, May 19, 1986, pp. 174–176; Robert W. Butler, "Over-priced Popcorn May Be Worth the Cost," *The Kansas City Star*, May 11, 2006.