Can you afford a movie tonight? Or rather, will there be one for you to see?

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Can you afford a movie tonight? Or rather, will there be one for you to see?

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By Lynda Irons

The numbers are not looking good. September unemployment is at 9.8 percent, up from 8.9 percent in April 2009 [1]. The Consumer Price Index for all items except food and energy increased 0.2 percent in September after increasing 0.1 percent in August [2]. And according to the National Association of Theatre Owners, average ticket prices in the United States have increased from $5.65 in 2001 to $7.18 in 2008 [3], representing nearly a 25 percent increase.

While it appeared for a while that consumer spending was on the uptake, recent reports indicate that consumers are becoming a bit more hesitant about opening their wallets as indicated by a 0.5 percent decline in September 2009. The Commerce Department said this was the largest decline since December 2008 [4]. As a result of these continuing economic factors, including the impact of the Internet, the motion picture industry has significantly changed the way they do business.

The numbers in Figure 1 reflect overall gross of the tracked films released by the major studios that year [5]. With only 2 months remaining in 2009, the movie picture industry is so far experiencing a 12 percent decrease in overall gross receipts from 2008. While the box office grosses did hold relatively steady from 2007 to 2008, attendance dropped 4.8 percent during that time. It can be speculated that the higher grosses can be explained by the higher ticket prices [6].

Figure 1

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Warner Brothers has consistently garnered the lion’s share of the market place, ranging from 12.9 percent market share in 2004 to the number one position so far in 2009 with 20 percent [7]. However, according to the March 19, 2009, Industry Survey Reports, Warner Brothers (part of Time Warner Inc.) revealed that they plan to reduce their global workforce by nearly 10 percent. This represents nearly 800 jobs [8]. The report continues by noting they plan to release 15 fewer films, citing “a changing entertainment business landscape, shifting consumer demand, and the overall state of the economy.” [9]

Warner Brothers is far from being alone as the economic situation wreaks havoc with all the studios’ business models. Actions ranging from downsizing, closing independent film labels, restructuring, and consolidating operations are all part of this new industry landscape. Standard and Poor’s reports that the industry’s stock index performance indicators has decreased dramatically, including a 42.3 percent decline in 2008 versus a 38.5 percent decrease in the S&P 500 Index [10].

As part of the shifting environments, the industry has been casting its collective eye toward other outlets for distributing their content as the motion picture industry represents a relatively small portion of the total entertainment dollar spent. Other forms include home video sales (which declined in 2008 5.5 percent), pay-per-view, and video-on-demand, premium movie channels, and Internet downloads. Consumers spent nearly 50 billion in 2008 to be entertained [11]. The Internet and the rapidly increasing focus on mobile devices are forcing the industry to “refocus” its traditional models. Developments such as iTunes, Hulu.com, MSN Video, and Amazon Digital on Demand service are allowing the studios to distribute their content in the digital mediums [9]. While the industry continues to make films, it is no longer relying strictly on the box office for its revenue streams as the traditional gap between box office release and DVD release has “shrunk to 30-45 days (from 60 to 90 days) [12].

Industry Survey Reports notes that DVDs costing the lower end of the price range (<= $20) tend to be purchased by consumers while the higher end (>=$25) are rented. Still, even with the lower prices, consumers are not purchasing or renting DVDs as they used to. Sales and rentals climaxed in with $24.1 billion in 2006, dropping to $21.6 billion in 2008 [13].

Additionally, the average cost of making a movie has risen from $105.8 million in 2003 to over $106.6 million in 2007. While only a .75 percent increase, it is still higher than the Consumer Price Index. Those costs are passed to the consumer in higher ticket prices as it costs the distributors more to rent them as rental fees typically average 50 percent of ticket sales [14].

The challenges for the movie industry are complex and multi-faceted. New forms of content distribution are coming to the forefront as the traditional movie-going experience is undergoing changes. Movies are not staying in the theaters as long; production costs are increasing; the rise of other viewing opportunities; consumer whimsy and fickleness; and the fact that the consumer doesn’t have the disposable income to afford the experience are all leading toward a gradual turmoil in the industry.

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Endnotes


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[5] Figure 1.


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ONE THOUGHT ON “CAN YOU AFFORD A MOVIE TONIGHT? OR RATHER, WILL THERE BE ONE FOR YOU TO SEE?”
Generally speaking I agree with what you are saying because your logic is so on point that a fifth grader would be able to comprehend it.