How to Revolutionize the Film Industry in the 21st Century
New Business Models to Meet New Challenges
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Seismic changes have occurred in the film industry over the past couple of decades, brought about by new technologies that have altered the way the public accesses and views movies.

In this study, we will analyze:
• Changes in the motion-picture value chain
• Studio influence over the movie listings and piracy of content
• Distribution channels
• Cases of successful cultural interdisciplinary offers
• Movie theater deal proposals
• On-demand screening
New Challenges in the Film Industry

A DREAM MACHINE
Cinematography was born in December of 1895 when the Lumière brothers presented the first screening of a movie in Paris. Since then, this industry has assumed impressive global dimensions, with ticket sales of US$38.6 billion in 2016 and projected growth through 2020 led by China. Nevertheless, the twentieth-century film dream machine faces a new wave of challenges with the introduction of new consumer habits. For the past two decades especially, with the advent of new technologies and the expansion of the Internet in the 21st century, societies have a wider and more varied choice of leisure activities to choose from.

New distribution channels and competition from other screens – such as video on demand and theater on demand – push movie theaters to improve their value propositions and come up with a direct message that is clear and broad enough to convince millennials that a big-screen experience is worth the cost and effort. If the new generations do not make a habit of going to the movies on a regular basis in their teens, they probably won’t go as adults either. It’s a trend that no industry looking at the long term can afford to ignore.

We must keep in mind that (as social surveys confirm) consumption of audiovisual media and movie-theater attendance is still in high demand, along with music and books. Growth in entertainment consumption has been exponential because, as noted by Baricco, the speed at which the system moves has changed:

“Boredom is the enchanted bird that incubates the egg of experience. Beautiful . . . . now take a child today and look for the boredom in his life. Notice how quickly the sensation of boredom overtakes him when you slow down the world around him.”

Due to these general changes, traditional consumption habits have also changed, along with the culture. Social studies carried out by José Vidal Pelaz López and Pablo Pérez López found that this trend has spread particularly in countries where movies have moved from theaters to home televisions and other electronic devices. Today’s consumers do their own scheduling: they decide on the content they prefer without the need to arrive at a particular time to view it. Everything is at the touch of a button, without device limitations.

Movies and movie theaters have been dealing with changing consumption trends ever since their invention. Some studies\(^3\) show that between 1930 and 1933, movie theaters lost 50% of moviegoers while home radios increased from 40% to 60%. Similar changes were seen with the arrival of televisions and videotape and DVD rentals.

To deal with these changes, movie theaters resorted to various resources to attract moviegoers, such as air conditioners in the 1950s, 3D screens, and surround-sound systems.

The table below outlines the strengths, weaknesses, opportunities, and threats (SWOT) that movie theaters face in the current climate.

### SWOT Analysis of the Movie Theater Distribution Outlet

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Source: Prepared by authors

“Movies have undergone constant technological changes. . . . The digital revolution has been not only technological and industrial, but also aesthetic.”


THE FILM INDUSTRY VALUE CHAIN

A value chain should be understood as the sequence of steps that connects content creators to their consumers and manufacturers to their clients. As in every business model, those who control many point-of-sale and distribution locations have incredible negotiation power over the rest. This is because closing a product outlet implies losing contact with the final buyer. Today, the greatest source of income from investment in a movie is from people buying tickets to watch that movie in the theater. Without screen access, creaters, producers, and distributors do not have a way of placing their productions in front of consumers. If some production companies propose reducing the current 90-day window before making new releases available in other formats and channels, movie theaters will be even more challenged to get moviegoers off their sofas and heading to the movies in their free time.

The order of the links in the value chain and consumer behavior started practically with the birth of the industry. It was then that the movie industry became one of the basic pillars for understanding the cultural development of societies, due to its “aesthetic weight, business and star system, dream machine, marketing channel, and means of communication.”

It presented itself as an ideal in a time of photographic objectivism. According to Peixoto da Silva, the big screens introduced substantial alterations to social habits. Being a much more accessible form of entertainment than theater, it became a cultural vehicle that reached a large portion of the population. This widespread growth came with the technology boom during the interwar period (1919-1939). But it was during the Second World War (1939-1945) that the production and popularization of reels skyrocketed.

Cinema internationalization was a fundamental theme in Washington’s economy and politics. Guback adds that new and favorable foreign operating conditions made it possible for American producers to become professional members of foreign industry associations during the cinema boom. On the other hand, foreign parties did not seek the same representation in the American scene. This situation generated a shift in the structure of the business networks that have left inertia and contemporary legacies, such as the major Hollywood studios having control of most of this business.

4. Pelaz and Rueda, Ver cine: los públicos cinematográficos en el siglo XX, 9.
THE EFFECTS OF PIRACY
Every industry seeks the benefits of digitalization of its business, as it makes production costs, management, and distribution notably simpler. But this process of leaving the analog model behind entails raising entry barriers to the control of access to content of new competitors. While traditional movie reels were in the hands of only a few, digital copies are now in the hands of millions. Two opposing views have been presented with respect to the illegal Internet distribution of audiovisual content. A negative viewpoint asserts that this practice markedly harms the industry, as consumers do not have to pay the established cost for accessing content, resulting in lower margins. A positive viewpoint, pushed by new actors in the industry, some consumer associations, and political parties such as the Pirate Party, maintains that not all illegal downloads are lost sales and that this is a positive practice that boosts sales.

In addition to clear regulations and adequate tools from the government, industry experts agree that the best way to combat the proliferation of illegal copies is excellent customer service and giving the consumer valuable and unique offers that make for a superb user experience. There are plenty of examples in other areas, such as the video game sector, which has survived piracy from the beginning. On-demand video services have helped improve customer service, as they facilitate content access. We will discuss this in the next section.

Today’s consumers do their own scheduling: they decide on the content they prefer without the need to arrive at a particular time to view it.
New Viewing Models

VIDEO ON DEMAND
Even if there were some video-on-demand (VoD) experiments in Hong Kong and England earlier, its commercial boom for the home consumer started at the beginning of the 21st century when the Internet and high-speed DSL (and later fiber optics) gained popularity. VoD became the great new tool in home visual-content and movie viewing.

We can find an excellent example in the United States market, where the extension of VoD platforms has been consolidated for years in giants such as Netflix, Hulu, and Amazon Instant Video. Their applications are offered on different technological platforms with millions of subscribers; at the same time, movies were able to increase their revenue, average ticket prices were raised, and the number of ticket sales remained the same.

Why do we foresee this great future for VoD? Basically, because it responds to the demands of young consumers. Dubbed “cord nevers,” these consumers are not willing to pay for traditional cable or satellite TV service, and this is a trend that will continue to rise as the digital generations grow. The reaction of the satellite and cable companies has been to join high-speed Internet providers to create an attractive cross-offer of content and service.

The fusion of content and technology is a done deal. The possibilities of 3D immersion and virtual reality set the pace for this new movement. Nevertheless, the majority of directors prefer that their movies premier on the traditional circuit, with trailers on the big screen. What place do movie theaters have in the content revolution? Some answers to this paradigm are analyzed in the next section.

Movie theaters will continue to be challenged to get moviegoers off their sofas and heading to the movies in their free time.
While traditional movie reels were in the hands of only a few, digital copies are now in the hands of millions.
THEATER ON DEMAND
Theater on demand (ToD) has a simple principle: consumers decide what is offered in the next viewing session at a movie theater. Consumers reserve – and buy – movie tickets through an online platform. If the minimum number of viewers sign up a certain time before the screening, it happens. If not, it doesn’t. This arrangement minimizes management costs and the risk of screening a movie that does not have viewers.

Some big names include Gathr and Tugg, two of the business pioneers that promote this initiative in the United States, New Zealand, and Australia. Their business model breaks with movie theater tradition and that of producers: they license a movie project from their catalog to a person from their user community. They agree on a set price to begin the screening and then return a share of box office sales to the event organizer, who is in charge of logistics, operation, service, and monetization. In Europe, this model is imitated by Screenly (Barcelona) and ourscreen (United Kingdom). This initiative will be continued by other local players in the following years.

Despite ToD being a direct competitor to traditional movie screenings, the big distribution companies back the initiative. AMC, Regal, Landmark, Cinemark, Carmike, Rave, BowTie, Studio Movie Grill, Laemmle, Galaxy, and Maco are a few of the investors in the new platforms in the United States. Why do they gamble on their films here? Because they do not believe that it is destroying the traditional market, but rather that it gives them a new potential avenue to reach a public eager for these new experiences.

For these reasons, ToD is a growing revolution, as it can turn any movie theater into a cultural audio-visual center, with its own showings and discussions. It is a new way of expanding public values through a different experience that calls for the public to return to the cinemas. Why not consider it in off-peak hours or on low-attendance days, for example? A proper phone app with survey capabilities is an excellent tool for forming bonds between those locales and local communities. And it gives screening power to Generation Z users who love having the control of choosing what they watch.

The Internet explosion is a unique opportunity to detect feelings by listening to what people say on social media and to offer them specific deals.
Strategies for the 21st Century

FROM THE SCREENWRITER TO DIGITALIZATION

The generation that watched movies from the Second World War until the mid-1980s consumed genre movies led by characters and actors such as James Bond, John Wayne, and Sylvester Stallone. But in the last few decades, writers such as David Mamet have pointed out that an important change motivated the public to show up in movie theaters: studios focused on placing their bets on franchise films, which attract a certain type of public that is “…self-selected and preexistent. All industries point towards monopoly.”8 Such is the belief of author Caparros Lera, who calls this “consumerist cinema.”9

What are the characteristics of these types of movies? It’s about mass films, which originated with the partnership of studios as a source for TV content, fueling a new industry boom in the 1980s. This phenomenon arose from the bankruptcy of the owners of the major studios in the 1970s (20th Century Fox, Metro-Goldwyn-Mayer, United Artists, and Columbia), which would force a change of ownership into a conglomerate of groups made up of different units related to entertainment. The goal of these stakeholders was to diversify the risk, in line with other sectors. This created a unique opportunity for distributors and movie theaters to be able to plan their marketing and direct it at consumers with a message appropriate to the interests of the consumer.

Theater owners, especially independent theater owners, have limited earnings per ticket, as only 30%–40% of the price of every ticket stays in the coffers. The rest goes to taxes, royalties, and distributors. The key is to avoid a decrease in ticket prices to fill seats for an organic survival of the industry. Instead, strategic rethinking is needed, such as customer loyalty programs or variable prices according to time and location. These and other deeply rooted problems in this industry need substantial modifications from a business and marketing standpoint.

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How to Revolutionize the Film Industry in the 21st Century

**ANALYTICS AND MULTICHANNEL STRATEGIES**

How a movie is received has a lot to do with how marketing and advertising associated with each title affect the minds of future viewers. As in any other industry, there is an array of factors that determines the result of an investment. The result of all these elements is measured the week of the premiere. The previously created press expectancy, actors traveling to various locations, and selected interviews that are set to promote the movie create a thirst in the public to watch the movie. The Internet explosion is then a unique opportunity to detect feelings by listening to what people say on social media and to offer them specific deals.

With adequate tools and an active social media team, there can be daily deal offerings. People who read discussions about the director, an actor’s heartfelt comments, or an actor’s fan club or franchise are more willing to go see their movie stars and then turn into real moviegoers. The only thing needed is a message that touches their heart at the right time and place. These were the trends that were mentioned at CinemaCon Las Vegas – the global event for this industry. To address these trends, movie theaters need to have the right customer relationship management (CRM) system to deal with market demands and to react in real time.

If we add intelligence through data analytics to this, consumer reach grows exponentially. In this competitive market, companies are expanding their services to keep their customers satisfied and attract new ones. In this way, they guarantee client loyalty and customers earn more benefits. While some traditional movie theaters show constant signs of slowing down, so-called “creative theaters” present a livelier atmosphere, thanks to the different types of offers they give their clientele.

The studios have analytics teams to review different key factors about movie topics and release dates, such as school calendars and the competitor landscape. This is done in conjunction with international partners, as the cinema is a truly international business. Theaters can’t rely only on external support anymore: they know their locations and have local community engagement. It means they need their own CRM, analytics, e-commerce, and customer support to develop a profitable strategy.
CONCLUSIONS AND NEXT STEPS
The movie industry transformed itself from a small boat into a transatlantic ship when social customs changed and content and entertainment demand increased in the 20th century. But diverse social, technological, and political forces presented a storm that shook and transformed that boat on the high seas. It is not that different from other corporate segments, since not even the commodities market – raw material products, with no added cost – has been immune to these same factors. But when it comes to the film industry, these disruptions appear stronger due to the importance and relevance of movies in society. At the end of the day, the movie has proven to be one of the most powerful forms of communication in the entire world.

Twenty-first-century viewers have more access to content, along with better offers for how to spend their leisure time, which is why they must perceive a differentiated value to motivate them to pay for a ticket. A good example of this are fans of Star Wars, a commercial movie franchise that generates special expectations in the public to not only go see the movie but also attend movie-related events happening around the theaters. Price does influence the consumer decision, but value guides it even more.

The greatest form of communication in this new century is audiovisual. Television is losing viewing hours to portals such as YouTube or VoD platforms. It is a social change that movie theaters must continually adapt to, with the right tools to reach the hearts of their clients in the way they expect to be reached.

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