Entertainment

Price Optimisation for Cinema Exhibitors

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After a dip in the late 90's due to an increase in popularity of other entertainment facilities, particularly in the home (DVD, Digital Television etc), the UK cinema market has enjoyed resurgence in recent years. Broadly looking at the market we see a largely mature market which has been helped by the increase in 'out of town' multiplex cinemas. However, cinema operators have recently begun to move back into city-centre locations, focusing on refurbishment and have become more oriented towards marketing, specifically towards introducing branded operations to attract new customers, e.g. UCI's 'The Filmworks'. This will inevitably incur more costs. Thus while the general picture is very encouraging, there are still a number of issues that surround the industry.

Current Issues

Despite rising admissions, the UK still has a relatively low rate of cinema attendance. In 2001, customers visited the cinema an average of 2.62 times However, In the US, annual cinema visits per head stood at 4.97. In 2003 there were 167.3 million visits to the cinema in the UK, the second highest annual total for 30 years. However this was down 5% on 2002. In the first quarter of 2004, attendance has once again slipped by around 5%. Furthermore, research shows that on average (all cinemas at all times of the day) the average cinema is only 20% full. While this is likely, in part, to be driven by industry-unique factors such as the type and appeal of films released, it should be considered that a significant portion of exhibitors fixed costs remain even if the cinemas are not full. There are tremendous opportunities to create incremental revenue through better pricing structures.

A major issue for exhibitors is screen capacity and how to choose which films are shown and which are not. Typically, "Blockbuster" films have the financial backing to book up major time slots and are often preferred by exhibitors due to initial box office takings in the opening week/fortnight. However, this perhaps raises the question of suitability in light of demand for specialist/niche films. This is likely to be a problem for smaller distributors with less financial power. Being able to maximise revenues from the slots that they can afford to book is therefore of high importance.

By looking at attendance figures from the UK Film Council, disparity in year to year and seasonal box office gross performance can clearly be seen. As we have already mentioned, this is likely to be as a result of unique factors such as the films released in given periods. However, some distinct trends can be seen. By looking at attendance for 2002 and 2003 (Figure 1), it can be seen that the most popular months for cinema going are December and October and the least popular are June, March, and November. Effective pricing is one method that may help to boost the 'troughs' whilst maintaining the 'peaks' in admission and revenue terms.

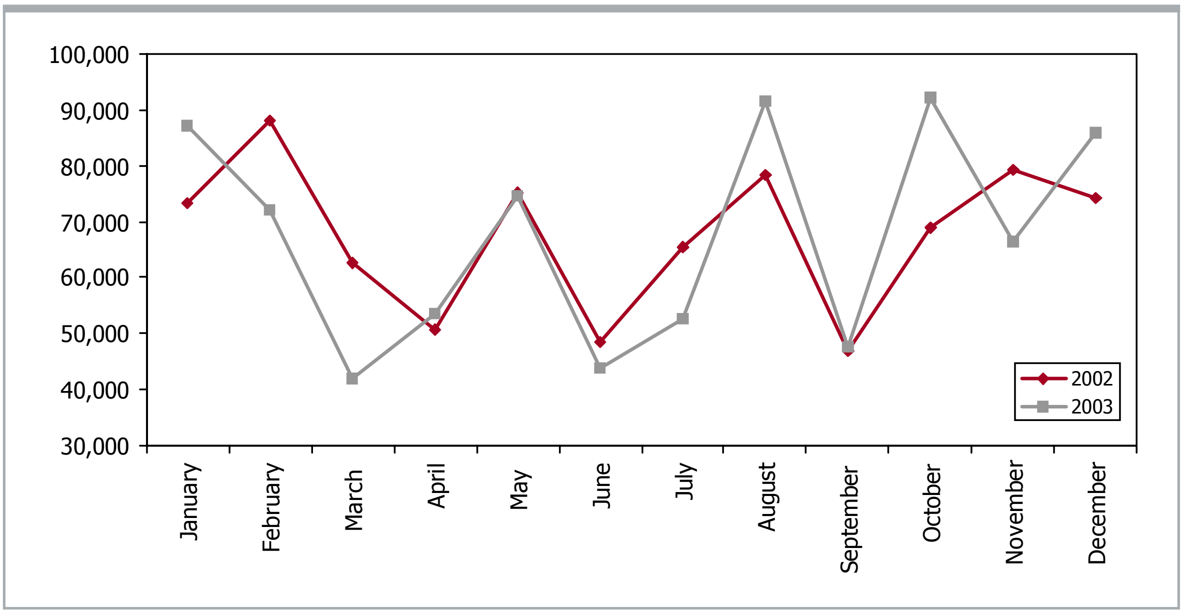

Figure 1: Box Office Trends

Source; UK Film council, CAA/Nielsen EDI 2004

There are various examples to support the increase in marketing orientation for UK cinema groups. However, currently there are only two cinema groups in the UK who appear to be actively increasing the appeal of their pricing structures to the public. The first is the much-publicised 'Easy Cinema'. Similar to the model of the low-cost airlines, the idea is based on the 'no-frills' approach and booking early results in lower prices for the customer. The first (and currently only) Easy Cinema opened in May 2003 in Milton Keynes and if the idea is successful, the philosophy is likely to be rolled out across the UK and could prove to be a real threat to the other players. The second notable group is UGC Cinemas. UGC is the only operator in the UK to offer customers a loyalty scheme – the 'Unlimited Card'. The card provides unlimited access to any of its 42 cinemas in the UK and Ireland (a £3 per month supplement is required for London Cinemas) and enables the user to view unlimited films each month on any day and at any time. In light of the attendance troughs and disparities, the question is therefore raised for other cinema chains with regard to their own pricing initiatives.

Price Optimisation

The most effective way to maximise attendance, revenues, and therefore profitability for exhibitors is to optimise the price structure and levels for a visit to the cinema. Out of the three drivers in the profit equation:

Profit = (Price X Volume) - Cost

"price" is the element that has the biggest impact on profits, especially as costs have already been minimised or are controlled by third parties.

In our experience price and profit optimisation can be achieved by understanding:

I Value/demand drivers

II Market segmentation

III Price differentiation

IV Opportunities for bundling

I Value/Demand Drivers

The response in attendance to a change in price is a major determinant of the optimum price or price structure. This price elasticity is defined as the ratio of the percentage change in sales volume to the percentage change in price. To measure price elasticities, it is important to understand the importance of demand drivers behind the attendance and willingness-to-pay. For cinemas, this might include the time of year, the day or time of day, location, comfort/ service level, amenities, the film itself or the role of competition for the "entertainment budget" (not necessarily other cinemas but other entertainment such as sports fixtures or 'pay-per-view TV movies'). These drivers and their influence have to be identified by answering questions such as:

- Which factors are measurable?
- What is the direction and strength of the influence?
- Which of these factors can be pre-planned into pricing?

II Price Differentiation

In hundreds of projects we have learnt that the biggest profit increase potential is tapped by using differentiated prices. This goes beyond peak vs. off-peak prices and the occasional child discount. For cinemas, price differentiation could be by seating category or position, film duration, or by specific film (based on demand). Furthermore, looking at the 20% average capacity utilisation figure mentioned previously, pricing should also take into account the seasonal attendance 'troughs' and other under-utilised periods. Also, managing prices better over time will provide cinema exhibitors with additional revenue opportunities. For example, using higher prices (best communicated as not giving a discount of the normal price) during the first week of a film release for a film such as Lord of the Rings will maximise revenue when there is a high demand for seats. Offering different prices in the later stages of the film's box office run will increase attendance and therefore revenues. Using the right incentives and fences will ensure incremental attendance/revenue is created rather than existing business cannibalised.

III Market Segmentation

Successful price differentiation requires a thorough understanding of the segment-specific value drivers (see 'Value/Demand Drivers') and elasticities. Blindly discounting tickets at times of lower attendance can increase cannibalisation. With information on the value of elements of a cinema visit, it is possible to move towards segmentation based on they willingness-to-pay, and the specific needs of a given segment. For the cinema market examples of segments might be the "price segment" (those more likely to attend if the price is low), the "family segment" (those more likely to attend if the time is right) or perhaps the "film segment" (those more likely to attend for specific films such as blockbusters). By identifying key segments and creating an appropriate price structure with regard to 'needs' and willingness-to–pay, cannibalisation of existing customers can be minimised, whilst creating additional attendance and revenues.

IV Opportunities for Bundling

The ticket price is not the only means of revenue for cinema companies. There is also potential to maximise revenue from the sale of popcorn, drinks, and merchandise, but also from other services such as parking, public transport, restaurant meals etc. Bundling is state-of-the-art pricing and it works. The ticket or another item can be the 'anchor' and other products/services are added, with the total bundle offered at a discount vs. individual purchases. Whether bundles are multi-ticket and/or multi-product, the opportunities to increase overall revenue are enormous. This has been proven in many different industries such as telecommunications, media, automotive, and travel.

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