The Movie Industry

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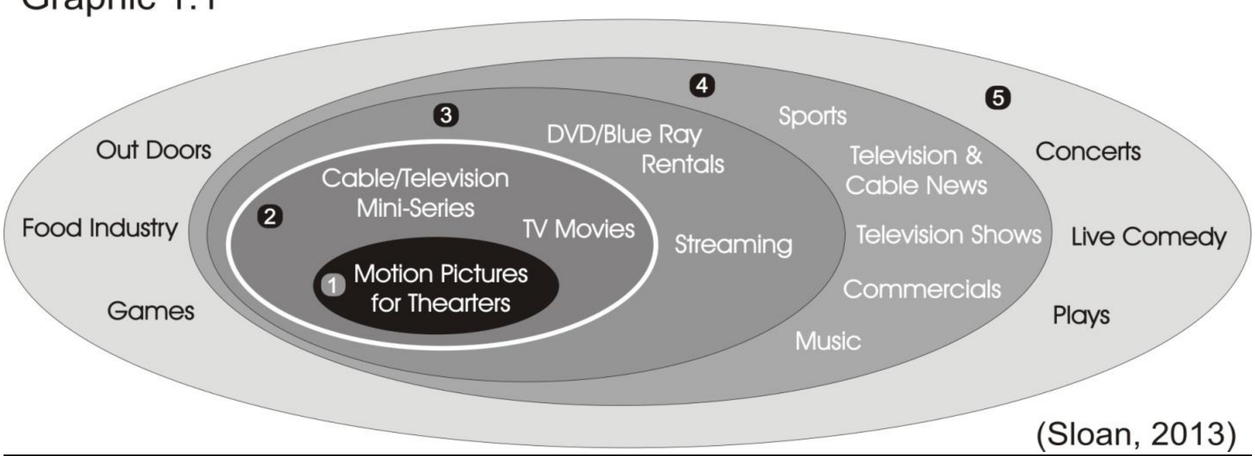
Possible Products in the Industry

The entertainment industry is wide ranging as can be seen in Graphic 1.1. At the center of entertainment are Motion Pictures for Theaters. In this section, the largest producers of motion pictures make and distribute their own films. Also, in movie production, and in second position, is Cable/TV Mini-Series and made for TV movies. Positions one and two are very similar in that they draw from similar suppliers, appeal to similar consumers, and are tooled to make similar products. The notable differences are that the made for cable and television segment targets a smaller demographically specific audience and distributes its products via television networks (see NAICS). IBS World report forecasts, that in the movie production industry, there will be 6,896 movie production companies in the US by 2017. At the same time, the industry will grow at an average of 1.2% and generate $32.4 billion annually.

In third position are Manufacturers of DVD/Blue-Ray Rentals and Movie Streaming. Do sections one and two distribute from section three, most commonly not as they are divisions or subsidiaries, including Netflix and Comcast. As we get further and further from sections one and two of Graphic 1.1, it is more likely that products are independent vendors, distinct divisions, or subsidiaries. In the fourth circle from center are Sports, News, TV shows, Commercials, and Music. Section five is increasingly distant with Concert, Live Performances, Outdoors, Food, and Theatrical Plays.

Graphic 1.1

The Entertainment Industry



(Sloan, 2013)

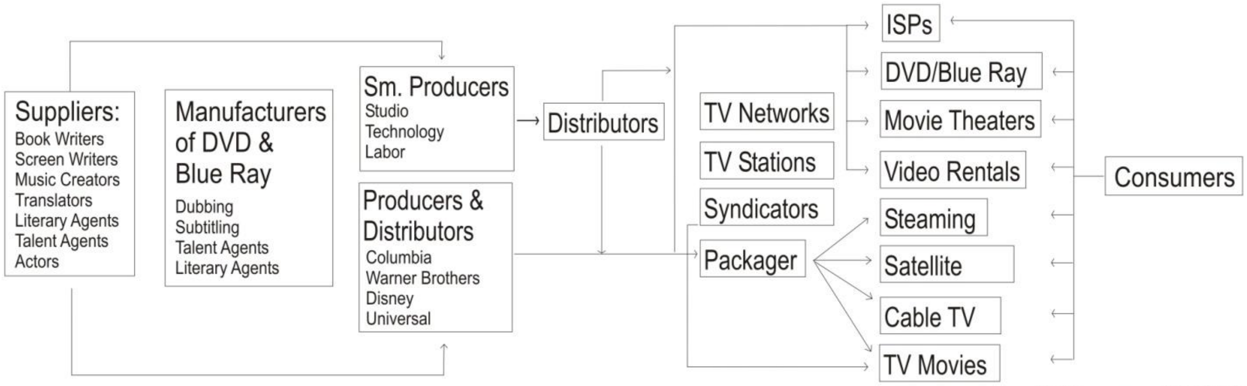
Industry Definition

The biggest producers make and distribute their own films (Graphic 1.2), and those that do not, have a competitive disadvantage. In this report large is defined as any producer with a distribution niche including sections one and two of Graphic 1.1.

Technology is the driving force that is changing this industry. This change is strategic and lends itself to economies of scale. New entrants must have a lot of capital to compete. Distribution is expensive for small producers. A weak economy exploits the differences between large and small producers. As a byproduct of change, the industry's largest producers, in addition to making their own films, have become the "Hub" to small studios providing financing, marketing, merchandising, and distribution. They also have the clout necessary to draw big named actors and negotiate labor contracts. The largest producers' supply chains are strategically tooled to distribute small studio movies to market for less than if they did it themselves or paid independent vendors. Third party vendors, including the large producers, take a large bite out of small producer revenues by way of distribution royalties. The following data will demonstrate that in this internet economy, to stay on top, the large producers are either acquiring or developing new means to cope and compete with each other.

The main demographic the industry caters to are teenagers 12 - 24 (Datamonitor, 2013). While a movie can always be found somewhere to entertain a baby-boomer, and that trend is growing, the focus on teenagers is self evident by the selection and box office receipts.

Graphic 1.2: Product Value Chain



(Sloan, 2013)

Graphic 1.2 demonstrates that production companies have the similar suppliers, but do not all share the same distribution channels. The largest producers distribute their own films. In Graphic 1.2, the Manufacturing of DVD and Blue-Ray segment is external by way of independent vendors, distant divisions, or subsidiaries. Beyond distribution are the independent networks that produce and distribute mini-series and movies that are less expensive to make and more specific to demographics. Lastly are the direct channels to consumers.

<u>Consumer Substitutes</u> (end users)

In today's recessive economy with less consumer discretionary income and a devaluating dollar, more consumers are spending their money on digital alternatives than ever before (Kaczanowska, 2012). Graphic 1.1 and 1.2 illustrate the options available to consumers. Graphic 1.1 encompasses sections 1-5 while Graphic 1.2 shows ISPs, DVDs and Blue-Rays, Movie Theaters, Video Rentals, Streaming, Satellite, and Cable TV.

Factors that contribute to consumer decision making are price, quality, convenience, and compliments. Theaters are more expensive than rentals and streaming and come with a smaller selection of the latest releases, in addition to the theater experience, and compliments of food and beverages. Rentals are less expensive but involve a trip to a retailer or a request and waiting period from Netflix. Steaming a Netflix or Comcast/On

Demand movie is quick and convenient. The price of streaming an entire move is about 40% less than a single theater ticket. For multiple viewers in the same household this is a significant savings.

Consumer substitutes don't have to be movie related. As entertainment, consumers can always choose to not go to a theater, turn off their TVs and mobile devices and participate in any of the activities in section 5 of Graphic 1.1.

<u>Producer Substitutes</u> (production companies)

Movie Producers could make bicycles, basketballs and many other consumer products but strategically they choose to compliment their existing skill set and value chain by related diversification. Graphic 1.2 demonstrates that with their current suppliers and distributors, producers could make commercials, TV shows, music, and sports programming, but as Graphic 1.1 demonstrates it is far enough away from their specialty, that similar to bicycles and basketballs, switching costs could be expensive and invite new competition. Supporting research suggests that for consumers, and to be more "movie industry related and competitive", production companies are strategically spending the bulk of their capital on new ways to distribute movies using technology. It is a value vs. price strategy. In support, IBIS World report says streaming technology is a growing trend and since only Comcast/On Demand is tooled to provide that medium internally (Parent- Universal Pictures), they must be motivated and thus inclined to make that change to be more competitive for consumers.

Large producers who are not expanding distribution internally via new technology are dependent on relationships with venders like Netflix and Comcast. Movie production companies must be aware that those relationships could spoil. Netflix and Comcast already are backward integrating into movie production and have become indirect direct competitors by way of their parents (Comcast/Universal Pictures). Distribution is a huge leverage in the movie production industry.

<u>Geographic Market</u>

Imports: "Foreign producers do not have access to US distribution channels, and they most commonly work through US companies outside the US (hubs) in Mumbai, India, Hong Kong, and China. There is a real trade imbalance as imports represent only 2.4% of movie demand domestically." (Kaczanowska, 2012)

Exports: Graphic 1.3 demonstrates there is a large demand for US made movies all over the world. In support, Datamonitor demonstrates the major market segmentation in Graphic 1.2.1.

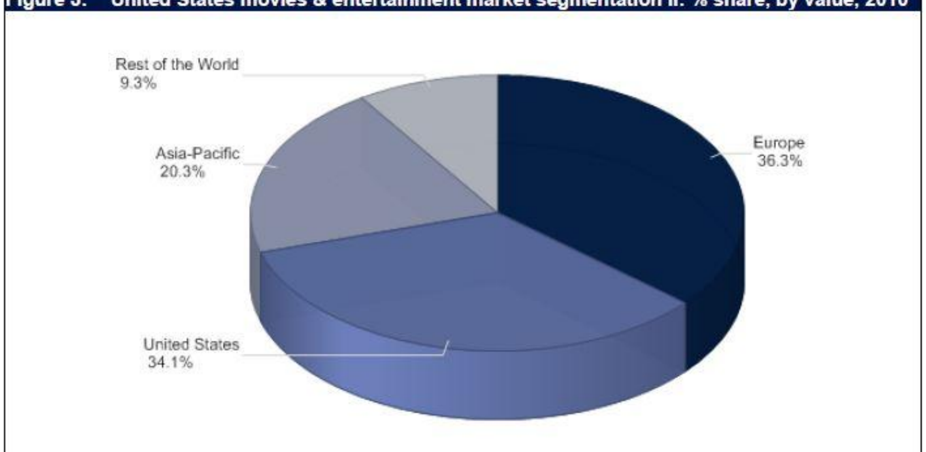
Graphic 1.2.1 United States Movie Segmentation

Table 3: United States movies & entertainment market segmentation II: % share, by value, 2010

Category	% Share
Europe	36.3%
United States	34.1%
Asia-Pacific	20.3%
Rest of the World	9.3%
Total	**100%**

Source: Datamonitor DATAMONITOR

Figure 3: United States movies & entertainment market segmentation II: % share, by value, 2010

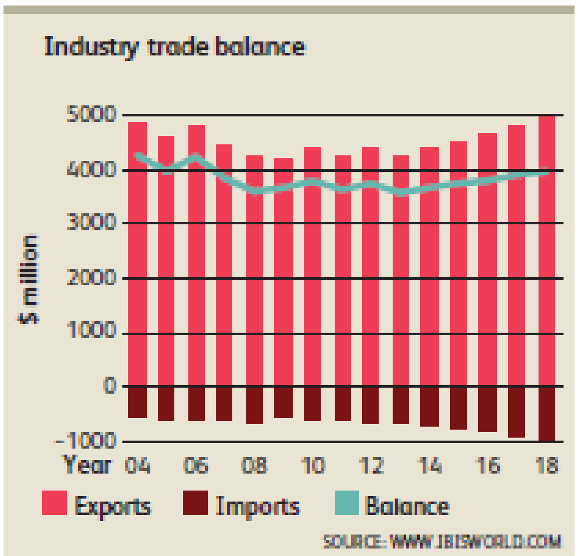


Source: Datamonitor DATAMONITOR

(Datamonitor, 2011)

Movie Production Locations 2012: Graphic 1.4 demonstrates that the percentage of Movie Production Locations is largest for California with 45%, New York 7.7%, Illinois 3.3%, Texas 3.3%, and Florida 4.3%.

Graphic 1.3
Industry Trade Imbalance



Graphic 1.4
Production Business Locations

(Kaczanowsha 2012)

<u>NAICS Definition</u>

512110 Motion Picture and Video Production: This industry comprises establishments primarily engaged in producing, or producing and distributing motion pictures, videos, television programs, or television commercials.

This report agrees that the NAICS Corresponding Index Entries that best match our selection are **motion picture production for theaters and made for cable and television movies and mini-series**. Examples of the mini-series are The House of Cards, The Sopranos, and Dexter. Motion pictures, TV movies and mini-series use the similar suppliers and similar consumers. Their distribution process is similar in that the large producers have a niche, as large motion picture companies distribute themselves, large made for TV mini-series and made for TV movies operate through Cable and TV networks. Examples of TV Show programming (e.g. 1970s, All In the Family) are too diverse byway of less expense and demographics.

Datamonitor Definition

The movie and entertainment market consist of both producers and distributors of entertainment formats, such as movies. Revenues are valued by box offices from total annual admissions. The home video segment covers sales of Blue-Ray, DVDs at end-user (retail) prices including paid video downloads. Any currency conversions used in the creation of this report have been calculated using constant 2010 average annual exchange rates.

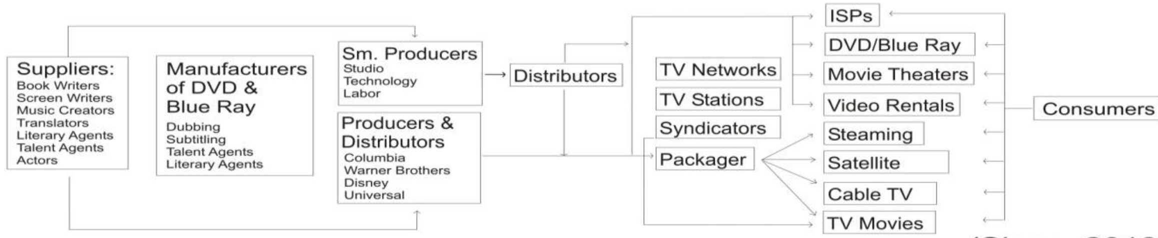
(Datamonitor, 2010)

This report does not agree with Datamonitor's definition of including DVD/Blue-Ray movies. This report believes those segments are distinct divisions or subsidiaries. They are outside our scope as can be seen in Graphic 1.1 section 3.

Supply Chain

In addition to the information provided in section "Possible Products in the Industry", Graphic 1.2 demonstrates that large and small producers use the similar suppliers, while further down the chain small producers pay more for distribution due to royalties. Again, the largest producers distribute their own films. Manufacturing of DVD and Blue Ray products are external by way of subsidiaries or distinct divisions in the chain. Beyond distribution are the independent networks that program media that is less expensive to make and more specific to demographics. Lastly are the value channels available to consumers.

Graphic 1.2: Product Value Chain



(Sloan, 2013)

<u>Rivalry</u>

Degree of Seller Concentration

Table 1.1 The Big Fours' Market Share (Studio, 2012)

Parent Unit	**Major Studio Subsidiary**	**US/Canadian Market Share (2012)**
Walt Disney Companies	Walt Disney Pictures Touchstone Pictures Pixar Miramax Lifetime Hollywood Pictures Image Movers Marvel	19.2%
NBC Universal	Universal Pictures Focus Features	18.4%
Time Warner Inc	Warner Bros. Warner Home Video New Line Cinema Imprinted Entertainment Castle Rock Entertainment	15.3%
Sony Corporation	Sony Pictures Columbia Tristar Screen Gems Image Works Blue Sky	11.0%

The Big Four have a concentrated market share, but percentages can change quickly as movie success is very volatile. Walt Disney Pictures has fostered exclusive relationships with big name producers like Steven Spielberg and at the same time manipulated release dates to maximize viewership by avoiding competition on opening weekends. Warner Bros. has also manipulated release dates, working directly with Netflix and Redbox for the same reasons as Walt Disney Pictures.

Table 1.1 shows the Big Four represent 63.9% market share in the US and Canada movie production and distribution industry. From that share in the US Table 1.2 shows the percentage of seller concentration. Graphic 1.3 demonstrates that US companies dominate import and exports. Graphic 1.4 demonstrates the concentration of business locations in the US.

The largest producers (Big Four) are Columbia, Warner Bros., Disney, and Universal Pictures. They are able to mitigate capital risks (economies of scale) as revenues fluctuate between popular/non-popular productions and small independent films. If a movie is not a success, any of the Big Four can absorb loss. With the economy in recession and a devalued dollar, the current costs of production and distribution are high. The trend toward digitization and where a film is filmed are opening new doors to competitors because of less risk. Due to technology, it is easier today for new entrants to make films (see Tables 1.5 and 1.6).

Rate of Industry Growth: Sections 1 and 2 from Graphic 1.1 represent our industry sample. IBS World Report contends there will be 6,896 movie production companies in the US by 2017.

Table 1.2 Growth Rate

Parent	AGR %	Forecast GR %	2012 Revenue
Industry	4.1	1.2(net 5.3)	$32.0 B
Walt Disney	3.2	N/A	$5.9 B
Universal Pictures	13.0	8.7 (net. 21.7)	$5.6 B
Warner Bros.:	-2.0	1.2 (net. 08)	$4.7 B
Sony: (Columbia)	2.1	1.5 (net 3.6)	$3.5 B

(Kaczanowska, 2012) (Datamonitor, 2011)

Explanations:

- Walt Disney: Walt Disney is restructuring to increase movie production capacity and investing in new technology.

    - Streaming Distribution: Investing internally in technology

- Universal Pictures: Universal merged with Comcast and has had successful movies.
    - Streaming Distribution: Merged with On Demand

- Warner Brothers: Warner Bros. has had low movie success.
    - Streaming Distribution: Relationships with Netflix

- Columbia: Sold MGM and is restructuring
    - Streaming Distribution: Comcast Affiliated

Buyers Costs:

- Internet Service Providers (ISP): An ISP is a business that offers subscribers access to the internet. For most users the most important feature is speed followed closely by price. Any speed can stream a movie, but slower speeds are cumbersome as the movie loads and a buffer is created. Higher speeds cost more than lower speeds. For HD content, one wants at least 5 -6 mbps, less for lower quality. Average cost begins between $15.00 and $30.00 per user monthly.

- Mobile Devices: Mobile devices can be used to watch movies, but most users pay a fixed fee in addition to a fee for additional download times. Devices range from cell phones, iPads, and Laptops. Average cost is between $100.00 and $600.00.

- DVD/Blue-Ray Movie Purchases: DVDs and Blue-Ray movies can be purchased from multiple retailers from $5.00 to $30.00.

- DVD/Blue-Ray Players: Purchased from a retailer, a consumer could pay between $100.00 and $500.00 for a unit that connects to a television set.

- Movie Theaters: It does not cost significantly more or less for a buyer to go from one theater to another.

- DVD Movie Rentals: Netflix has a monthly fee where you can order several movies, watch them, mail them back and have replacements generally within 24 hours. Hard disc rentals at Blockbuster video average between $1.00 to $3.00.

- Movie Streaming: To stream a movie you must be connected to the internet through an ISP. The two most common companies to stream from are Netflix and Comcast. Apple, Amazon, and AOL are also competitors (Datamonitor, 2011). The average cost for Comcast, and to join Netflix, is $55.00 a month after a small set-up fee.

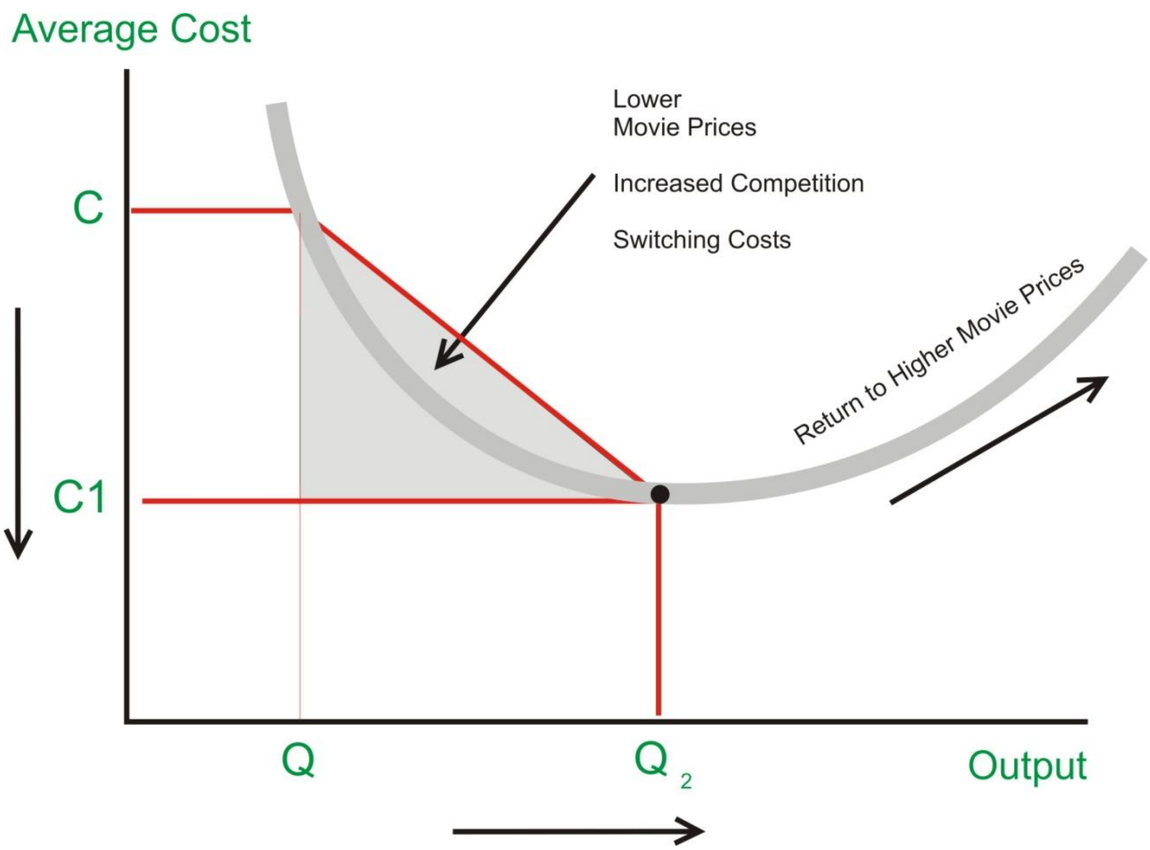
- Satellite: Satellite providers are very useful where high speed ISP service does not get a land line signal. The price is competitive with Comcast at $55.00 per month after a small set-up fee.

- Cable TV Movies: Cable TV movies are associated with On Demand, HBO, and Showtime. There is a fixed setup fee followed by a monthly fee average of about $25.00.

- Television Movies: Television movies are the least expensive. All you need is a television with an antenna or an ISP connection and a television set.

Threat of New Entrants

Graphic 1.5



(Sloan, 2013)

Graphic 1.6

Barriers to Entry checklist	Level
Competition	High
Concentration	Low
Life Cycle Stage	Decline
Capital Intensity	Medium
Technology Change	High
Regulation & Policy	Light
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM (Kaczanowska, 2012)

Economies of Scale (EOS): Economies of scale in technology benefit new entrants as they are low. This is exaggerated as The Big Four have switching costs, and are dependent on current movie theater prices. For new entrants, it is an open door to backward integration into the industry. New movies reduce EOS as movies can be filmed digitally and distributed online inexpensively. Modern equipment makes it easier for inexperienced film makers to make movies. Graphic 1.6 supports that with the demand of digitization, Competition and Technology are high.

As can be seen in Graphic 1.5, C (Big Four) illustrates high operating and switching costs should equate to lower output than C1 (New Entrants) who can produce more at a lower price. That doesn't mean the Big Four will make less movies, it means the downward cost/trend of making a movie will cost them revenue as competitors can charge less for movies with less overhead. The Big Four have an overhead issue they need to address. Columbia’s action toward downsizing supports this data. Economies of scale will help the Big Four in regards to know-how and experience.

Walt Disney and Universal are fighting back by acquiring means of digital distribution making it harder for new entrants to compete. Walt Disney is innovating from within by building their own streaming technology while Universal innovated externally by acquiring Comcast/On Demand. Columbia (Sony) is downsizing and dependent of distribution relationships with Netflix (movie streaming) and Red box (DVD movie rentals).

Entrants Access to Raw Materials

- Book Writers (High Barrier): Movie success must me nominal for it to be profitable and popular books cost more, generally making this topic a barrier to entry for new entrants. However, many movies have been made by producers from books that were less well known than the examples provided. Less well known story rights are less expensive and with the cost of making a movie going down due to technology, this represents a threat to large producers by small producers.

- Screen Writers (Low/Medium Barrier): Screen writing is a freelance profession. All one needs to become a screen writer is good story telling abilities and an imagination. This may not be a significant barrier to entry due to an abundant supply.

- Music Creators (Medium/High Barrier): Music can be a significant barrier to entry as songs are considered intellectual property and protecting intellectual property rights is an expensive business. A producer would not want to be sued by a music creator.

- Translators (Medium High Barrier): Movies made in English for viewing for diverse cultures need to be translated and subtitled. This would be a medium barrier to entry.

- Literary Agents (Medium Barrier): Is an agent for publishers, theatrical producers and film producers. It is logical that small producers would work with less known talent that commands less of a fee for this barrier.

- Talent Agents (Medium Barrier): A talent agent, or booking agent, is a person who finds jobs for actors, authors, film directors, musicians, models, producers, professional athletes, writers, broadcast journalists, and other people in various entertainment businesses.

- Actors (High Barrier): Actors are up front main players that visually represent the final product. Well known actors are expensive and in many cases have relationship/contracts with large producers. Small producers can attract these big named actors if they have a quality product, but generally they are too expensive for new entrants to the motion picture industry. Section 2 of Graphic 1.1 is a better fit for less known and less expensive talent.

Entrants Access to Technology

- YouTube (No Barrier): The original idea of YouTube was for new entrant film makers to have a place to post their products where the mass population could view them. This is an excellent place for small producers to publish their products. A wise small producer could most likely use YouTube to promote a film and direct viewers to a website for fee to download or buy the complete product again online. YouTube is a free service

- Netflix (High Barrier): Netflix buys the rights for viewers to watch movies from their website. This is a high barrier because a movie would need to be moderately successful to make the list.

- On Demand (High Barrier): Like Netflix, for a movie to make the list of On Comcast's Demand movies, the movie would need to become moderately successful in advance.

Threat of Substitutes

Availability of close substitutes: For buyers**,** Graphic 1.1 illustrates that in terms of movies there are substitutes and they share audiences. Consumers can go to the movies, watch a hard disk, stream a movie, or watch TV. In terms of entertainment, a consumer could play a game, go outdoors, or go to a concert.

For Sellers, distribution has a significant effect on substitution with Motion Pictures, Mini-Series, Rental, Streaming, and Made for Television Movies. Streaming and downloads are more expensive than rentals but more convenient as they are accessible all the time from home through an ISP. Theaters are more expensive than downloads and come with the theater experience and food compliments. A theater experience is most popular with the teen dating culture. (Datamonitor, 2013)

Availability of close compliments: For sellers, compliments for movies could be in advertising. Logo design on clothing cups, and jewelry could help promote the movie. For consumers, compliments could be food availability as part of the theater experience or at home, such as popcorn. The determinant of the above, is to do the combination of both products together to make a better product combined. In the case of advertising and food it can be a game changer for producers or whether one prefers to eat at the theater or at home.

Price-value characteristics of substitutes: In this research there is no larger price to value characteristic that the value of distribution for the Big Four. Small producers pay heavy royalties for the large production companies to take their films to consumers. In the case of Universal Pictures and Walt Disney it is an obvious priority to acquire a digital advantage, especially in streaming. There are some tough competitors that are integrating into the industry such as Netflix, Comcast, Amazon, and more. Independent distributers make significant profits as well.

Another price to value characteristic that sticks out as well is the price value difference of where to watch a move. Consumers can enjoy the theater experience (food, movie, on a date). Consumers can also choose to stay home and watch a movie and eat their own food for less.

Power of Suppliers

Is supplier Industry more concentrated than the Industry It sells to? There are more suppliers than producers making producers generally more powerful. While there are many small producers, it is clear for the Big Four, the market concentration is higher than any of the supplier categories mentioned in section, “Access to Raw Materials". Even big named actors are in less demand than, large producers, because there are more of them. Big named actors are however more concentrated than small producers making the actors more powerful. It is a matter of semantics.

Are there few substitutes for suppliers? In terms of sellers finding substitutes for Suppliers, it is easy in some categories and more difficult in others. This also depends on the size of the producer, as large producers have more capital than small producers. There are many small career specific screen writers, book writers and actors. When producers can choose from a large pool of talent, it makes the talent in this case, suppliers, less powerful. The exception would be big named actors where there are fewer.

Do suppliers pose a credible threat of forward integration into the product market? Could a supplier integrate from above the producer toward the consumer. It is not likely due to the cost to produce and distribute a movie. In general, suppliers are many. While most have agents, they are still very freelance oriented. They are career specific with very little capital and knowledge of how to produce a movie and get it to market.

<u>Power of Buyers</u> (end users)

Buyer Concentration: Buyers are less concentrated than sellers considering the diversity of the Big Four in media related products and services. Buyers do however have many other means of entertainment (see consumer substitutes) and can switch at very little to no cost. However, if a buyer wants to watch a motion picture, TV movie or mini-series (section 1 and 2 in Graphic 1.1), it is probable by way of concentration/market share (Table 1.1) it could come from one of the Big Four producers or subsidiaries of their parents.

Do Buyers purchase in large volumes and how does that reflect seller revenues? Individually, buyers have very little power as sellers appeal to a large number of viewers. Overall however, buyers do purchase in large volumes. Movie success often depends on release dates and box office receipts. The movie production and distribution industry market share will see significant change over a short period of time if a move is a success or a failure. One bad movie can hurt a production company of any size. Movie buyers are a worldwide diverse group. In addition, European and Asian movie demand represent the large part of the power of buyers Graphic 1.3.

Buyer Substitutes: An excellent example of the power of buyers could be seen in IBISWorld Report in regards to 3D Movies. When 3D movies were at their peak of popularity, producers forced shortcuts to turn 2D movies, not filmed in 3D, into something similar. Buyers caught on quickly and went back to 2D movies instead. While initially 3D was a big hit, poor quality cost it significant loss of segmentation.

While movie theaters have remained steady, digitization is the leading trend. Home movies are less expense and more convenient to watch (price elasticity of demand). For more in Buyer Power, see section consumer substitutes.

Conclusion

Columbia (Sony)

- Online distribution investment (Poor)
- Recent motion pictures success (Good)
- Consolidated (Good)
- Low Growth(Poor)

Walt Disney Pictures

- Online distribution investment (Good)
- Recent motion pictures success (Good)
- High Growth (Good)
- Entertainment related diversification (Good)

Warner Bros.

- Online distribution investment (Medium)
- Recent motion pictures success (Good)
- Low Growth (Poor)

Universal

- Online distribution investment (Good)
- Recent motion pictures success (Good)
- High Growth (Good)
- High Growth (Good)
- Entertainment related diversification (Good)
- Exceptional financial support (Good)

Walt Disney, and Universal Pictures are strongly investing in digital technology. The two are also very strong in related diversification. While Warner Bros. and Columbia have done well with movies success as of late, they show signs of slow growth.

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