Executive Insights

Volume XX, Issue 53

From Screening to Streaming: Film Industry in Transition

It's become an all-too-familiar trend over the past decade: a phalanx of digital insurgents challenging the business models of traditional entertainment stalwarts. Like music fans who abandoned $20 CDs in favor of low-cost, pay-as-you-go services such as Spotify and Pandora, today more viewers are choosing to stream video content at home courtesy of subscription plans through Amazon Prime, Netflix, Hulu and other subscription video on demand (SVOD) players.

But it's not just about revisiting old Hitchcock classics — as the market heats up, SVOD leaders have been increasingly bankrolling original film productions in an effort to meet consumer demand for differentiated content, as well as give traditional studios a run for their money. Earlier this year, Netflix's *Icarus* scored the Academy Award for Best Documentary Feature; in 2017, Amazon Studios walked away with Best Actor and Original Screenplay statuettes for the self-released *Manchester by the Sea*. Buoyed by these successes, SVOD players have been stepping up production and then some: This spring, Netflix announced its intentions to issue 86 original films by year-end.

Long before digital providers began to move into the production space, rising ticket prices and increased cost pressures had already begun to weigh on the brick-and-mortar film exhibition business. Though 2018 is likely to be a banner year at the box office, the trend toward subscription-based video is expected to further impact cinema attendance figures while pressuring movie purchases/rentals and other transaction-based business as well.

Data from L.E.K. Consulting's recent Media & Entertainment Survey bears this out: While SVOD, cable/broadcast and premium television accounted for roughly two-thirds of movies viewed in 2017, by comparison theater-going stood at around 11%, with digital/DVD/Blu-ray purchases and rentals making up the balance (see Figure 1 and Figure 2). An August 2018 report from the Digital Entertainment Group found a similar dichotomy, with year-over-year non-VOD rentals falling 18% during the first half of 2018, compared with a nearly 30% rise in subscription-streaming usage during the same period.

To prevent further erosion, exhibitors are themselves looking to alternatives such as subscription plans that offer consumers monthly movie "bundles" (as well as unlimited viewing in some instances), along with discounted/advance-purchase popcorn, soda and other concessions. In the following *Executive Insights*, we consider these and other strategies that could help traditional stakeholders remain relevant in a rapidly evolving digital environment.

Movies and more

Even as the number of stay-at-home and mobile viewers continues to rise, our research suggests that consumers haven't yet abandoned the big screen altogether, particularly when presented with the right kind of purchasing perks.

From Screening to Streaming: Film Industry in Transition was written by **Alex Evans**, Managing Director, and **Stephen Matthews**, Senior Engagement Manager, in L.E.K.'s Media & Entertainment practice.

For more information, please contact mediaentertainment@lek.com.

But which are likely to offer the best bang for the buck? Like modern ballparks and concert venues that have been outfitted with eateries, beer gardens and similar attractions, theater chains like AMC have sought to boost box-office returns by adding "premium" offerings such as full bars with craft beers as well as dinners served at your seat in a number of locations. It remains to be seen whether these services justify the investment, however, particularly in light of ongoing cost pressures. By contrast, features such as IMAX screens, "kinetic" swivel seating and high-quality surround sound actually rank highest among our survey respondents when asked what features drive them to the theater vs. watching at home.

Also likely to enhance the theater experience: digital ticketing platforms that allow moviegoers to bypass long lines by securing seating ahead of time. Though hardly a new concept — ticketing company Fandango has been at it nearly two decades now, for instance — our research nonetheless shows significant underpenetration in web-based purchasing, with the majority of respondents (70%) still procuring tickets at the box office prior to showtime.

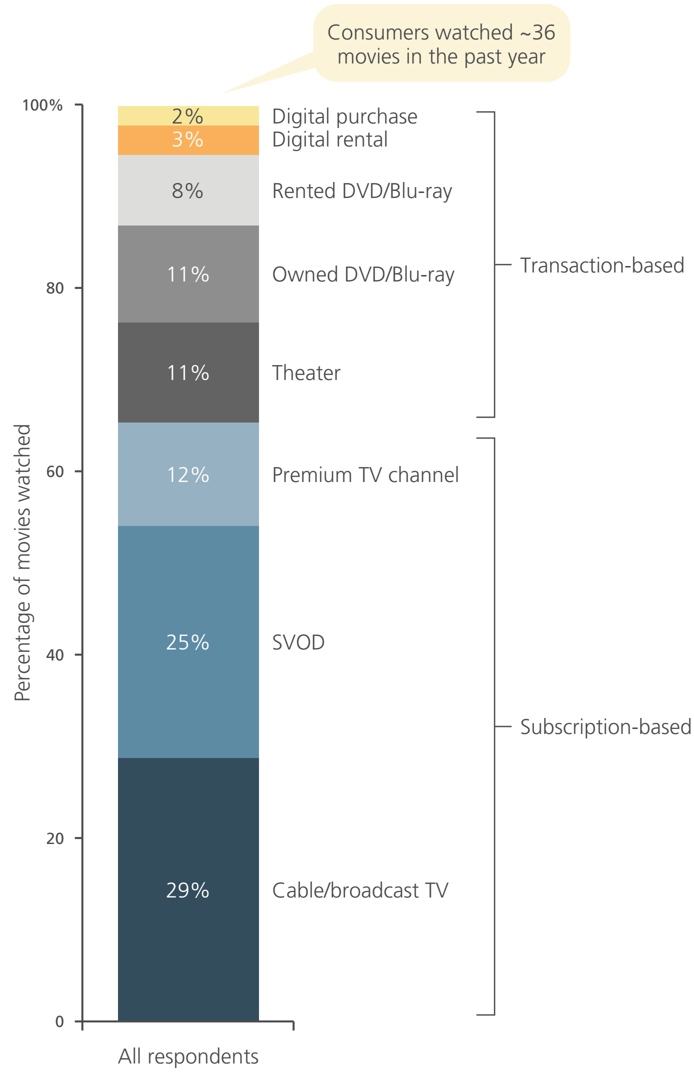
Accordingly, theater operators and third parties continue to enhance digital and mobile ticketing strategies in order to promote attendance. Social media has been key to these enhancements: Recently, Fandango announced an Instagram-based integration system, allowing the NBCUniversal-owned retailer to offer online ticketing/showtime information, along with promotional offerings, covering some 30,000 screens across the U.S. Fandango has also added Google Pay as a purchasing agent for theatergoers on the go, including the use of Google's voice-activated Google Assistant.

For its part, app maker Atom Tickets, the studio-supported, social movie ticketing startup, plans to use a $60 million infusion of capital from the likes of Disney and Lionsgate to build out its current 20,000-screen user base. In addition to ticket preordering, Atom offers advance concession selection and, like Fandango, allows users to search local film times and make purchases directly through their Facebook accounts.

Subscription options

With consumers increasingly attracted to affordable, pay-as-you-go monthly or annual subscription services, it's no surprise that such models have begun to gain traction within the screening arena. Among the earliest entrants was MoviePass, the subscription ticketing app launched in 2012 that allowed users to attend a specified number of films for a monthly fee. Despite its initial promise, disagreements with exhibitors over cost sustainability ultimately impacted MoviePass usage, leaving the once high-flying disruptor on the verge of bankruptcy.

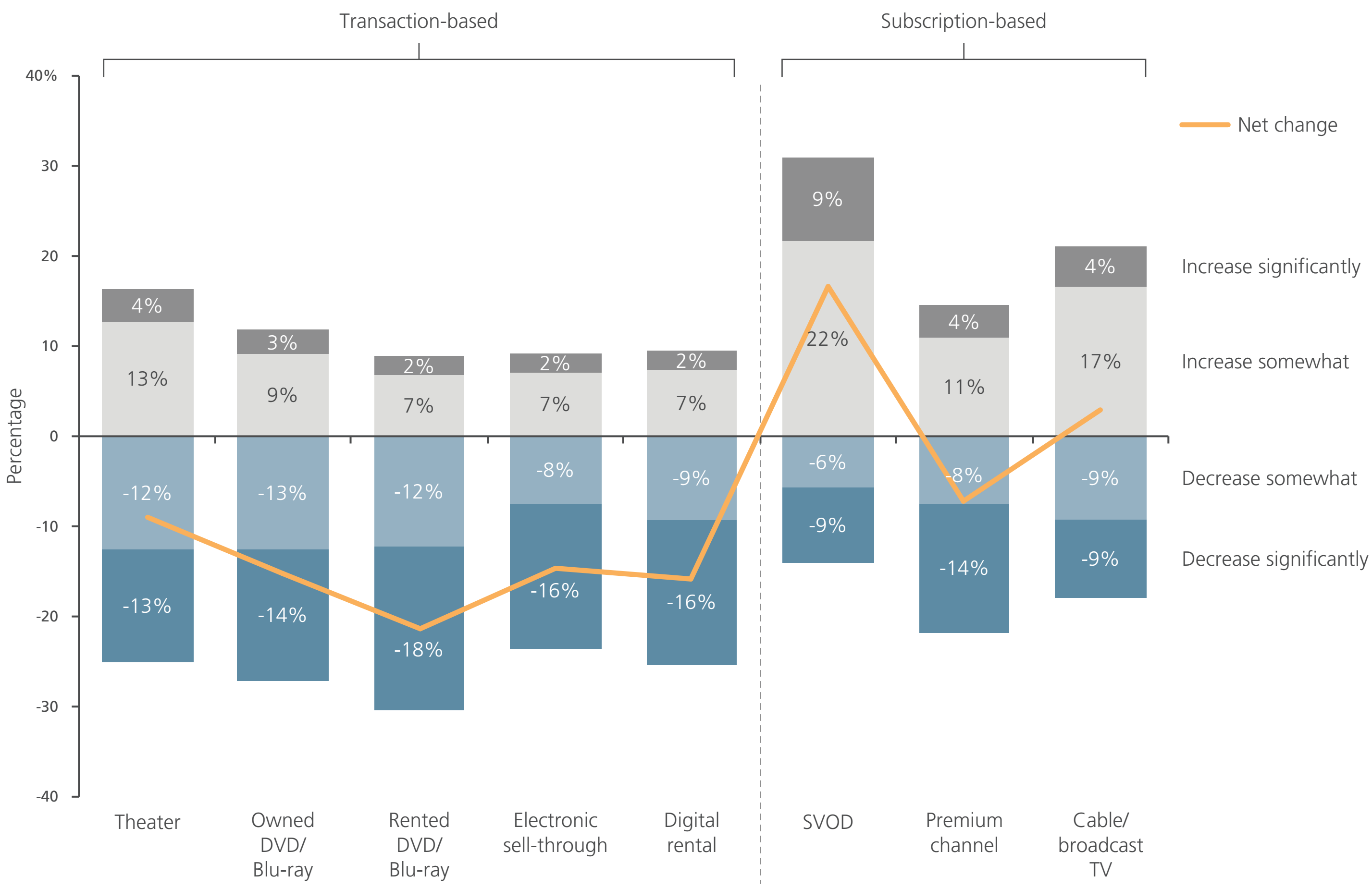
Figure 1
Share of movies watched by venue/outlet[1]
(2017)



Source: 2018 L.E.K. Media & Entertainment Survey

Still, many in the industry view subscriptions as a potentially potent revenue driver, capable of boosting not only ticket sales but also concession spending and sales of other ancillary products and services. Our survey revealed strong support for unlimited subscription packages (see Figure 3), with six in 10 respondents stating that they would be more likely to attend mainstream screenings and nearly half stating that they would increase their allegiance to art-house/indie films.

Figure 2
Change vs. past year in usage of movie venue/outlet[2]



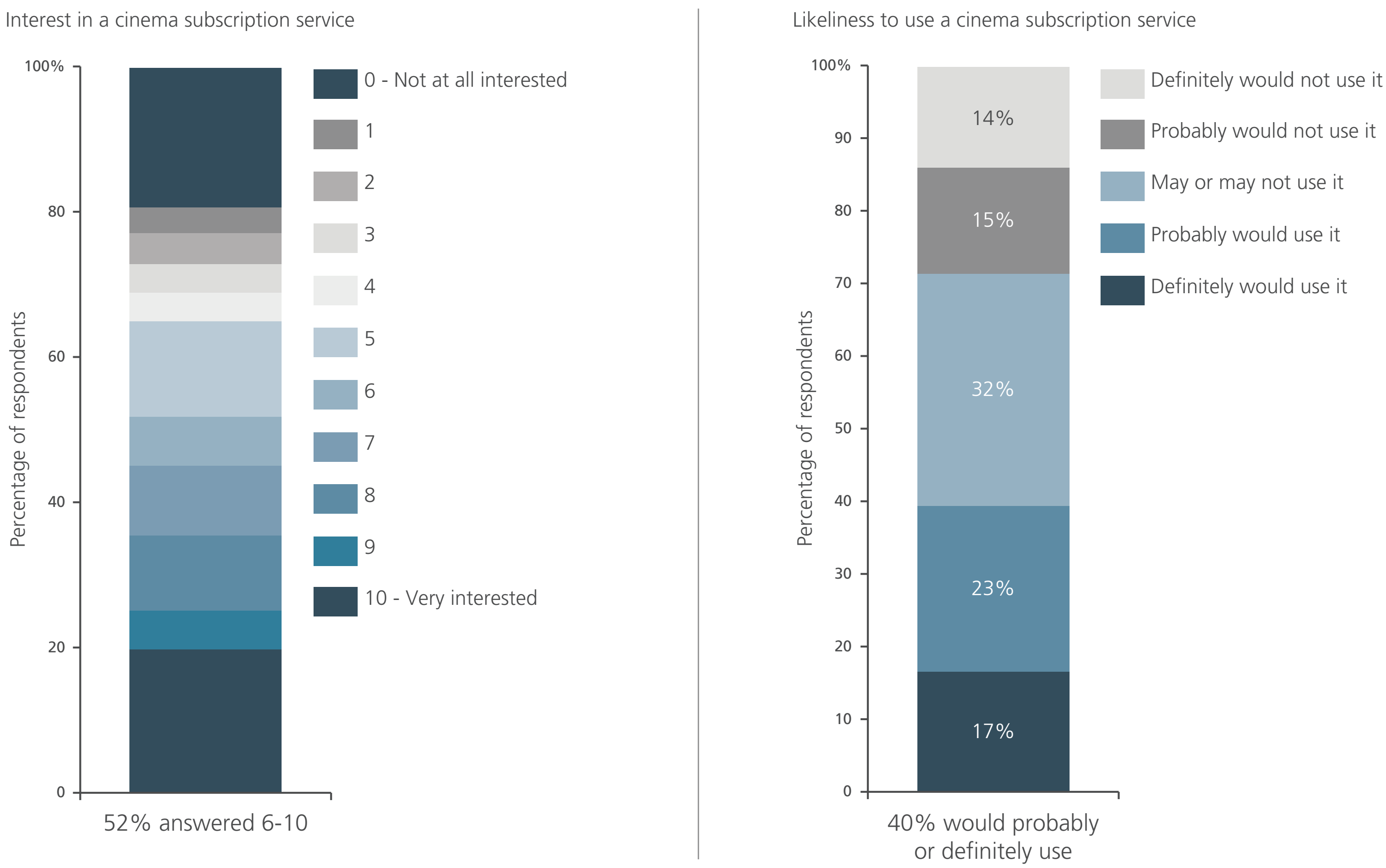
Source: 2018 L.E.K. Media & Entertainment Survey

Accordingly, a number of stakeholders have themselves sought to establish subscription-based offerings using a variety of formats in an effort to avoid the problems that plagued MoviePass. For instance, AMC's "Stubs A-List" gives customers a weekly three-pack of screenings (including premium perks like IMAX and surround sound) at $20 monthly. By comparison, subscribers to Cinemark's "Movie Club" are limited to one free flick per month but also receive discounted concessions and guest tickets at less than half of AMC's rate ($9/month). And following its recent acquisition of Regal Entertainment Group, U.K.-based Cineworld is likely to bring its popular "Unlimited Cinema" plan — an all-you-can-view monthly pass plus other bonuses — to U.S. audiences as well.

Conclusion

As has been the case in other entertainment segments, the rise of affordable and accessible digital content has been keenly felt within the screening business, with increased operational costs and the growing popularity of subscription-based streaming continuing to take their toll on traditional establishments. To fend off these challenges, stakeholders will need to adopt new strategies in an effort to stay relevant in this changing environment. Though the subscription-based model is highly attractive, the MoviePass debacle serves as a cautionary tale for newcomers, who must tread carefully around pricing and services in order to achieve success.

Figure 3
Consumer interest in cinema subscription services[3]



Source: 2018 L.E.K. Media & Entertainment Survey

Thus, going forward it is crucial that theaters, studios and other participants gain insight into the value proposition of subscription platforms, as well as other perks such as advance ticketing and premium offerings, thereby allowing them to tailor products that can directly appeal to their specific customer base.

Endnotes

[1]Survey question 67: Approximately how many movies have you watched in the past 12 months via the following outlets? (N=1,910)

[2]Survey question 68: Compared to the last year, how has your frequency of watching movies through each of the following outlets changed? (N=1,910 of which millennials=515, Gen Xers=723 and baby boomers=672)

[3]Survey question 80: How interested are you in the service described above on a scale of 0 to 10, where 0 is not at all interested and 10 is very interested? (N=1,910); Survey question 81: If this service was available at a price that you consider reasonable, how likely would you be to use it to watch newly released movies at home? (N=1,910)

About the Authors

Alex Evans, CFA, is a Managing Director and Partner in L.E.K. Consulting's Los Angeles office. Alex focuses on consumer-facing sectors encompassing both retail and media. He specializes in a diverse set of verticals including health and wellness, direct selling, specialty retail, sports, television, film, and OTT/DTC digital services.

Stephen Matthews is a Senior Engagement Manager in L.E.K. Consulting's Los Angeles office and works across the Media & Entertainment, Technology, and Retail and Consumer Products practices. He has extensive experience in advising corporate and private equity clients in the U.S. and globally on a range of issues, with a particular focus on digital strategy.

About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private- and public-sector organizations, private equity firms, and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,400 professionals across the Americas, Asia-Pacific and Europe. For more information, go to www.lek.com.

L.E.K.