

Can The Movies' Business Model Possibly Survive?

BY PATRICK GOLDSTEIN
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LOS ANGELES — Everywhere you look in the entertainment world these days, you see more and more people crossing the digital divide, using a staggering array of new devices to read books, watch TV shows, listen to music and, yes, even read the newspaper. Amazon recently announced that it now sells more e-books than it does hardcover editions. Fewer folks seem to watch TV shows when they actually air, either saving them on TiVo, as I do, or watching them on Hulu, as my son does.

When Arcade Fire's new album, "The Suburbs," debuted last week at No. 1 on the Billboard album chart, 62 percent of the album's sales were as digital downloads, more than twice as many as the band's last album had in its first week of release in 2007.

The one entertainment business that seems largely immune to all this dramatic change: the movie business. In Hollywood, the maxim seems to be: If it ain't broke, don't fix it. Even though DVD revenues are in decline, movie theater revenue is up again this year (though actual attendance is down slightly). Audiences continue to flock to see films the way the industry wants them to — in theaters with big screens and popcorn at the concession stand.

While nearly everything is different about the way we now consume entertainment, the moviegoing experience is largely unchanged from the way our grandparents saw films 75 years ago.

Of course, you can watch movies on your computer or iPad. But if you want to do it legally, you have to wait until the studios and theater owners say you can see them, which in most cases means four to six months after the film's theatrical release. Is this a good thing? Or is it a disaster waiting to happen, as it was for the music business, which clung to its old model until it was too late?

As it turns out, Hollywood has something special going for it: Moviegoing is an irresistible social experience. People love communal events; it's why the key forms of entertainment that still reliably make lots of money are all examples of social experiences — live concerts, sporting events and moviegoing.

In fact, the strategy studios use to lure millions of moviegoers to theaters is strikingly similar to the strategy baseball team owners have used in recent years to stimulate attendance at their ballparks. It's what you might call creating scarcity to drive demand. When Paramount Vice Chairman Rob Moore was a young studio executive at Disney in the 1990s, he witnessed this principle being practiced by Disney, which was then the owner of the California Angels.

At the time, Angels Stadium seated 65,000, as it was also the home of a football team, the Los Angeles Rams. But once the Rams left town and the stadium was needed only for baseball, Disney adopted a new kind of math for driving ticket sales.

"Disney realized that if they had 65,000 seats, they actually sold fewer season tickets, because people figured that there would always be tickets available if they wanted them," Moore recalls. "So Disney reconfigured the stadium, taking out 20,000 seats and making it smaller. And guess what? It increased demand, because it created more of a sense of urgency. People went, 'Uh-oh, if I don't buy tickets right away, they might not be there.'"

A similar scarcity logic applies to the movie business. "If a movie were always available, outside of the few must-see films like 'Inception' or 'Transformers,' you'd have an awful lot of people going. 'Oh, well, if I don't see it this weekend, I can always see it some other time.'" Moore says. "You need a window of time where it's not available to get people out of the house to see it. People are more motivated if they know after a month or so the opportunity to see something will disappear."

Even people who long ago embraced the new digital world respect the unusual power of social experiences in the entertainment world.

Ken Hertz has been an influential exponent for change in the

music business, both in his role as a lawyer (his clients include Beyoncé, Will Smith and the Black Eyed Peas) and entertainment marketing strategist (for McDonald's, Hasbro and Intel). But he understands the value of moviegoing as it exists today.

The movie industry is trying to capitalize on that. Hertz has noticed how variable pricing has been creeping into the theatrical movie experience, either through higher-priced tickets in return for

more amenities or higher-priced tickets for the added-value experience of seeing a film in 3-D.

"The studios are essentially scaling their audience," he said Monday. "It's where we're already headed in the concert business. Everybody gets to see the same Eagles concert at the Greek Theatre. The difference is that you might pay \$1,000 for front-row seats and only \$25 for seats in the back of the theater. You sense that is coming to movie theaters, too."

When I was in Boca Raton, Fla., recently, all the movie theaters had valet parking, with reserved seats and great food. There are always going to be people who'll be happy to pay for the extras."

If Hertz sounds a cautionary note, it's that every great business model is someday bound to collapse. And when change comes, it is not only abrupt, but it usually is best exploited by people outside the business being changed.

"In the music business, everyone went to the right conferences and listened to all the warnings, but no one actually prepared themselves for the changes," Hertz says. "If you look at who's done well with new technology, it's been Steve Jobs and Apple along with eBay, Amazon and Netflix. All the wealth was created outside the business that experienced the change."

Right now, the movie theater business is healthy. But that's no

reason to feel comfortable. A few short years ago, Blockbuster was as powerful a force as any studio in the movie business. Now it's shuttering stores left and right.

"No one can predict five or 10 years out anymore," says Hertz. "The only thing you can logically plan for is that people won't necessarily pay for your content. They'll be paying for quality, convenience and experience. That's the only thing that won't ever go away."

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