AUDIENCE HABITS AND PREFERENCES FOR STREAMING AND THEATER-GOING IN THE AGE OF COVID-19 AND BEYOND

By

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Abstract: This research sought to understand the perceived substitutability between theater-going and streaming in terms of big-budget blockbusters through focus groups consisting of participants 18-to-24 years old who are frequent video streamers and movie theater-goers. The study found participants did not perceive going to the movie theater and streaming movies at home as substitutes for each other. The theatrical experience, as described by participants, was highly valued and not easily or satisfactorily replicated at home. Participants also viewed watching movies, whether at the theater or at home, as a social experience that should primarily be done in groups. Additionally, action films part of big-budget franchises were reported to be the main type of film drawing participants to the movie theater, whereas smaller, indie films were seen as films to stream at home. The implications of this research are far reaching, as the pandemic caused a restructuring of the film and theater industry to accommodate streaming, audiences have increased their streaming and become accustomed to seeing new release films at home. This research will help industry professionals plan the types of films to release in theaters versus on streaming platforms. Also, this research points to a resurgence in theater attendance as more big-budget action films are released in the summer of 2021.

Keywords: streaming, theater-going, movies, substitutability, uses and gratifications

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CHAPTER I

COVID-19 AND ITS EFFECTS ON MOVIE-THEATER ATTENDANCE AND AT-HOME STREAMING

The global pandemic altered many aspects of life, including the way people consume big-budget studio films. The film industry was greatly impacted by the effects of worldwide shutdowns, social distancing, and quarantining protocols that persisted from March of 2020 and much of 2021. The movie theater and home entertainment industries made a record $101 billion in global revenue during 2019 (Escandon, 2020). However, global box office totals fell 71% in 2020, largely due to the pandemic (Rubin, 2021). When looking at the American box office specifically, domestic revenue fell from $11.4 billion in 2019 to $2.2 billion in 2020 (McClintock, 2020). Conversely, profits from online video usage, (e.g., premium video on demand (VOD) rentals, online transactional purchases, and subscription fees) increased 30% in 2020, totaling $34 billion in revenue (Ramachandran, 2020). It is clear streaming has become an increasingly popular aspect of media consumption during the pandemic as Nielsen Global Media reported 25% of all time spent using television was through streaming platforms, and 25% of consumers have purchased an additional streaming service over the summer (Nielsen, 2020). As streaming media become more popular, corporations have had to focus their attention to building these platforms and apps, curating content libraries, and producing new content to meet these online viewing demands, which were accelerated during the global pandemic. However, subscription-based models are less profitable than the traditional theatrical distribution method.

Therefore, tensions between audience preference and industry profits are at an all-time high. This research will investigate audience preference, specifically within a key demographic of 18-to-24-year-olds. Eighteen to 24-year-olds are the most likely to subscribe to at least one streaming platform, which makes them a key age group in steaming audience research (Edelman et al, 2020). Interestingly, this age group was not attending the theater significantly more than other age-groups prior to the pandemic. However, due to the limited access to theatrical viewing during 2020, demographic data of theatrical viewing is sparse. For this study, finding participants with streaming subscriptions in a targeted demographic group will inform further research including more age groups and levels of engagement with steaming media and theatrical viewing.

The chosen methodology for this research (focus groups) is malleable enough to identify general sentiments about the current industry trajectory, as well as uncovering more nuanced opinions and uses of these viewing options. This study, and subsequent research, is necessary for those creating and planning to distribute content following the traditional nationwide release of films in theaters. It could benefit all audiences of theatrical release and streaming media, if media corporations implement the findings. Uses and Gratification theory will be used as the theoretical lens of this study.

The rest of this thesis will cover the following: In Chapter 2, a literature review will focus on a history of theatrical distribution, as well as the much more recent history of streaming platforms and their rise in popularity. Previous research on audience preference using uses and gratification theory will be discussed, in addition to industry expert predictions and suggestions for film distribution. The chapter's final section will discuss the research questions being posed in this qualitative study. Chapter 3 will provide a detailed account of the focus group methodology and research procedures to be used to investigate this research problem. The researcher will present themes derived from this focus group research in Chapter 4. Chapter 5 will conclude by discussing key findings of the study, evaluating study limitations, as well as avenues for future investigation into streaming and movie theater-going preferences.

CHAPTER II

REVIEW OF LITERATURE

In this section, the history of theatrical distribution will be discussed, focusing on (a) industrial standards for exhibition; (b) policies and practices that changed over time; (c) eventual conglomeration of studios; and (d) the current state of American movie theaters. The development of streaming video will be investigated, as well as its rise to popularity and current market state. The researcher will also provide a review of the development of uses and gratification theory will be analyzed and relevant studies using this theory in the context of theatrical and home entertainment.

A History of Movie Theaters and Streaming Media

For most of films' history, seeing a movie meant going to a movie theater. In America, early films were displayed in theatrical spaces originally intended for live performances, and often accompanied by variety shows and vaudeville acts (Gomery, 1991; Paul, 2016). As film became less of a novelty, and longer, narrative based films became popular around 1910, films themselves became the only attraction necessary to draw audiences to the movie theater (Gomery, 1991). Soon, so-called movie palaces were saturating the market, and major studios used division of labor to release hundreds of films each year (Lewis, 2008).

During Hollywood’s classical period, which spanned from the late 1910s to the 1960s, a studio would produce a movie and that studio’s theater chain would show the film in its first run, mostly in large, metropolitan areas (Gomery, 2000). The film would then be rented out to independent theaters and local theaters nationally and often, worldwide (Lewis, 2008). This system was designed by a small group of studios who controlled production, distribution, exhibition in order to artificially restrict competition, which is often referred to as *vertical integration* (Allen & Gomery, 1985). At this time, the big five film studios (Paramount, RKO, Fox, MGM, and Warner Bros.) owned more than 70% of first-run theaters (Lewis, 2008). Studios also enforced *block booking* and *blind bidding,* practices where studios sold theaters a group of films to exhibit, sight unseen (Hanssen, 2000). This meant theaters were forced to buy a slew of “B” films in order to get the reels for one, big-budget, star-powered film, in other words, theaters had to buy a package of unwanted content to get the one desired film in the bunch (Hanssen, 2000). This was a strategy studios used to control theaters, regardless of whether they were owned by the studio; however, some argue this was simply the most efficient and profitable way for films to make the studios and theaters maximum revenue (Hanssen, 2000). In 1948, the U.S. Supreme Court decided this system was a monopoly, and forced studios to end block-booking practices, eventually requiring studios to sell their theaters (*United States v. Paramount Pictures*, 1948). In what became known as the Paramount Decision, the Supreme Court broke up the system of vertical integration, and which meant theaters and exhibition sites were independent and no longer owned and controlled by studios. This led to a restructuring of the film industry that had been financially successful throughout the Great Depression, and both

World Wars. Theaters and studios suffered losses after this decision, though these troubles were also attributed to urban flight, the baby boom, and the introduction of television (Gomery, 2000).

As television grew in popularity and Hollywood studios continued to struggle financially, studios decided to begin their relationship with television by selling back catalogs of films to air on television (Gomery, 1991; Lewis, 2008). The collaboration of film and television studios led to a more generalized entertainment industry, where conglomeration and synergy reigned. This new business model enabled more films to be financed, as well as experimentation in cutting edge techniques in an attempt to draw audiences back to the theaters (Lewis, 2008). At this time, censorship in the film industry was facing intense pushback, and in an attempt to lure audiences to the theaters, films were released in theaters without the seal of approval from the Production Code Administration. These films with more mature content did increase theater profits immensely, and led to a shake-up in Hollywood practices to accommodate the demand of the American public. This cultural shift also served to replace the Motion Picture Production Code that had been in effect since the early 1930s with the voluntary, four-level, rating system still in effect (Lewis, 2008). Thus, began the era of synergy with similar leisure and entertainment industries, such as the music, books, television and more. President Ronald Reagan's deregulation policies in the 1980s made conglomeration easier, and the big Hollywood studios became even larger, with more control over the industry than they ever did before the Paramount Decision. This led to studios developing vertical relationships in the industry, as well as horizontal relationships. In 1985, the Paramount Decision was essentially overturned in *United States v. Capitol Services,* in which four theater chains were on trial for their collusion to not outbid each other and maintain control of 90% of theaters in Milwaukee, WI (Lewis, 2008 & *United States v. Capitol Services,* 1985). The high court ruled in favor of the studios, because these practices limit competition and the licensing revenues studios receive. This decision was a blow to theaters, as these practices ensured exhibition chains' survival, and within a year of this decision, over 4,000 theaters in the United States were bought out by studios (Lewis, 2008).

In this new age of Hollywood, films weren't expected to make profits just off theatrical exhibition, there was money to be made in television, video cassette recording (VCR), digital video disc (DVD), merchandise, video games, and music as well (Gomery, 2000). Ironically, the Hollywood studios first saw VCR technologies as a threat, and Disney and Universal attempted to sue Sony over Betamax videotapes potential for copyright violation, and subsequently, financial losses for the studios (Lewis, 2008). Eventually, Hollywood moguls adapted distribution strategies to capitalize on these new technological advancements and by 1986, VCR sales bypassed the Hollywood movie theater box office sales (Gomery, 2000). These synergies and corporate restructuring did yield high profits and, diversifying and conglomeration proved to save the once failing Hollywood studios, but eventually led to the dot.com bubble of the late 1990s (Hesmondhalgh, 2019). This also created an interconnection system of dependence that was more far reaching than ever before. By the mid 2000s, six corporations (Time Warner, Disney, News Corporation, Sony, Viacom and General Electric) owned most of the media production, distribution, and exhibition in the United States (Lewis, 2008). During this time, a films' financial success can largely be determined by its release saturation, or nationwide release and its profits during its first week in theaters. While synergy revenue was still sought after, theaters remained the most important aspect of film in the eyes of the studios. The internet posed a cost-effective channel of distribution, but also posed a risk in terms of file-sharing, piracy, and copy-right infringement (Lewis, 2008).

For years, the typical theatrical window ensured movie theaters and studios made their money while restricting access to their film to great demand. After the films' theatrical run, studios would hold the film for 90 days until its at-home release via VHS, DVD, or Blu-Ray, and eventually, the rights would be sold to television channels. This *windowing model* ensured films would be released to channels "according to the income that each can generate, from high to low" (Gaustad, 2019, p. 68). This timeline was applied to most big-budget films, although some films would be released straight to DVD or on television depending on a variety of factors. That is, until streaming video became popular, and especially due to streaming platforms' move to create their own content. Essentially, theatrical distribution is a high-yielding channel for films, and currently, we're seeing an increase circumventing this channel or limiting it by making the same content available on low-yielding channels.

Lotz identifies digital video recorders (DVRs) and the internet as a catalyst for the fast-paced technological changes impacted the way Americans consumed television and films at home (2018). Others note the launch of YouTube in 2005 as the "most significant breakthrough for video streaming" (Spilker & Colbjørnsen, 2020, p. 1213). While YouTube was first successful online video streaming site, it had not provided feature films for rent until 2010, and still mainly consists of user-generated content. The Telecommunications Act of 1996 also fed into the shift to online streaming by allowing "cable providers to offer phone service and phone providers to offer video services" (Lotz, 2018, p. 12). This legislation was an attempt to generate more competition in cable, and by the early 2000s, this goal had been achieved. Streaming media, or VOD originated in the early 2000s when Verizon launched its Fios video service, AT&T released its U-verse video service, and iTunes started its digital video download program (Lotz, 2018). These additions to cable made available via the internet, in addition to the debut of

Netflix's streaming platform and Hulu started a cord-cutting revolution. It is important to note streaming services were tied to cable and television early on, and it wasn't until Netflix created its first feature film in 2015, that streaming platforms hedged into the theatrical exhibition industries territory. Netflix began as a DVD mailing rental service in 1998, and while Netflix, Hulu, HBO Go, and Amazon Video hosted films on their sites, these practices did not pose a threat to theaters until the pandemic. Some tension occurred in the industry when Netflix originals were nominated for Academy Awards, and officials scoffed at the idea of a film being considered for these awards that had not seen a theatrical release. In response, Netflix debuted nominated films in select theaters for short windows of time to dispel such criticisms.

Much like studios' back catalogs began to populate over-the-air and cable television in the 20th century, streaming services of the 21st century rely heavily on libraries of existing content to keep subscribers satiated. Audiences noted a large library of content and exclusive content as primary reasons for subscribing to particular streaming platforms (Edelman et al., 2020). By acquiring rights to existing content as well as producing original content, streaming platforms were able to meet audiences demands for streaming material. However, when streaming platforms proved to be financially viable, the legacy media conglomerates sought to create their own streaming platforms to cash in on the trend. By November of 2019, Disney had launched Disney+, a streaming platform featuring exclusive Disney content, and proceeded to create content exclusively for Disney+. Other legacy media corporations moved to create their own streaming platforms, and Apple TV+, and Peacock (NBCUniversal), and Paramount+ (ViacomCBS) debuted shortly after. This push for streaming platforms came at the perfect time, as mere months after the launch of Disney+, COVID-19 was identified and caused lockdowns, restrictions, and cultural changes worldwide.

Market Models

The years 2020 and 2021 proved to be an exercise in trial and error in the sense of film distribution, and a handful of models emerged which proved to be financially successful. Following theater shutdowns, media conglomerates increasingly used streaming platforms to distribute big-budget films that would have otherwise saw a nationwide theatrical release if it weren't for the ongoing pandemic. Early on in the pandemic, many big-budget films were released on streaming platforms, and were packaged as *premium rentals*, where they were available to view for a 24-hour period at a price point ranging from $19.99 to $29.99. Apple TV, Disney+, and Amazon Prime were the predominate platforms implementing this strategy. This proved to be financially advantageous for some films, such as *Trolls 2: World Tour* which grossed $100 million in three weeks on Apple TV as a 24-hour rental (Schwartzel, 2020).

The nationwide theater shutdown at the beginning of the global pandemic caused release dates of many big-budget films to be pushed back, and when theaters slowly started re-opening, there was a severe lack of content, as well as audiences being unwilling to make a trip to the local movie theater (Sperling & Barnes, 2020). Some individuals interviewed said they feared for their own safety at the theaters, expressing concern that other patrons wouldn't follow the COVID-19 safety precautions, like wearing masks and social distancing (Rubin, 2020). Other individuals said they drove across state lines just to see *New Mutants* (2020), and would do it again if their local theaters remained closed (Rubin, 2020). A trend in responses was that younger interviewees (under 28 years of age) all had plans to see films in the theater or had already made a trip to the theater since they had reopened. Interviewees age 28 years or older erred on the side caution and expressed their unwillingness to risk their health and the health of others by going to the movies (Rubin, 2020).