



## CULTURE

## Hollywood Is Preparing to Sacrifice Movie Theaters

WarnerMedia's decision to put all of its 2021 films on HBO Max is a shortsighted decision that will have major repercussions.

DAVID SIMS DECEMBER 5, 2020



EUGENIO GROSSO / REDUX

This week, a seismic shift hit the cinema industry. WarnerMedia, one of the world's biggest movie studios, announced that all of its 2021 films, including blockbusters such as *Dune* and *The Matrix 4*, would debut on HBO Max and in theaters at the same time. Each movie would stream for one month before leaving the platform, an unusual arrangement seemingly geared toward giving subscribers a stream of new films, while also allowing movies to play in theaters. In a statement, WarnerMedia described this hybrid model as “a strategic response to the impact of the ongoing global pandemic.”

This apparent compromise, however, will be disastrous for theaters. The movies WarnerMedia will put on HBO Max, starting with *Wonder Woman 1984* on Christmas, span every genre and budget size. Audiences will get big-franchise movies (*Godzilla vs. Kong* and *The Suicide Squad*), awards-friendly fare (*King Richard* and *Judas and the Black Messiah*), family films (*Tom & Jerry* and *Space Jam 2*), a cinematic prequel to *The Sopranos*, a new Clint Eastwood movie, and more. Audiences will have little incentive to pay more to see these films in theaters, even if pandemic restrictions permit, creating a new set of consumer expectations that will be hard to undo. Theater chains are right to fear for their survival. And WarnerMedia's move, which seems more motivated by panic than a desire for long-term success, is a risky bet for studios, too.

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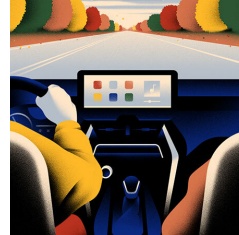



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In the short term, everything WarnerMedia is doing makes sense. Even with a COVID-19 vaccine in the early stages of a rollout, the American theater industry is unlikely to bounce back to anything close to normal before the summer of 2021—that's a long while to wait for some of these films, which were completed ages ago. Other cinema markets, particularly in Asia, are booming because of their countries' better management of the pandemic. This simultaneous-release strategy is a way for Warner to tap into box-office grosses worldwide while strengthening the appeal of HBO Max at home. Insiders at the studio are insisting that this is just a temporary change that can easily revert after 2021.

The only, tiny issue is that theaters may not be able to survive that long. AMC, the biggest cinema chain in the United States, has warned investors that it could be out of cash by early 2021. Regal, another major chain, has closed its theaters indefinitely. These businesses need product to survive, and even if they're running in any form in 2021, it will be hard to sell most audiences on returning if they can already watch many big movies in their living rooms. So far, no other studio has proposed anything as dramatic as WarnerMedia's plan, but changes are already afoot. Disney previously announced that it would be shifting more attention to its streaming platform, and NBCUniversal is similarly trying to build out Peacock. Even Paramount has announced that it will convert the TV-focused CBS All Access streaming service into the movie-branded Paramount+.

In short, other studios could conceivably make the same move as WarnerMedia. Until now, WarnerMedia had been the distributor most focused on theatrical releases; in September, it notably pushed out Christopher Nolan's *Tenet*, a major release that most cinema chains worked to reopen for. Though the film grossed some \$60 million domestically (far more than any other pandemic release), it couldn't single-handedly rejuvenate the industry; theaters in the major markets of New York and Los Angeles never opened up as Hollywood had hoped.

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Unsurprisingly, the major chains greeted WarnerMedia's latest news with derision and despair. "Clearly, WarnerMedia intends to sacrifice a considerable portion of the profitability of its movie studio division, and that of its production partners and filmmakers, to subsidize its HBO Max startup," said AMC CEO Adam Aron in a statement. "As for AMC, we will do all in our power to ensure that Warner does not do so at our expense. We will aggressively pursue economic terms that preserve our business. ... it is our expectation that moviegoers soon will be able once again to delight in coming to our theaters without any worry."

WarnerMedia wouldn't have made this decision lightly. Its earlier announcement that *Wonder Woman 1984* would debut on HBO Max likely led to a big subscriber boost, giving executives confidence that other big films such as *Dune* could bump numbers even more. But these movies still all need major marketing campaigns to roll out, and cost hundreds of millions of dollars to produce. The first *Wonder Woman* made about \$820 million worldwide in theaters alone; to "gross" that for a streaming service, any one movie would have to add tens of millions of monthly subscribers all by itself. HBO Max currently has about 57 million subscribers worldwide; that kind of growth would be hard to achieve, and even harder to sustain.

For all the promise of streaming services, which are vital for any major media company's future, they cannot deliver the massive profits of a successful global theatrical release. Netflix, the biggest streaming site, relies more on consistent mid-budgeted TV and movie releases than it does on mega-budgeted event films, and has gone billions into debt to do so. That could be the future for a company such as WarnerMedia too, but it wouldn't likely be able to make the kinds of tentpoles it does now if it emphasizes streaming.

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If theaters do somehow survive the hammer blows of the pandemic—the lack of government help, uncooperative major studios—the entire industry will look different than it did at the start of 2020. Cinemas could become even more of a boutique experience, charging much higher premiums for a big-screen experience to people uninterested in viewing movies at home. Big companies such as Amazon or Disney could swoop in to buy the foundering chains, then use them to promote their own releases.

The main variable that remains impossible to predict in all of this is human behavior. People in the U.S. have largely been cooped up at home for much of 2020, and will continue to live pandemic-limited lives for much of 2021. Even in states with little to no restrictions, cinemas have failed to pack the house; audiences have too much anxiety about sitting inside a windowless room with a bunch of strangers. Once a vaccine is widely distributed, a pent-up desire to return to normalcy could be unleashed. I, certainly, crave the collective experience of movie-watching; I'm sure I'm not the only one sick of seeing things from my couch. If other studios go the way of WarnerMedia, theaters will be hanging their hopes on that nostalgia.



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