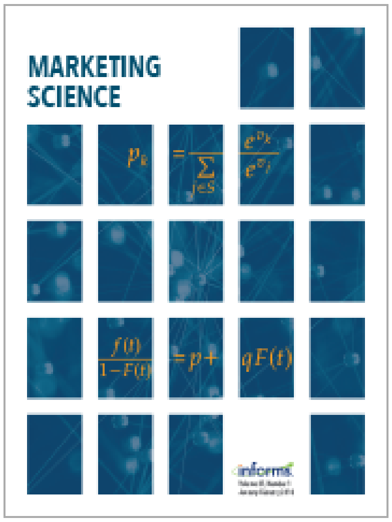

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Invited Commentary

Research and the Motion Picture Industry

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The motion picture industry features challenging management problems and appealing research opportunities. Based on research findings, three challenges for managers are the need to (1) view movies as just one part of the product line, (2) consider the evolution of the first-run exhibition channel, and (3) take a global perspective in decision making. For researchers, the motion picture industry is a data-intensive natural laboratory that allows for empirical testing of important research questions. The study of competitive dynamics and contractual issues are highlighted as topics of particular relevance.

Key words: motion picture industry; entertainment industry; applications
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Introduction

The publication of books by De Vany (2004), Moul (2005), and Scott (2005) and an article by Eliashberg et al. (2006, henceforth EEL), reassures us that, despite the screenwriter William Goldman's (1983) aphorism that in Hollywood, "nobody knows anything," academics think they know something.[1] However, as EEL sagely point out, there is still much to be learned. As with any good paper, EEL conclude that both (1) the results are interesting and (2) more research is needed. While all four of the works cited provide informative—but not always consistent—views of lessons learned and future directions, this paper concentrates on EEL's article, as it is published in this issue of *Marketing Science*.

The goal of this comment is not to assess to what extent EEL have identified, as their conclusion begins, "some of the most crucial issues for the motion picture industry," because they clearly have done so. Rather, I offer some alternative views and suggest why the motion picture industry is so promising for further academic research. Because EEL focus on the industry, firm, and movie levels and not the individual level, this note will have a similar concentration, recognizing (as do EEL) that there is much to be learned from consumer research on movies and on hedonic products in general. Given space constraints, I limit myself to three issues each for practitioners and academics, hoping for a prequel or sequel at a later date.

Practitioner Perspectives

Product Line

Most research on motion pictures has considered the North American launch of the product as the "feature attraction" and all other products as ancillary. As EEL note, however, North American box office revenues are often less than those from the non-North American box office and less than half the level of the North American video (rental and sales) market.[2] While it is now well accepted that the decision to "green light" a movie depends on an assessment of the video market, the fundamental focus is still that of the North American movie launch. For example, in a May 3, 2005, *New York Times* article "Box Office Battles, Begun Long Ago and Far Away," the timing issues concerned only the optimal and competitive times to release a movie, without considering the impact on time of video release. The appropriate view is that of a product line, an area of general academic interest. Weinberg (2005) asks whether the North American release of a movie should be

Although invited commentaries are not formally peer-reviewed and represent the opinion of the author, authors were carefully chosen based on their outstanding expertise in the areas of their respective commentaries.

[1] Although De Vany (2004) is quite sympathetic to Goldman's view, at least with regard to predicting box office success.

[2] According to the MPAA, in 2004, North American box offices revenues were $9.5 billion, while non-North American revenues were $15.7 billion (www.mpaa.org).

viewed as a "loss leader." The need for a product-line view is intensified because the nature of ownership of the major elements in the motion picture industry has changed. The major studios are typically owned by conglomerates with interests across a wide range of entertainment and other industries. Moreover, the major exhibitors, as EEL point out, are owned by more financially oriented firms than was previously the case. One could argue that such ownership does not have the same emotional ties to the movie industry that the legendary founders did. (See Scott 2005.)

Theatrical Market

EEL conclude that "severe concerns about the substitutability of the theatrical window seem misplaced"; in other words, cinemas will not disappear. The issue is not their disappearance, but rather their appearance: what will the cinemas of the future look like? Maintaining motion picture exhibition as a viable, stand-alone business will be an increasingly complex challenge. Managers should not lose sight of the fact that, according to Vogel (2004), more people went to the movies in 1970 than in 2000 in each of the following countries: England, France, Germany, Italy, Japan, Netherlands, Spain, and Sweden. In the United States, the peak time for U.S. theater attendance was in the late 1940s. Both practitioners and academics are interested in determining whether the nearly 10% decline in the first 9 months of 2005 as compared to 2004 is part of a trend or the result of a set of factors specific to the 2005 season. Technological developments, new marketing strategies, and product-line approaches will all have an important impact on the evolution of the exhibitor market.

Global View

Will the United States continue to be the dominant player in the movie industry? As EEL note, the entertainment industry, of which movies are a "key driver," is the United States' leading export industry. To what extent will this continue, and to what extent will more balanced global value chains emerge? While Hollywood decries the filming of movies outside of California as "runaway productions," locales such as Vancouver ("Hollywood North" in local parlance) view such opportunities as attractive industries that balance inputs and outputs. Global value chains become particularly relevant as video products become more important. Moreover, projections about future developments need to recognize that, as EEL report, most parts of the world have fewer screens per capita than the United States. Consequently, future developments might need to be projected for environments in which, to date, only a small portion of the population has been to a movie theater and that few theaters with legacy projection systems and physical arrangements exist.

Academic Attractions

As is evident in EEL's review, there has been a spurt in academic activity focused on the motion picture industry. One reason is the inherent appeal of this industry. Almost everyone is interested and curious about it: details about production, marketing activities, and sales results are widely discussed in the press, and Hollywood stars are, well, "stars." Beyond this inherent appeal, I discuss three reasons why the field has become so popular.

Natural Experimental Lab

I cannot agree more with EEL that the movie industry is a great setting for natural experiments. With approximately 250 MPAA pictures released in North American each year (and thousands of other movies being released around the world), having life cycles that average less than three months in distribution and having marketing budgets in the millions and highly visible product characteristics (not neglecting the difficulty of assessing movie quality), movies provide a fertile environment in which to develop and test theories about the effectiveness and efficiency of marketing strategies and tactics. EEL, for example, note the need for an examination of advertising spending. Moreover, data are abundant and publicly available. In few industries do we get weekly (or even daily) reports on such factors as sales, distribution intensity, advertising, buzz (for example, through rankings on IMDB.com), and informed evaluation of a movie's potential (for example, through prices on the Hollywood Stock Exchange). Research can be further accelerated if researchers share their data with others. For example, my coauthors and I have recently placed the data from Krider et al. (2005) on the journal website (http://mktsci.pubs.informs.org) to facilitate further research on the relationship between distribution and demand.

Timing Is (Almost) Everything

Throughout EEL's article, timing issues abound. In what sequence should the motion picture product line be released, when should the elements of the product line be released, how long should exhibitors retain a movie, how does demand for each of the products change over time, and what is the inherent seasonality of the industry are just some of the questions raised. Marketing academics and managers across industries increasingly focus on the decreased time horizon for decision making, the shortening of the product life cycle, and the speed of competitive reaction. Formal models of competitive dynamics and empirical tests of the effectiveness of alternative strategies can be developed and tested in the motion picture industry. These lead to insights not only for the motion picture management, but also for marketing strategies in general.

Contractual Issues and Channel Relationships

EEL also highlight the vertical relationships in the industry. The landmark Paramount case in 1948 (see De Vany 2004) focused attention on the appropriate degree of vertical integration in this and other industries. Technological developments and new ownership arrangements (see above) make this an attractive industry for examining alternative formats of industry structure. To the extent that channel members are independent entities, contracts are one method of coordinating channel member behavior. Research opportunities abound at all three levels that EEL use to organize their article—production, distribution, and exhibition. Given the uncertain returns to any movie, contracting becomes a particularly challenging issue. Taking the exhibition area as an example, EEL review the revenue-sharing rules that distributors offer to exhibitors, which typically specify that a decreasing share of box office revenue goes back to Hollywood as the movie plays longer, providing an incentive for exhibitors to continue showing a movie as its attendance declines. Such a policy might be one reason why, as Krider et al. (2005) report that demand appears to lead distribution after the first week of a movie's run. Perhaps more interesting and puzzling to researchers is the recent industry practice (see Squire 2004, p. 396) of distributors and exhibitors determining the revenue share to each *after* the movie's run is complete. Such post-hoc contracts have interesting implications, not only as a means of uncertainty resolution but also for understanding relationship marketing.

Coming Soon to a Journal Near You

EEL are to be congratulated for preparing a review and a projection that translates academic results into important insights and issues for practitioners. Such an approach goes beyond what is normally seen in an academic review and forms an attractive complement—but not a substitute—for more traditional perspectives as exemplified by De Vany (2004), Moul (2005), and Scott (2005). While EEL are among the most well-informed researchers in the field, they still caution readers that their views are, of course, subjective—as, naturally, are mine. In this note, I have sought to highlight three issues each for practitioners and academics. As with EEL, these comments are intended to continue a conversation, not to end it. See you at the movies!

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