

Deregulation in the Film Industry: Can the Tampa Theatre Continue to Grow?

Overview

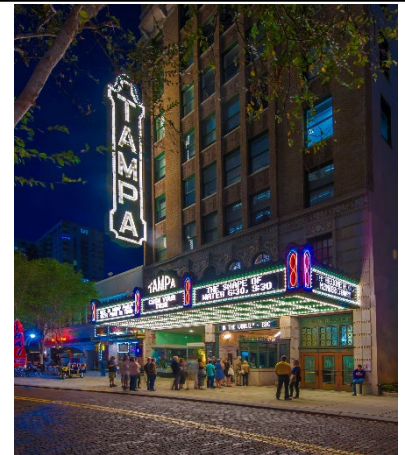
Text

The Tampa Theatre is a historic movie theater and a landmark in downtown Tampa. It was built in 1926 and was listed on the National Register of Historical Places in 1978. By the beginning of 2020, it remained the only non-profit movie “palace” in Tampa. It was designed by John Eberson, who became famous for designing nearly 100 movie palaces during a span of three decades. In addition to the Tampa Theater, he designed the Majestic Theater (San Antonio, 1929), New Regal Theater (Chicago, 1928), Loew's Paradise Theatre (the Bronx, 1929), Loew's Valencia Theater (Queens, 1929), and Bethesda Theater (1938).

Tampa Theatre thrived until the 1960s when TV had a major impact on American’s viewing habits (Melnick & Fuchs, 2004). While many theaters across the US were razed, in 1973, Tampa citizens rallied to save the Tampa Theatre, called one of the “10 most beautiful cinemas in the world” (Blauvelt, 2013), and the city stepped in to rescue it and re-position the venue as a non-profit film and cultural center. It has become not only one of the most elaborate movie palaces in America, but also one of the most utilized with over 700 events in 2019. Theatre-goers enjoy entertainment along with old world statues, flowers and gargoyles, all under a twinkling night sky.

Following the completion of several major restoration projects in 2017, Tampa Theatre has enjoyed unprecedented attendance for films and other events. This surge in attendance encouraged the board of directors to consider how the theater could expand. The theater owns a retail storefront next to its box office that has been occupied by a florist whose lease is expiring. John Bell, CEO of the Tampa Theater, wondered if the space could be repurposed and integrated into the theater’s operations. The space is only 1,260 square feet but is large enough to create a “micro-cinema ” of around 40 seats. John stated, “Although the steady rent revenue from the florist would be lost, the Board and I believe that an additional small cinema could make up for this lost stream of revenue (Bell, 2019). The florist pays rent of \$1800 per month, but I think we can generate more revenue by expanding the theater operations.” The question was, what should the Tampa Theatre do with this space? Recognizing that a cinema’s content may

Figure 1:
The Tampa Theatre on Franklin St.

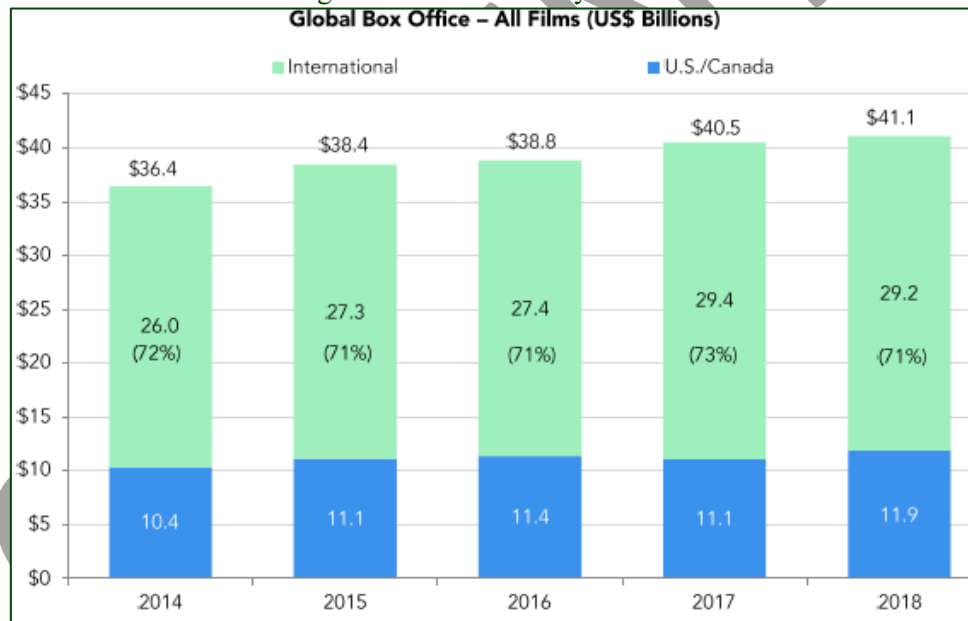


evolve as the industry changes, the Theatre has resolved to build the best possible environment in which to enjoy “moving images” whether they are short films, art house fare, feature films, video game competitions, corporate presentations, guest lecturers, showcases of homegrown video content, or other programs appropriate to the space. What events would provide the best utilization of the new space? Furthermore, how should the new space be positioned in conjunction with the existing facilities? To be successful, the management team believes it should have a comprehensive strategy that coordinates the operations of both theaters. The winning team for the MGT 431 Case Study Competition will create the most compelling strategy for designing, marketing, and operating the expanded version of The Tampa Theatre.

The Movie Theater Industry

In recent years, the movie industry has been characterized by three themes: slow growth, consolidation, and threats from substitute forms of entertainment. Figure 2 shows the total industry revenue for US/Canada and globally according to the Motion Picture Association of America (MPAA, 2019). Over the last five years, industry revenue has grown at an average rate of just over 3% per year. Internationally, the Asia Pacific region grew about 35% from 2014 to 2018, but two regions: Europe, Africa, and the Middle East (EMEA) and Latin America both had revenue declines over the same time period. China was the largest market outside US/Canada, with box office revenue of about \$9 billion in 2018.

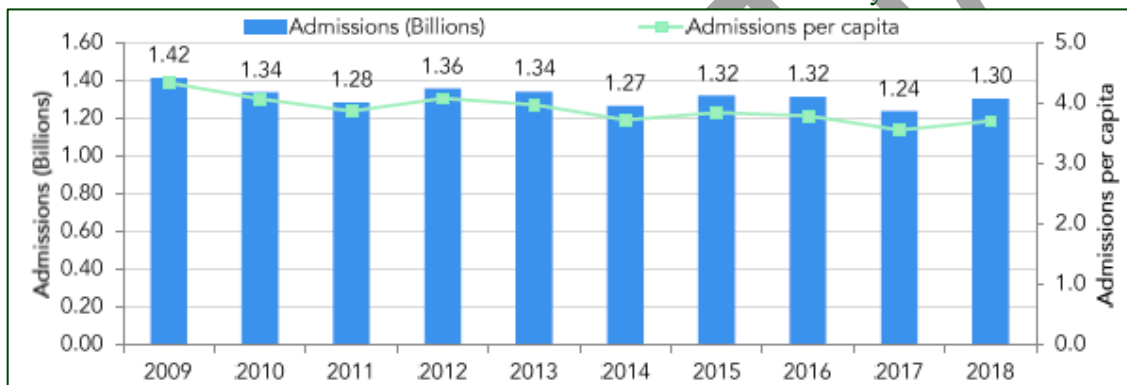
Figure 2: Movie Industry Revenue



While revenue growth in the US/Canada market has been growing slowly, much of the gain can be attributed to increased ticket prices. Ticket prices have increased about 3% per year to an average of \$9.33 in 2019 (Miller, 2019). As theaters invested in upgraded technology (surround sound, digital transmission, 3D projectors, more comfortable seating), they were able to raise ticket prices. As prices increased slightly, total attendance in movie theaters has been decreasing slowly since 2009. Figure 3 shows total admission in 2009 was 1.42 billion people but only 1.30 billion people attended movies in 2018, a decline of 120 million people. Data on admission per capita tells a similar story. The average person in the US/Canada market saw about 4 movies during 2018, but the trend is slightly downward (see the y-axis on the right side of Figure 3).

As industry growth has remained sluggish, leading competitors have pursued acquisitions to achieve economies of scale and revenue growth. Cineworld Group PLC in the UK has been the most aggressive buyer of competitors in recent years. In 2018 it bought the Regal Entertainment Group in the US for \$3.6 billion which created the 2nd largest company in the industry. Then, in 2019, Cineworld bought the Canadian theater chain called Cineplex, Inc. for \$1.6 billion. That acquisition made Cineworld the largest movie theater company in North America. “Top theater chains are gearing up for a challenging 2020 box-office year, as a weaker slate and surge in streaming services could mean another down year for the industry,” Amine Bensaid, an analyst at Bloomberg Intelligence, said in a research note last month. ‘The studio model could contend with increased pressure if new direct-to-consumer services such as Disney+ and HBO Max follow in Netflix’s footsteps by developing more films for their digital services’ ” (Ryan & Seal, 2019). Both acquisitions helped Cineworld close the gap on the industry leader AMC Entertainment, Inc. After the acquisition, Cineworld and AMC are in a virtual tie for being the largest cinema operator in the world, with each company owning about 1000 cinemas and 12,000 screens globally.

Figure 3:
Admission Trends in the US/Canada Movie Industry



Further evidence of industry consolidation is showing in Figure 4. According to the MPAA (2018:22) the number of small venues (1-4 screens) has been shrinking over the last five years while the number of large venues has been slightly increasing.

Figure 4:
Cinema Venues in the US

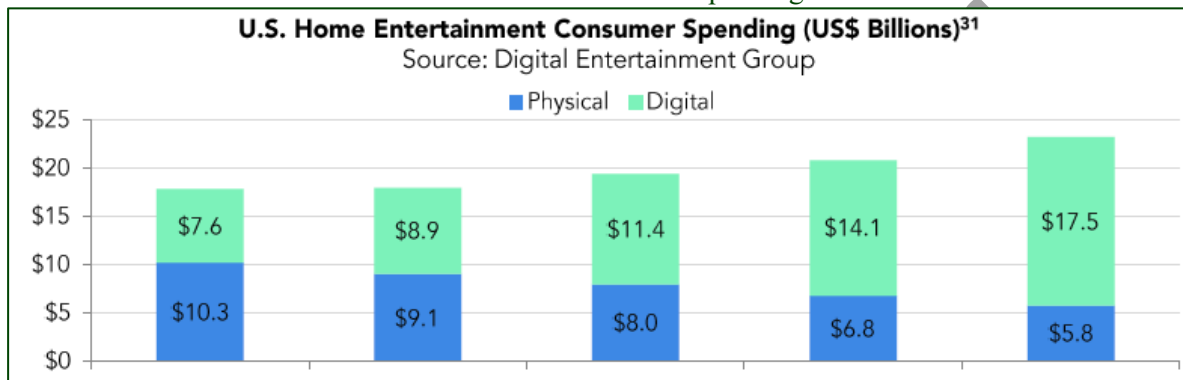
U.S. Screens by Type of Venue
Source: IHS Markit

	2014	2015	2016	2017	2018
1-4 screen venues	5,488	4,707	4,554	4,443	4,355
5+ screen venues	34,468	35,299	35,620	35,950	36,220
Total	39,956	40,006	40,174	40,393	40,575

In 2004, Blockbuster was at the peak of its threat to the cinema industry, with about 9,000 stores offering movie rentals for home viewing. Since then, there has been a steady growth in the number of alternatives that have competed for consumers’ appetite for entertainment, starting with Netflix, Redbox, Xbox, Playstation, and iTunes. More recently, streaming services like Amazon Prime Video, Disney+, HBO Max, and YouTube TV have emerged as attractive alternatives for sources of entertainment instead of going to a movie theater.

Research from the MPAA (2018: 33) indicates that American’s spending on home entertainment increased from about \$18 billion to \$23.3 billion over the five-year period ending in 2018. See Figure 5 for a summary of consumer spending on home entertainment. The bar charts show that spending on physical home entertainment (primarily DVD rentals and purchases) has been in decline, but spending on digital entertainment (video-on-demand and all streaming purchases) has more than doubled in five years.

Figure 5:
US Home Entertainment Spending



In 1948, the US Supreme Court made an anti-trust ruling that regulated some parts of competition in the film industry. In general, the ruling prohibited film studios from also owning and operating movie theaters. The court recognized that the strategy of forward vertical integration had become very powerful, to the extent that the industry leaders were violating anti-trust laws. In the court’s opinion, the companies were monopolizing the industry by controlling the entire value chain. The case was *United States v. Paramount Pictures, Inc.* 334 U.S. 131 (because Paramount Pictures was the industry leader at the time). The ruling is also known as the Hollywood Antitrust Case of 1948 or the Paramount Consent Decrees. The ruling had profound effects on the industry. At its time, the ruling was contentious, and its proposed termination is also expected to cause some controversies in 2020 and beyond. The “Justice Department sought to break up a cartel of eight distributors that controlled the production, distribution, and exhibition of movies in the United States. These distributors engaged in price fixing of admission prices, allocated geographic areas of distribution, and engaged in a few other collusive practices (Orbach & Einav, 2007: 130). The ruling had the immediate impact of requiring movie studios to make a hard choice. Did they want to be in the business of making and producing movies, or showing movies to consumers? All decided to sell or close the theaters that they owned. Consequently, movie theater chains like American Multi-Cinema (AMC) and Cinemark emerged as leaders in the retail segment (aka “exhibitors”) of the movie industry.

In late November 2019, the Department of Justice, Antitrust Division, announced that it filed a motion to terminate the Paramount Consent Decrees. The rationale was that the 1948 ruling is now an unnecessary regulation on the industry (Johnson, 2019). Consumers now have multiple ways to watch movies, so prohibiting studios from owning theaters is irrelevant today. Assistant Attorney General Makan Delrahim explained “The Division has concluded that these decrees have served their purpose, and their continued existence may actually harm American consumers by standing in the way of innovative business models for the exhibition of America’s great creative films” (US Department of Justice, 2019:1). Not surprisingly, small independent movie theaters have raised opposition to the DOJ announcement. John, stated, “This would be a big change for us, and I’m not sure it is for the better. We have to find ways to compete and this deregulation seems to be to allow large companies to get bigger while smaller companies, like Tampa Theater, will have to learn how to compete with the larger companies. (Bell, 2019)” In general, deregulation of any industry makes competition more rigorous

and tends to favor the larger competitors against the smaller ones. Kozburg (2018:1) described the view of many independent movie theater owners:

“The regulation of anticompetitive behaviors in the motion picture industry is absolutely essential to preventing market consolidation, ensuring fair pricing, and protecting quality film exhibition. Allowing a small, powerful group of motion picture producers and distributors to own theaters will risk making independent theaters dependent upon their competitors for content. While allowing large studios to set prices, control clearances, and bundle films into a single license hampers the ability of small business to innovate, collaborate with other small business (particularly small distributors), develop eclectic screening series, and initiate programs intended to invigorate their local economies — in short, it could give consolidated, large corporations excessive influence over programming, strategy, and pricing — allowing them to withhold content and obstruct efforts to work with multiple distributors/ suppliers.”

Strategy of the Tampa Theatre

John Bell, the three-decade President and CEO of the Tampa Theatre, had a strategic vision which included becoming a destination landmark for residents and visitors seeking dynamic, creative experiences through film, concerts and learning programs. When thinking about the future, John wanted to ensure the theater remained relevant and a place for people to gather, regardless of the court decree. David Feeman, the chair of the board, agreed, “The beauty of Tampa Theatre is for generations of Tampeños to gather to have current experiences while enjoying the history.”

In 2017, the Tampa Theatre had a major restoration of the lobby and the 1,252 seats. Its intricate architecture, back stage tours, and Wurlitzer organ lead Trip Advisor to rank it #4 out of #155 things to do in Tampa, with an average review of five stars, the highest rating attainable. It also earned 4.9 out of five stars on Google with over a thousand reviews. John remarked, “We have many tourists come to visit the theater, but I wish more folks from Tampa would come for a visit.”

Theatrical licenses are unique. The big studios produce almost all of the most popular movies, and they restrict how their movies can be shown in cinemas. In 2018, Disney produced the three top grossing films of the year (Black Panther, Avengers: Infinity War, and Incredibles 2). Universal, Paramount, Sony, and 20th Century Fox also had movies in the top 10 in 2018. These powerful studios typically require a theater to show a movie for a certain number of consecutive days in order to obtain the rights to show the movie. For example, “*Star Wars: The Rise of Skywalker*” when released in 2019, required a screening time of six straight weeks, effectively eliminating the smaller movie houses who cannot typically show a movie that long on their one screen. These types of licenses typically favor the multiplex cinemas with many smaller screens, like AMC or Regal cinemas.

Because of the restrictions made by Disney and the other studios, Tampa Theatre does not compete for “mainstream first run” movies. Instead, its leaders have recognized the importance of *not* competing head-to-head against multiplex cinemas like Cinebistro in Hyde Park Village and AMC in Westshore Mall. During 2018 Tampa Theatre presented 334 screenings of new films, 104 classic movies, hosted 13 live shows, gave 85 back stage tours to groups, and had several special events such as a New Year’s Eve party themed around the classic movie *Back to the Future*. Full details on the annual line-up are available in the Annual Report on Blackboard.

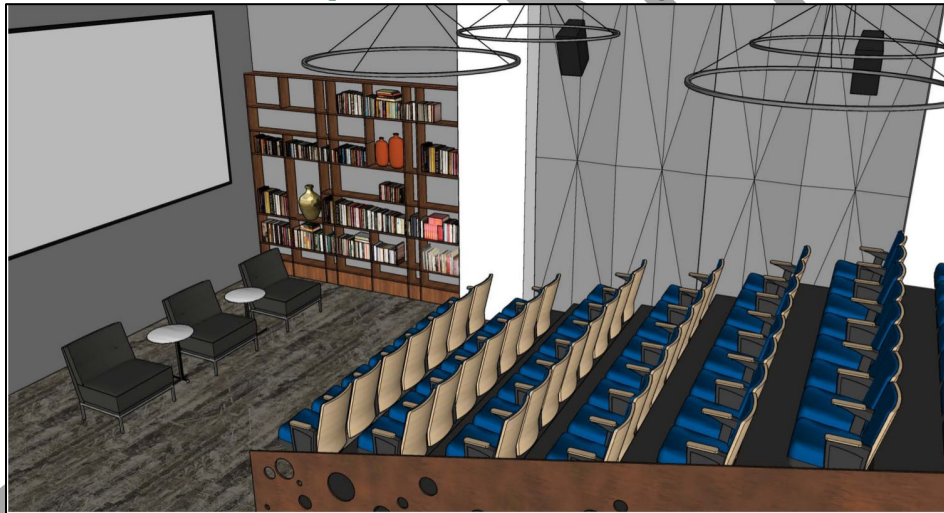
Tampa Theater is a public and private partnership, receiving both private donations and public funds. Corporations across Tampa Bay, such as Bank of America, Publix, University of Tampa, TECO, and other donors support the theater along with public funds from the City of Tampa, Hillsborough County, the Arts Council, and other grants. Finally, private donations from individuals, especially members, are the “lifblood” of the organization and help keep the doors open through their generous support to the theater (*Tampa Theater Annual Report*, 2018 p. 20). John Bell has worked to decrease the theater’s reliance on public and private

funding by increasing earned revenues as much as possible, and in 2019, about 71% of its \$3.6 million revenue was earned through both concessions and ticket sales. Full financial statements for 2017, 2018, and 2019 are available on Blackboard. Besides receiving donations, Tampa Theatre is also a contributor to the Tampa Bay community. The theater regularly donates private tours, memberships, and tickets to its movies and event. Education is also a strong component of the theater's mission. The summer finds the theater full of five weeks of film camp. Campers from grades 3 to 12 have small groups in which they make their own films under the direction of college film students. The theater also gets exposure to students during the school year with close to 100 school group field trips coming through the doors.

The Future of Tampa Theatre

John Bell explained how the small theater might work. "We have capacity to expand and it seems like the right thing to do at this point. There is space for an entrance separate from the Tampa Theatre, so we could show different movies to different crowds at the same time. But the micro theater patrons could also share the concessions area when it is convenient." The florist shop space did not have room for a stage, but it could have a screen with tiered seating. See Figure 6 for a conceptual drawing.

Figure 6:
Proposed Architectural Drawing



John Bell believed that Tampa Theater could grow even more in 2020. With the addition of the new smaller venue, he was convinced it could open up different opportunities. He was just unsure of what they would look like. He believed he and the Board had to decide quickly about the use of the space for the micro-cinema, because once it was decided, the marketers still had to book events and fill the seats. John was not looking for a list of titles to show, but a whole strategy to design, launch, operate and manage the small venue. The new strategy might focus exclusively on the micro-cinema, but it could also modify how the large theater is utilized.

