

Ancillary Revenues

Once upon a time the economics of cinemas were simple: customers bought tickets, mainly for cash; exhibitors tried to sell them refreshments, at high margins. Screen advertising provided a third, largely free stream of revenue.

More recently, however, technology, social changes and innovations in marketing have combined to complicate this picture. New sources of revenue include ticket booking fees, ticket vouchers, unlimited cards, 3D supplements, sale of glasses, Gold Class auditoria, premium seating areas, theatre hire, video games, live shows, alternative content such as opera, IMAX and other large screen formats, D-Box motion seats, bars and even at-seat dining.

Does all this mean that it is time to start looking at the economics of cinemas in a different way? A potential reality check is to look at the relationship between box office and other revenues.

In the case of the world’s largest theatre chain, Regal, non-box office revenues have actually become less important over the last five years. In part this may reflect embattled consumers cutting back on expensive concession stand items; it definitely reflects advertisers cutting back in response to the financial crisis. It is also the case, of course, that many of the new sources of revenue noted above are, in fact, new sources of box office revenue: 3D supplements, live shows, alternative content, IMAX and D-Box tickets and unlimited cards all tend to be accounted under box office, as do ticket vouchers when they are used.

Regal Entertainment Group

% box office Concessions Other

2006	40.3	10.1
2007	40.7	6.7
2008	40.3	6.9
2009	38.9	6.4
2010	37.0	6.5
2011	38.4	7.1

Looking at the largest British circuit, Cineworld, shows a similar but not identical pattern. It has a greater proportion of ‘other’ revenue but this is partly because Regal’s advertising is channelled through its affiliate National CineMedia.

The most material difference is that the fall in concession revenue relative to box office has been much steeper. Cineworld’s strategy revolves around encouraging frequency of attendance using discounting. A key element in this is its Unlimited Card. Holders can see unlimited numbers of films for £14.99 a month. (A former colleague knew a 16 year old hairdresser’s apprentice who, with her friend, used their cards to see everything.)

Cineworld Group

% box office Concessions Other

2006	40.4	13.2
2007	40.6	13.0
2008	39.0	12.4
2009	36.6	7.8
2010	34.6	10.8
2011	33.7	10.0

This strategy, whose latest element is offering discounts on advance ticket purchases, is proving successful in moving profits ahead despite the double-dipping UK economy.

So, is cinema recession proof?

Of course, it doesn’t follow that the cinema-goer who has just paid extra for a 3D or IMAX ticket will therefore buy a larger popcorn. But perhaps there’s something a little bit surprising about the fact that, for all the efforts of exhibitors to diversify revenues, the one thing that is really holding up is box office. So it turns out that the answer to the question whether cinema is recession-proof is getting slightly more complicated: the movies are, the concession stand and advertising not so much.

