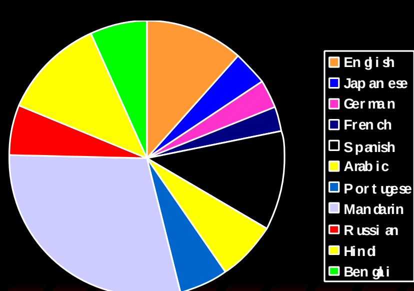
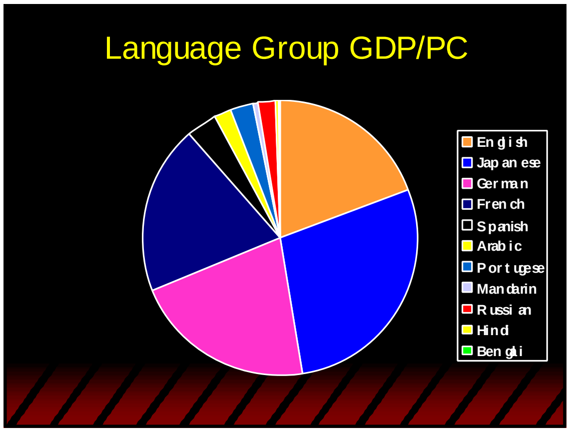
Windows of Release

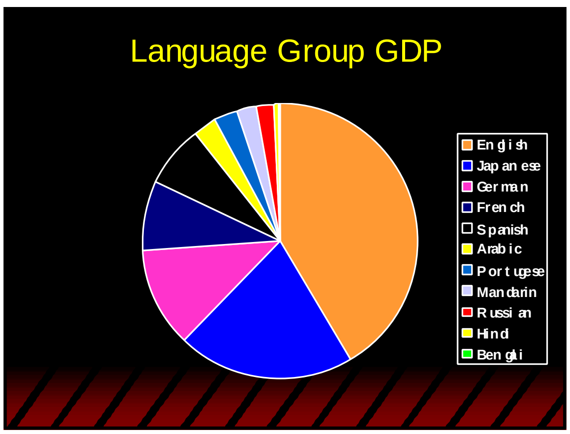
This is an International Business

- The film business has always been international
  - In silent era we imported from France
- US Industry has a big advantage
  - leading BO share in most markets
  - big domestic market
  - no subtitles
  - money speaks English

Language Group Population



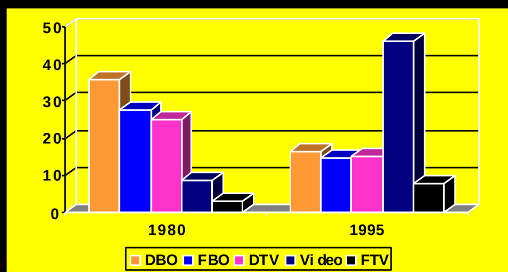




Anything Else Going On?

- US Industry looks to World Wide Market
- New Technologies Arrive

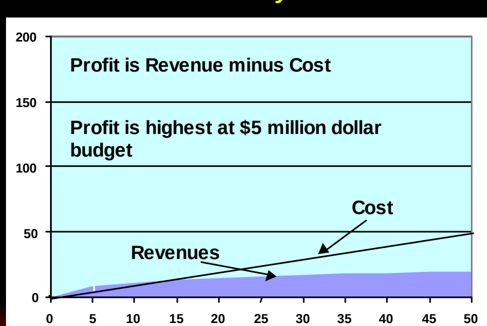
Less Revenue From Box-Office

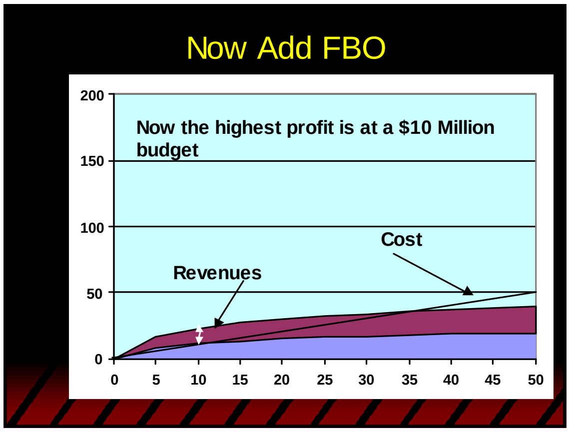


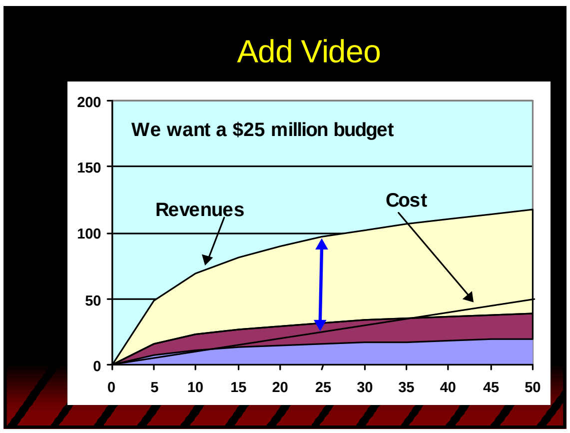
This has implications for film budgets

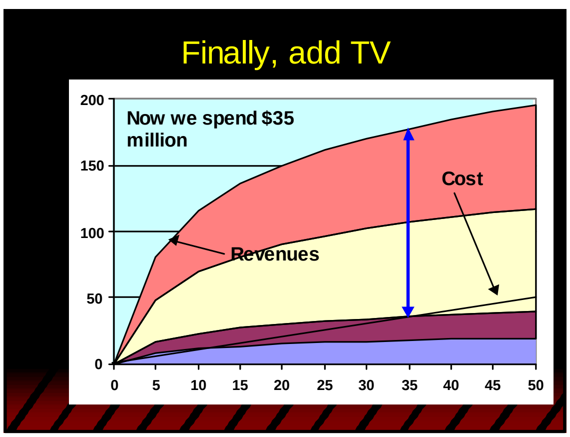
- Let's work through how this matters for production budgets
- Look at Studio Revenue as movie cost goes up

DBO only

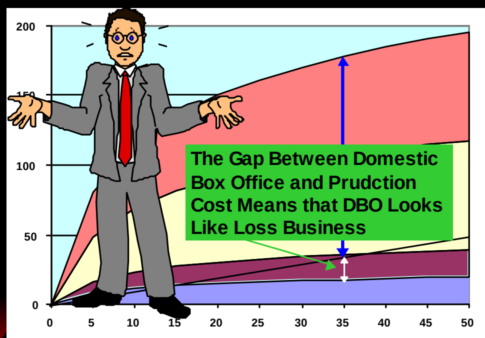



Now Add FBO
Now the highest profit is at a $10 Million budget
Cost
Revenues
200
150
100
50
0
0 5 10 15 20 25 30 35 40 45 50

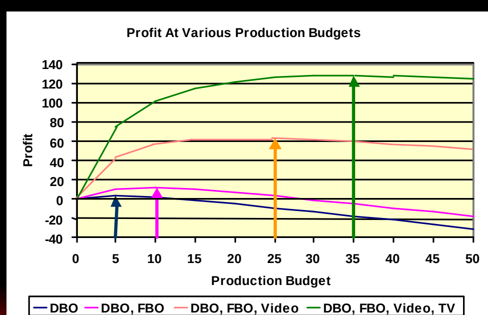

Add Video
We want a $25 million budget
Revenues
Cost
200
150
100
50
0
0 5 10 15 20 25 30 35 40 45 50


Finally, add TV
Now we spend $35 million
Cost
Revenues
200
150
100
50
0
0 5 10 15 20 25 30 35 40 45 50

DBO Is A Loss Business



Summary of Profits



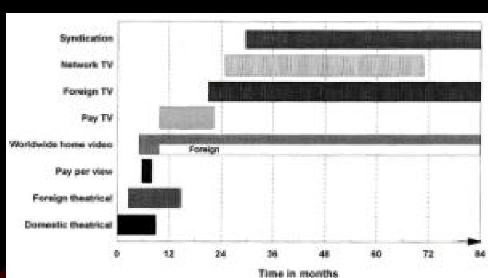
Implications

- Bigger Movies
- Type of Movie
- GATT
- Windows of Distribution

How do you exploit all the markets?

- Do you hit them all at once?
  - No
- What does the pattern look like?
  - See next slide
- But first, note that this is not a new problem
  - Before TV and Video Studios still sequenced distribution within metropolitan area
  - Downtown theatres got "clearance" and studio would not play nabes
  - in LA clearance was often for 50 miles

Sequential Exploitation Windows

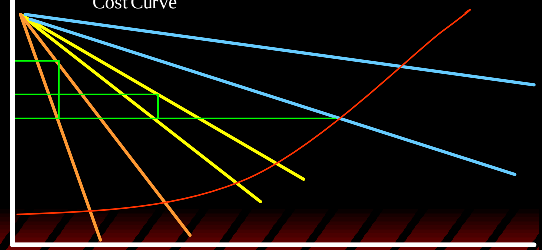


What is the economics of windowing?

- Think of the supplier as a discriminating monopolist
  - say a monopolist faces two separate markets, will she set the same price in both markets?

Segmented Markets

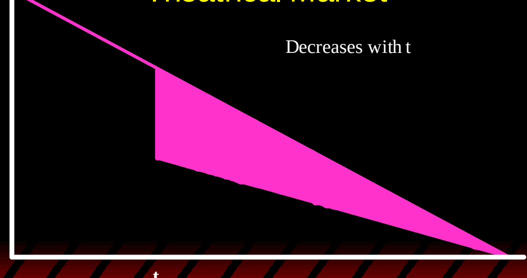
Orange and Yellow are two markets Blue is the combination Dashed lines are Demand Curves Solid Lines are Marginal Revenues Red is Marginal Cost Curve

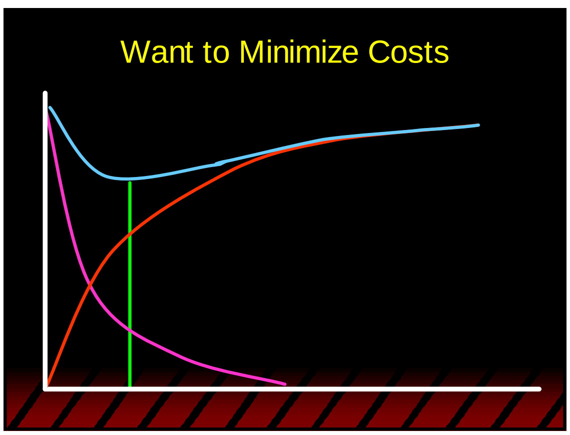


Studio Segments Viewers by Time

- What are the tradeoffs between theatrical and video?
  - Theatrical is more revenue per viewer
  - Video is an *imperfect* substitute so will draw some business away from theatrical
- Look at Frank's analysis

Opportunity Cost of a Video Release at time t on the Theatrical Market





Summary

- Delay of Video *decreases* as video market grows
- The more people value video relative to cinema, the greater the video delay.
- The quicker people lost interest in the movie, the quicker it goes to video
- Model tested on 91 movies in Germany released from 1984 - 1988.