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
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

**Profit is Revenue minus Cost**

- Profit is highest at $5 million dollar budget
Now Add FBO

Now the highest profit is at a $10 Million budget

Add Video

We want a $25 million budget

Finally, add TV

Now we spend $35 million
The Gap Between Domestic Box Office and Production Cost Means that DBO Looks Like 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

Decreases with t.
Opportunity Cost of Video Release at time $t$ on Video Revenues

This cost increases with $t$.

Want to Minimize Costs

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.