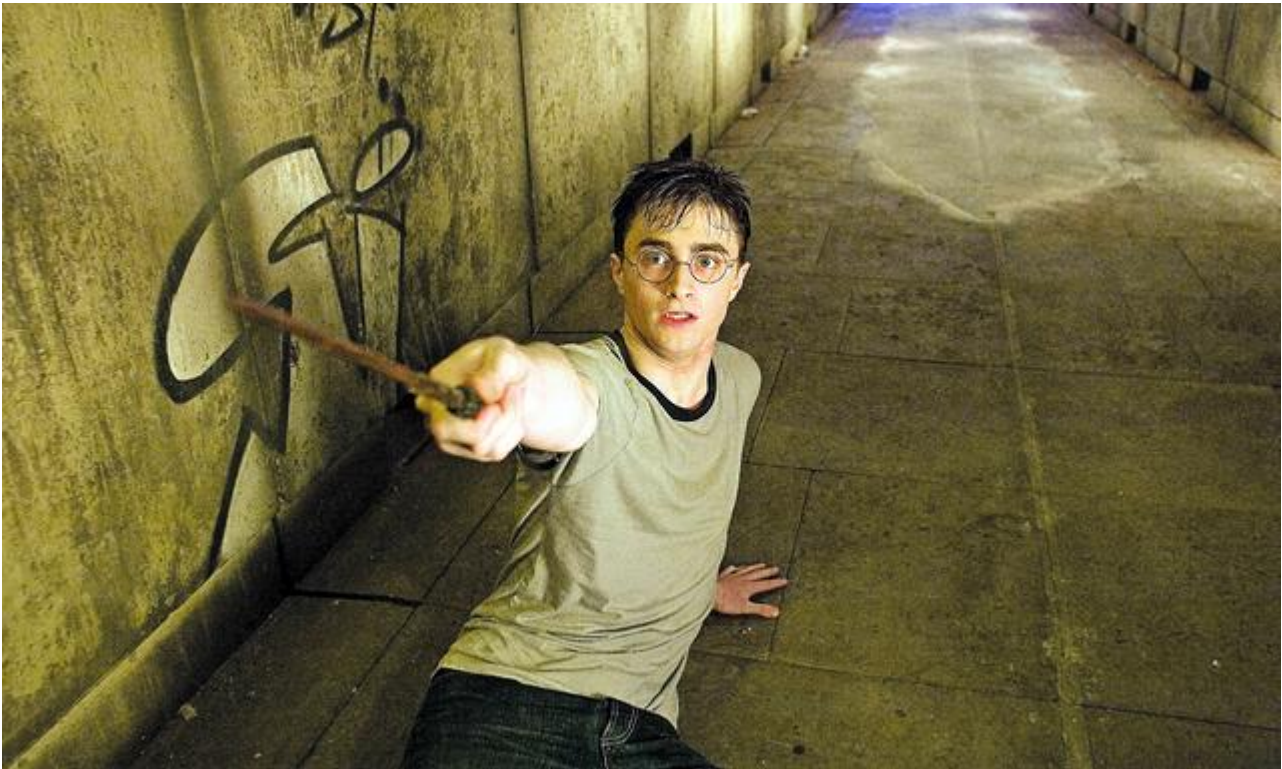


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Movie-Ticket Prices Could Fluctuate as Airline, Hotel Fares Do

By Thomas Stauffer



Daniel Radcliffe plays Harry Potter in the upcoming "Harry Potter and the Order of the Phoenix," set for release in July. A study suggests the movie industry could benefit by changing prices for blockbuster flicks, popular times or popular seasons.

Image courtesy of Warner Bros.

It's a market curiosity that's long been a popular coffee-break topic among economists, but one that had never really been studied:

Why is it that you'll pay different prices for airline tickets, hotel rooms, and virtually everything else, based on the season, the time of the week and the quality of the product, whereas

you pay the same, uniform price for movies, regardless of those variables?

Two longtime friends and colleagues — one of them a law professor at the University of Arizona — tackled the subject in a study on variable moving pricing that will be published in

an upcoming issue of the *International Review of Law & Economics*.

“It’s really bizarre to have uniform pricing for differentiated goods. It’s like charging the same price for apples and oranges,” said Barak Orbach, a professor at the University of Arizona’s Rogers College of Law who co-authored the study with Liran Einav, an economics professor at Stanford University.

“Under the present pricing model of movie theaters, some money is left on the table.”

Movie theaters could increase profits by moving away from uniform pricing, and Orbach and Einav offer three basic forms the movie industry could adopt — at least one of which has already been adopted by one major chain:

- Different prices for movies shown on weekends vs. weekdays.
- Different prices for movies shown during such seasonal demand peaks as Christmas and the Fourth of July, versus low-demand periods, including Labor Day and Easter.
- Different prices for such “event movies” as “Star Wars” and “Harry Potter” films — movies for which the certainty of demand is much more assured compared to most releases.

Film industry pricing complex

Orbach and Einav are quick to note that pricing in the movie industry is a very complex animal and that the general consensus among moviegoers is that movies are already too expensive.

Variable pricing was the rule from the time movie theaters first opened in the mid-1890s until the 1970s, and virtually all theaters continue to use at least one form of variable pricing — cheaper matinee shows.

As for discounted rates for seniors and children, that’s not price differentiation, but rather price discrimination, as it applies to a certain type of customer independent of the movie and when it runs.

One major chain, Cinemark Inc., adopted a significant form of variable pricing more than a

decade ago by charging an average of 50 cents more for weekend shows.

“We’ve been doing that a long time, since the late ‘90s, and what we actually want to do with that is drive people to a less-busy time,” said Terrell Faulk, vice president of marketing and communication for Plano, Texas-based Cinemark.

“You want to drive business to Monday evening through Thursday evening.”

Although consumers may initially protest paying premium prices, Orbach offers two basic reasons why the adoption of variable movie pricing would be beneficial, even for consumers.

One reason lies in profit not captured because of uniform prices. Think of a couple willing to pay more to see a movie on the weekend who can’t do so because a weekend show sells out.

With variable pricing, some customers who might fill seats at sold-out weekend shows would opt for cheaper weekday shows, freeing up seats for people who are willing to pay higher prices to see shows on the weekend, Orbach said.

“You’ll see a shift in the consumption that will basically generate more moviegoers,” he said. “It’s not only more money from the moviegoers, but more moviegoers.”

Helping movie theaters survive

The second reason lies in the preservation of the culture of moviegoing, by ensuring the survival of as many different movie theaters as possible, he said.

Increased profits from variable pricing would help ensure that survival, Orbach said.

For a small theater, such as the The Loft Cinema, which is owned by the nonprofit Tucson Cinema Foundation, adopting variable pricing as it relates to the type of movie, such as an “event” movie, may be hard to do, said Peggy Johnson, executive director of The Loft, 3233 E. Speedway.

That’s because film distributors, while expressly forbidden by law to set or influence movie prices, wield substantial power over pricing

because they can simply refuse to deal with exhibitors, Orbach and Einav wrote in the study. Distributors are generally opposed to variable pricing for a variety of reasons, not the least of which is a fear that it could hurt their share of box-office revenues.

“The whole subject is very intriguing, but we’re not going to do anything to disrupt our relationships with our distributors because they’re our life blood,” Johnson said.

“It might have to be something done by one chain that had 5,000 screens and the sufficient power over distributors to do it.”

With improvements to home-theater equipment and quick releases to cable television and DVDs, the industry as a whole would be wise to rethink its pricing strategy, Einav said.

“It’s definitely easier to institute the changes related to show times rather than by the movie type, because the sense you get from the industry is that they’ll look like a fool if they overprice a movie that ends up being a dud,” he said. “But with certain movies, that level of uncertainty is pretty low.”

Event flicks throughout 2007

There is a veritable slew of those “certain movies” set for release in 2007, said Brandon Gray, president of Box Office Mojo, a Burbank, Calif.-based online movie publication and box office reporting service.

“2007 is jam-packed with event pictures. You’ve got sequels to ‘Shrek,’ ‘Pirates of the Caribbean,’ ‘Spider-Man,’ ‘Bourne Identity,’ ‘Rush Hour,’ ‘National Treasure’ and ‘Harry Potter,’” he said.

Gray said he suspects the public will accept variable pricing if an experience worth the added cost is offered.

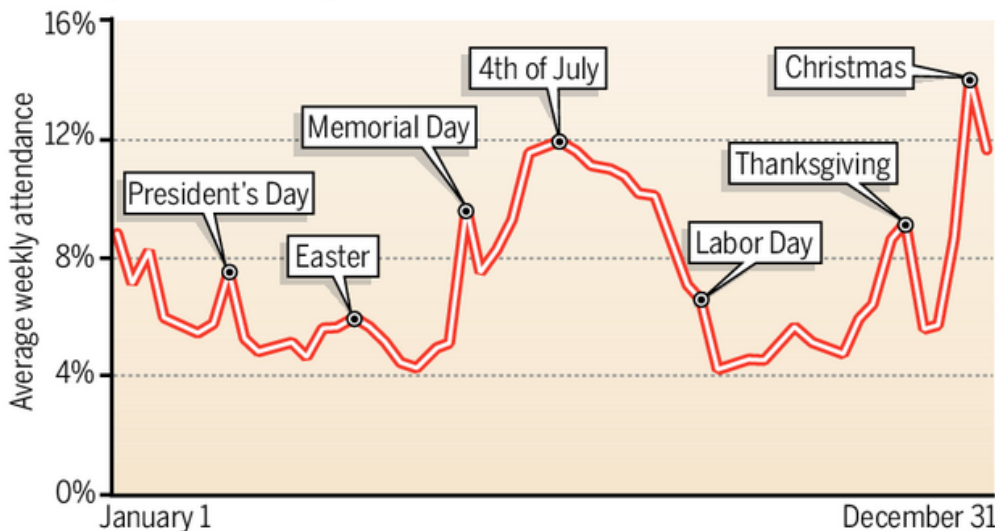
“I think you can charge more if you’re really giving them a better experience, like an Imax or a really nice facility,” he said.

“I think people will pay for quality, but I don’t think they’ll easily accept paying more for the same movie at a different time.”

Are you willing to pay more to see the next blockbuster?

Contact reporter Thomas Stauffer at 573-4197 or tstauffer@azstarnet.com.

SEASONAL MOVIE ATTENDANCE (1985-1995)



Source: Einav (forthcoming)

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