

It Was Better With Bonzo

By Steven Pearlstein
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Today isn't just the official start of the holiday shopping season. It's also the start of the holiday movie season, when studios try to capitalize on the seasonal urge to get out of the house and take in a flick.

So here's a puzzle: Why will movie theaters charge the same \$9.50 to see "Casino Royale" this Saturday night that they charged to see the disappointing remake of "All the King's Men" on a Wednesday night in the middle of September?

Wouldn't they sell more tickets and popcorn, and make more profit, if they increased the price when demand is high, and lowered it when demand is low?

After all, hotels and airlines have long varied pricing by day and season. And you'd think it odd if Macy's charged the same for a cashmere sweater as one made from a polyester blend. Yet the movie industry, facing flat or declining revenues, clings to a uniform pricing model that makes no sense.

It wasn't always so. Back in the golden years of Hollywood, before PG and XXX, there were "A" movies, "B" movies and "C" movies, distinguished not by their sexual content, but by the box-office appeal of their stars. Not only did it cost more to see Clark Gable in "Gone With the Wind" than Ronald Reagan in "Bedtime for Bonzo," but the ticket price also varied depending on whether you saw them in a first-run movie house downtown or a second-run theater in the suburbs, and whether you took in a matinee or an evening showing. And "ladies' nights" were a real bargain.

All of this began to fade with the arrival of television, which triggered a long, slow decline in moviegoing, a steady increase in ticket prices, and a switch to uniform pricing. Not long afterward, the movie studios were forced to give up their theater chains in a landmark antitrust settlement with the Justice Department. The arrival of the multiplex and the advent of VCRs, DVDs and movies on demand have also altered the economics of the movie business.

But none of these can fully explain why the industry remains wedded to uniform pricing.

Two academics who have noodled this puzzle are Barak Orbach, who teaches at the University of Arizona law school, and Liran Einav, an economist at Stanford University. Over the past few years, they have studied the literature and talked with dozens of industry executives. Now they have prepared a fascinating paper, which will be published next year by the International Review of Law and Economics.

Among the factors cited most often by theater owners are the cost and hassle involved in charging different prices for different movies on different days. There's the complexity at the box office and the need for some mechanism to make sure that patrons who buy cheap tickets for one theater at the multiplex don't wind up at expensive movies. On the other hand, it's hard to believe there isn't some simple technology that could solve most of these problems.

A more plausible explanation is that consumers might consider variable pricing as somehow unfair. But the experience in other industries suggests that such objections can be overcome, particularly if theater owners would phase in the new prices by introducing discounts for slack periods before raising prices for hit movies on busy weekends.

Obviously, it's not possible to know, in advance, which movies will be hits and which will be flops in order to price them accordingly. But theater owners have a good grasp of how ticket sales vary by season, or day of the week, or how long a movie has been playing. This is precisely the kind of information that could be used to set flexible prices.

What makes the persistence of uniform pricing all the more curious is that theaters actually pay widely varying fees for the licensing rights to the movies they show. The bigger the expected gross, the higher the percentage of ticket revenue that

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normally goes to the studio and its distributor. And the formula also includes a per-ticket fee that declines each week of the movie run.

My hunch is that these pricing arrangements between the studios and the theater chains, which have always been shrouded in secrecy, are the answer to our puzzle. It is the studios that want to maintain uniform pricing because it is the theater owners who would get the most benefit from variable pricing. And according to Orbach and Einav, when a few chains have tried to experiment with variable pricing, they often found that they lost access to the best movies or faced demands from distributors for higher per-head charges that discouraged them from offering discounts.

If you have any doubt that the studios have the power to dictate uniform retail prices, consider what happened with the introduction of "The Godfather" in 1972. Up to that point, the tradition was that theaters could charge a premium for tickets to the handful of "event" movies that came out every year -- in the modern context, the "Harry Potter" and "Spider-Man" movies. But when "The Godfather" was released in 1972, suddenly every movie theater in the country eliminated its event-movie pricing. That's the kind of "coincidence" Don Vito Corleone would have been proud of.

Under the antitrust settlement with the Justice Department in the 1950s, this kind of "vertical price maintenance" was supposed to be prohibited. But in their paper, Orbach and Einav suggest it may still be going strong. And for good reason. With movie studios making more and more of their profit from after-market sales, they have little interest in ticket discounting by theater owners who make most of their profit, in any case, from popcorn and Milk Duds. As the studios see it, every extra ticket sold because of a discount is one less potential movie rental or sale of a DVD.

It remains an open question whether variable pricing would, on balance, be good or bad for consumers -- discounts for some could well be offset by higher prices for weekend tickets to hit movies. But we'll never find out as long as movie studios use their power to discourage theater owners from giving it a try.

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