The GSTA Economic Impact Study: The Background

With the industry at an economic crossroads, members of the Giant Screen Theater Association commission a study to help them determine which path to take. By Kelly Germain

"**We're at a huge crossroads** in our industry, and whether or not this industry continues in the robust fashion of the past will be determined within the next three years," predicts Greg MacGillivray, president of MacGillivray Freeman Films. It is a viewpoint shared by many players within the giant screen industry. Commercial theaters now almost outnumber institutional theaters, the debate over educational merit versus entertainment value continues, the quality and quantity of giant screen films is under scrutiny, and the trend in theater booking practices—primarily booking multiple films with shorter film runs—is a point of dispute. These are just some of the issues that raise contentious debate between film producers, distributors and exhibitors.

During the Giant Screen Theater Association (GSTA) annual conference in Frankfurt in September 2000, and the GSTA midwinter meeting in Dallas this past February, association members had the opportunity to discuss those issues and the overall state of the industry. The consensus was that a period of change and transition is imminent, especially in terms of the economics of giant screen educational films. The prevailing concern is a likely decline in the return on investment for education-oriented films in giant screen format and the resulting adverse effects on the industry.

In order to quantify what was primarily speculation and conjecture, the GSTA education, liaison and research committee proposed commissioning a study to

ILLUSTRATION BY JULIA TALCOTT

determine the economic factors affecting the future availability of educational films. "The [current] economic model is not beneficial to all the players," says Peter Giles of the Tech Museum of Innovation. "Collecting data that is useful to all concerned provides a service to GSTA members and establishes a foundation for future research."

"There's no easy way of solving the problem," echoes MacGillivray, "except with more scientific data."

WHERE DO WE START?

After Frankfurt, a request for proposal (RFP) was drafted, with Giles, Bob Grimm, also of the Tech Museum of Innovation, and MacGillivray leading the process. The focus of the study was twofold:

1. Does the current financial model for the production and showing of educational films work adequately for all involved?
2. To the extent the financial model is not working adequately, what steps may be taken by GSTA members individually and collectively to improve the financial model for all concerned with giant screen education films?

To answer those questions, the RFP stipulated the results needed to accomplish the following:

- document numerically the trends of educational and entertainment films (i.e., the number of films shown at the GSTA conference for each of the past five years and the percentage of educational and entertainment film showings at major institutions)
- study and present the economics of the educational film business
- interview and present concerns and recommendations of institution directors, filmmakers and other stakeholders
- study and comment on joint funding of filmmaking by institutions and consolidated film rental agreements
- make recommendations to the GSTA based on the study's findings

Enter Marty and Roberta Shindler of The Shindler Perspective. "The Shindler Perspective was by far the most qualified and had the most responsive proposal," states Giles, "both financially and in the scope of the proposal." No stranger to the giant screen industry, Marty writes a monthly column devoted to management and business topics in *LF Examiner*. With their impressive credentials, in-depth knowledge of the entertainment and giant screen industries, and their ability to make practical recommendations based on the study's findings, GSTA considered the Shindlers the premier team to conduct the study.

A comprehensive study, however, required financial support. In Frankfurt distributors, filmmakers and producers were asked if they would contribute funds to support the study. The response was impressive with 19 organizations representing nearly all facets of the giant screen industry contributing the funds necessary to complete the study.

"We believed that this study had a lot of merit in helping our industry understand the current economic climate more truthfully rather than anecdotally," says Mark Katz, president of distribution at nWave Pictures. "We believed in the broader intentions of the study."

"It is our collective duty to assess where we are and where we are headed," says Goulam Amarsy, president of Primesco. "The key players need to formulate a clear strategy for the foreseeable future."

"All of us need this data to help us make better investment and creative decisions," asserts Chris Palmer, president and CEO of National Wildlife Productions. "The future of the giant screen industry is uncertain, and we all need to step up to the plate in order to secure its future."

HOW DID WE GET HERE?

Theories as to the cause of the economic challenges within the industry vary widely, with each segment —filmmakers, distributors and exhibitors—sharing some responsibility for its current state of economic turmoil.

Palmer suggests that an industry identity crisis may be at its crux: "My view is that the IMAX brand is being blurred, diluted and damaged by the production of commercial films which are not family friendly and which are not a fun, learning experience. We have to focus on the institutional market and on films which are family friendly and simultaneously both highly entertaining and educational. That was the foundation of this industry, and it is the future of this industry."

"Theaters are all over the place," agrees MacGillivray. "There's a tremendous variety and range in quality of films. There's also tremendous variance in educational merit and entertainment merit. The public is currently confused about who we are, and the films being offered are confusing them."

Is it possible for both institutional theaters and commercial theaters to survive in the competitive marketplace? Katz believes so: "The marketplace is now more clearly divided into two sectors. The institutional model of theater that plays primarily documentary, traditional large format films is still, for the most part, healthy. Business has gone down,

An article discussing the results of the GSTA Economic Impact Study follows on page 62. The complete study is available to GSTA members at www.giantscreentheater.com. To access this document, you will need to enter your user name and password.

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Greg MacGillivray, president, MacGillivray Freeman Films

but it's not teetering on the brink. Then there's the multiplex side, which, as we know, is not in great shape at the moment. Based on this premise, it is safe to assume that there will continue to be a decent supply of films for the institutional type of theater. However, the commercial side needs more event films, films that are designed for their audience, which is a different audience."

Also contributing to the current economic turmoil are theater booking practices and the historically minimal budgets spent on marketing the films they are showing. "In my mind it's simple," explains MacGillivray. "Many theaters are not using scientific methodology in deciding which films to use. If each theater used audience topic tests and exit surveys, they'd have confidence in the validity of their decisions, and they'd promote and run those films longer."

"Theaters aren't advertising enough to alleviate audience confusion," MacGillivray continues. "The multiplex customer sees there are seven [giant screen] films playing, doesn't know anything about any of them, and doesn't know which one to choose to see. So they pick the Hollywood film they've heard about."

"Theaters continue to spend too much money on the projectors, maintenance and royalties," Amarsy concurs, "and not enough on the films and marketing."

"The reality is that giant screen commercial films are competing against $75 million Hollywood films with $20 million marketing budgets," Palmer points out. "Large format films will always lose that fight."

Compounding the industry dissent is an apparent lack of leadership within the industry itself. "There's little central leadership or brand uniformity to speak of," MacGillivray observes, "and the result is a confused customer."

"For many years IMAX was giving a clear direction to the entire industry," adds Amarsy, "but they abdicated from that role about five years ago. We need to understand that all stakeholders are partners, and we need to review the economic model imposed by IMAX when large format was a novelty. This antique model cannot continue to dictate our respective relationships."

GSTA extends its sincere appreciation to thesponsors who made the Economic Impact Study possible:

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The Tech Museum of Innovation

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WHERE DO WE GO FROM HERE?

Despite the debate over industry economics, however, there remains a sense of cautious hopefulness for the industry's potential. "I have 40 years of experience in the alternative cinema business, and I've seen industries and film processes come and go," MacGillivray notes. "I'd hate to see what I think is the best system diminish in quality and success. The majority of the audience is still excited about the [giant screen] industry. The audience still loves the experience of going to a [giant screen] film. They want it to stick around."

"This industry still has tremendous appeal with the public," agrees Amarsy, "with sponsors, and with education-minded organizations such as the U.S. National Science Foundation and the National Wildlife Federation."

"It's a roller coaster ride for the industry right now," Katz summarizes. "The core people and the core companies are, for the most part, going to stick it out. It's tough right now for everyone, but the good films are going to succeed and the bad films are going to fade away quickly. There will probably be fewer films released over the next three to four years than there have been over the last couple of years."

Perhaps the GSTA Economic Impact Study is a first step in ensuring the economic viability of giant screen films. "There are many opinions on the nature of the problem and on what to do," states Giles. "It's not an obvious, cut-and-dried solution. There's an intrinsic value in the information if it's well presented, and the results will help people make choices, individually and collectively."

"We're in a fallout situation and a period of adjustment, much like the stock market is going through right now. A lot of people got into the industry with unrealistic expectations, and in recent years we have seen some players enter and exit production of giant screen movies," concludes Truett Latimer, current GSTA president. "We're all in this industry together, and I do believe there is a light at the end of the tunnel. From this study, we can learn and plan ahead."

Results of the Economic Impact Study will be presented by the Shindlers at the 2001 GSTA annual conference in Chicago this September.

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The GSTA Economic Impact Study: The Results

By The Shindler Perspective, Inc.
Roberta and Marty Shindler

Does the current financial model for the production and exhibition of educational films work adequately for all involved?

The simple answer is no.

The more complex answer is it depends. The second answer is due in large part to the way large format (LF) educational films have been financed through the years, including the profit motivations, or lack thereof, for the organizations involved.

In order to answer this complex question, especially as it relates to the "for all involved" aspect, the GSTA Economic Impact Study was commissioned to examine in detail the financial/business model of the industry.

Simply stated, the current model is one in which the exhibitor pays a lease fee to the producer/distributor in the approximate range of 15–20% of the film's box office receipts. The exhibitor absorbs most of the costs for marketing the film, including promotion and advertising. The exhibitor also pays the full cost of purchasing a film print. The average cost of a 2D print is $25,000 and a 3D print is approximately twice that.

The producer must pay for all the production and distribution costs out of its share of revenue, supplemented in part by sponsorships, equity investments and debt.

Additionally, the study analyzes the perceptions inherent in the various segments of the large format film business. While the quantitative results are definitive, it is the various qualitative impressions that form the ways that those involved in this industry make decisions on a daily basis. Some of those decisions are insular and local in scope while others are more global in nature. Each impacts the way that business is conducted.

As a fundamental part of the study, a detailed survey questionnaire was sent to a broad range of LF industry executives and industry organization leaders in both the institutional and commercial film sectors as well as the various support organizations. A financial questionnaire also was sent to the producers of each film presented at a GSTA conference during the past five years, requesting detailed information on the financial results of their films.

The questionnaires were supplemented by one-to-one interviews with many LF industry executives who provided candid comments on many facets of the LF industry from the past to the future.

The survey delved into a variety of issues from general matters to those related to production, distribution and exhibition. The issues explored range from the definition of education in large format films to a myriad of other challenges facing the large format industry today. These include whether institutional theaters and commercial theaters could co-exist with their own sets of economics and whether or not they are dependent upon one another.

The survey also included a "Rate the Films" section comprised of all films shown at GSTA conferences during the past five years.

The candid responses received in both the interview and questionnaire process reveal an industry in need of a change in its basic economic model.

INDUSTRY CONCERNS

The results of the survey provide insight into the concerns and issues facing the many segments of the LF industry.

The candid responses that were received in both the interview and questionnaire process reveal an industry in need of a change in its basic economic model amidst a strong sense of concern about the future direction of the industry and many of the precepts upon which the industry was built. It appears that change is a foregone conclusion to many industry professionals.

This need for change is accentuated by a number of very important factors. These include:

- The hard reality that most films do not earn a profit, especially considering the highly fragmented environment into which they are sold.
- The financial model in existence today has not changed much in the approximately 30 years since the LF industry began.
- The economics of the industry, long supported by a not-for-profit institutional base, are being called into question by many segments of the industry, each with the mindset that the problems and economic challenges facing the industry are not their fault, but that of the *other* industry sectors.
- The growing number of commercial theaters in many of the global markets.
- The release of *Fantasia 2000* with its more conventional mainstream distribution terms and strong marketing campaign and, to a lesser degree, the release of *Michael Jordan to the Max*, which negotiated its terms similar to the mainstream model as well.
- The significant increase in the number of new LF films that have been produced in the past five years, including the "apparent" lack of success for commercially driven product.
- The fact that IMAX Corporation was put up for sale and subsequently withdrawn following a sharp decline in its stock price during 2000.
- A strong feeling amongst institutional theaters that the IMAX brand has been severely diluted in recent years.
- The financial challenges facing the mainstream exhibition circuits, many of which have new commercial IMAX 3D screens. It is not always understood by segments of the LF industry that the challenges facing these circuits are not a direct result of building the IMAX screens.
- A declining length of average lease times for LF films.
- Lower attendance than previous years at 54% of the institutional theaters participating in the study, at a time when the competition for the entertainment budget is being pulled in numerous directions, including the significant impact of the Internet.
- An inability to attract sufficient capital for the production of LF educational films and in other infrastructure and support areas due to the generally poor economics of the LF industry.

DIAGNOSIS: FUTURE SHOCK

The foregoing has occurred in a very short time. A large portion of the large format industry has been experiencing future shock.

In the introduction to his 1970 best-selling book, *Future Shock,* Alvin Toffler defined future shock as "the shattering stress and disorientation that we induce in individuals by subjecting them to too much change in too short a time."

He goes on to explain that future shock is "a time phenomenon, a product of the greatly accelerated rate of change in a society. It arises from the superimposition of a new culture on an old one. It is culture shock in one's own society."

The antidote to future shock is to plan for the future, to *anticipate* the changes that are inherent in our daily processes and work toward making the changes happen.

SURVEY HIGHLIGHTS

An analysis of the data is included within the study, available to all GSTA members on the web site. It is important that members review the full study, for the number of subjects with which it deals are too numerous to effectively include in this article but will affect a great many organizations throughout the industry.

In addition to the survey questionnaire and its tabulation, there were many write-in comments and subsequent discussions with industry executives as to the types of films being produced and other matters of general interest. Here are some of them.

Quality product: Quality, innovative product, with a freshness of vision on new and interesting topics, is of primary interest for *all* respondents. It is one of the most important issues that transcends all sectors.

Filmmakers want to produce exciting content but know that it will cost more to make such a film, and they are constrained by budgetary considerations. They express doubts on the whole that a large portion of the market will accept this kind of film, commenting that the many factions, geographic differences around the world and selection processes preclude anything but more of the same.

Most often cited is *T-Rex: Back to the Cretaceous*.

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This film is often regarded as one of the most visually innovative LF films ever, especially with its use of computer graphics. Yet it did not live up to its potential because of a concern for scientific accuracy. The controversy caused many institutions not to book the film. In spite of this, the film now ranks third on the current list of most booked films.

When all is said and done, the most crucial element for a successful film is story, story and story. That is why, of course, *Everest* and *Mysteries of Egypt* rank first and second respectively in number of bookings.

Brand vs. format: Many survey respondents and interviewees have expressed concern about IMAX diluting the brand in their development of the commercial market. Others have indicated concern that as new films are produced outside of the educational arena, the topics and types of images could be in direct conflict with the missions of the institutions. Their level of concern is genuine and should not be dismissed.

Institutional exhibitors expressed feelings of betrayal by IMAX Corporation, indicating that they felt abandoned in the company's pursuit of the commercial market.

Further, they felt that the growth of the commercial market was detrimental to the institutional market. Their concern was that it would no longer be clear to the audience that what was showing at an institutional IMAX theater would be the same type of educational, family-friendly film they had grown to expect and rely upon at institutional venues.

RESPONSE	TOTAL	INSTITUTIONS	COMMERCIAL	PRODUCTION/ DISTRIBUTION	PRODUCTION SERVICES	OTHER
Yes	53%	29%	100%	57%	64%	71%
No	5%	10%	0%	5%	0%	0%
Maybe	27%	42%	0%	19%	18%	29%
Other	15%	19%	0%	19%	18%	0%

Can the institutional and commercial sectors co-exist?

On the other hand, distributors remarked that with more screens available to which their films can be sold, costs can be amortized over a larger base. Given the sheer extent and fragmentation in the institutional market, the sales process in the commercial market is infinitely less onerous, thus less costly. As product improves, revenue should improve.

That said, it must be acknowledged that the IMAX brand is not proprietary to educational large format films. Over the years, the term IMAX has become a generic term, much like Kleenex or Xerox.

The format has been used in a variety of ways over the years. Of particular note is the fact that Disney, Universal and other theme parks have 15/70 and other LF 2D and 3D projection systems and have used the format for years as a way of providing their patrons with new and exciting filmed experiences. Many who attend films at institutions had their first IMAX experience at theme parks. They may or may not associate the two experiences with each other.

Perhaps it is that level of experience that has prompted the move into the commercial market. IMAX was foremost a technology company. That the term IMAX has become associated with large format educational films is a by-product of the brand, but it must be recognized that the technology has many applications outside of the institutional exhibition sector and is not proprietary to that sector.

Educational films: The first survey question asked respondents what they thought was the best definition of large format educational films. There was by no means a consensus, and the range of alternatives offered demonstrated that an educational large format film is not easily defined.

Respondents also were asked to rate each of the films presented at one of the past five GSTA conferences as to its educational value and its entertainment value, each on a scale of 1 to 10, with 10 being high. The data was then plotted on a graph and is presented in the full study available on the GSTA web site.

As to whether a film must be 100% accurate historically/scientifically, the tabulated results indicate a nearly 50/50 split in the institutional theaters, with commercial theaters overwhelmingly choosing "no" as their response.

Together, the results of the foregoing three highlights further indicate that what is acceptable and educational is in the eye of the beholder.

Commercial theaters: Commercial theaters coming on the scene in larger numbers in recent years is probably one of the biggest contributors to future shock in the LF industry.

The survey asked the question whether the institutional and commercial sectors could co-exist and develop their own set of economics. There are numerous precedents for this in the business world. Several are explored within the study. The responses by industry segment are presented in the chart above.

With the pending changes in ownership of several of the commercial exhibition chains as of this

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writing (March 2001), the future of these screens could change.

The recent Disney announcement regarding commercial large format product, a re-release of *Beauty and the Beast* plus four other original productions over the next few years, will certainly have a significant impact on the decision process related to retaining these screens. The financial commitment to LF made by Disney, the quintessential family programming company, constitutes an endorsement to the viability of the medium in the commercial sector.

The LF industry should consider this an *opportunity* to use their facilities as a means of bringing in new audiences to their entire offerings. There are many *benefits* to this announcement for the LF educational community including appropriateness of the product. Technical improvements that Disney makes in the production process will most likely be available to the industry as a whole for subsequent productions.

THE BOTTOM LINE

The bottom line is that very few films in the financial survey earned a profit for their producers. Those that earned a profit were for all intents and purposes blockbuster films, at least by the standards currently in place for the LF industry.

In a couple of cases production costs were so low and the films have been playing for a long enough period of time that eventually their total revenue exceeded the costs. The rest lost money for their investors.

Yet, there is a continuing demand for large format educational films. The global institutions that play the films are an enduring group with long-term goals.

Through the years, many of the large format educational films have been financed through the use of "free money." This term has been commonly used to refer to governmental and national organizations, corporate sponsorships and the like that are more concerned with getting their message across to a wide number of people than with getting a specific financial return on their investment.

To the extent that the industry is satisfied with this approach to film production, the needs can continue to be met into the future, albeit with some modifications to the economic model.

However, there is a very important group of producers who are involved in the production and distribution of large format films and who have a vested interest in seeing the medium continue, for whom profits represent their livelihood. Without a fair return to them, there is a strong possibility that continued product from an experienced and long-lasting group of producers will decline.

Overall, the industry must focus on the economics of profitability. *It is the one concept that will allow for the much needed industry boost required at this time.* Without it, for-profit enterprises will seek work in areas where there is a better return for their efforts.

SURVEY RESULTS AND ANALYSIS

The study results demonstrated a range of varying responses, both in the aggregate and by sector. While differences of opinion on any given topic may be expected between industry groups, it is readily apparent in the responses to many questions that there are sharp differences *within* industry groups. Further, the results demonstrated why *perception* is such a significant but not necessarily separately quantifiable factor in the economics of the industry.

In the final analysis, the LF industry is in a correction phase. It is in a state of transition. A change to the basic economic model is needed in order to allow the educational film market to survive and, more importantly, to continue to grow.

The study presents a number of recommendations that should be reviewed and should be given serious consideration. Alternative models will be developed and will be tried. Some will stick, and others will be discarded. Modifications will be made.

It will require time for a new economic model to take hold and for its effects to trickle down through the various levels in the industry value chain. It is an iterative process, not an overnight occurrence. It must start now by all involved.

As the economics of the industry change for the better, it should provide better overall financial results that will act as a catalyst to attract the levels of capital to continue propelling the industry further.

SUMMARY RECOMMENDATIONS

The primary recommendations are summarized below and expanded upon in the study.

General

- Open up clear channels of communication among the various industry segments, including institutional and commercial exhibitors, producers and distributors and the production services group to achieve common goals of producing, distributing and exhibiting quality films in a cost-efficient manner.
- Define the criteria of what exhibitors won't show so that filmmakers will know what clients won't buy. This is not intended as censorship. It is intended to eliminate the element of surprise that

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filmmakers have expressed when films that they produced and thought would be acceptable to institutional exhibitors are deemed unacceptable to those exhibitors.

- Develop a cohesive analysis of the needs and wants of the consumer, the end customer, who by their purchase of a ticket at the box office allows the industry to exist.
- Consider revisiting the institutional mission statement in order to be more flexible in its interpretation. Regard films as an opportunity to bring people into institutions who might not otherwise come. This is not intended to imply compromising principles or ignoring mission to the point of losing the core audience.

Economic

- Change the box office allocation formula, providing more revenue to producers, thus creating in theory more funds for future productions. Revised rates should be subject to good faith negotiation but should also include more innovative terms on both sides of the lease.
- Work with vendors to negotiate better pricing on large purchases, with prints being one of the hottest topics in the survey. The economic model will need to have everyone on the value chain committed to its success for this process to work.
- Maximize revenue across all distribution windows. The financial results prove that the ancillary markets are crucial to a film's financial success.
- Consider formal buying sessions at industry meetings, such as annual conferences, where many new films are screened. This would afford economies of scale to distributors and could thereby improve terms offered to exhibitors.
- Consider developing group buying consortiums, with one organization representing the group. The designated organization would have the authority to book films on the collective behalf of the group after the individual members have had the opportunity to view the films and arrive at a decision.
- Work toward more day and date releases to allow all theaters the opportunity to gain from the exposure created by more national and regional publicity campaigns. This will be particularly beneficial as the number of theaters continues to grow in both the educational and commercial segments. Critical mass still needs to be achieved if filmmakers are going to be able to earn a reasonable profit from the distribution of their films.
- Provide incentives and a means to encourage new and young filmmakers to the medium. The institutions have a mandate toward lifelong learning, and it should be extended toward allowing the future filmmakers a chance to test their abilities. An inability to encourage this growth could lead to the filmmakers taking their talents to other markets.

Attracting the capital that is needed to continue producing the kinds of large format educational films that the industry desires requires the firm commitment of the entire industry to the changes recommended in the study. The trickle-down effect will take time, but it can have a long-term positive impact.

It can happen. It needs to happen. It will, in the end, benefit all involved.

All that is required is the willingness to act. . . *by all involved.* ■

The Shindler Perspective provides a business perspective to creative, technology and emerging companies. They may be reached at Shindler@ iShindler.com.