



HPS-4000®

HIGH PERFORMANCE STEREO

Sound IS the Experience !™

" I'M WAITING FOR THE VIDEO "

**After failing to effectively compete with home theatres,
motion picture theatres fight not only for survival,
but for relevance**

BY

JOHN F. ALLEN

HIGH PERFORMANCE STEREO™



HPS-4000®

HIGH PERFORMANCE STEREO

FIRST IN DIGITAL STEREO

This article was written by John F. Allen and originally published in BOXOFFICE MAGAZINE. Unauthorized duplication or publication without the written consent of both John F. Allen and BOXOFFICE MAGAZINE is prohibited.

HIGH PERFORMANCE STEREO™

NEWTON, MA 02459 USA • TEL: 1-617-244-1757

HPS® and HPS-4000® are registered trademarks of John F. Allen

"I'M WAITING FOR THE VIDEO"

**After failing to effectively compete with home theatres,
motion picture theatres fight not only for survival,
but for relevance**

**By
John F. Allen**

Motion picture theatres are struggling under tremendous pressures. Profits have vanished as competition from home theatre and other nontheatrical viewing options is increasing. One movie fan recently wrote, "I've given up on theaters. I'm sick of paying \$7.50 a ticket and getting a lousy performance. I just wait for the DVD knowing I will get a great performance in my home." In this column, BOXOFFICE contributing writer John F. Allen reviews some of the issues involved and suggests a strategy for redefining the motion picture experience in the new century.

In his 1976 run for the Presidency, Pennsylvania Governor Milton Jerrold Shapp attracted attention as a practical problem-solving politician. As a successful businessman, he had essentially founded the cable television industry prior to his equally successful tenure in the state's highest office. During the campaign, someone asked him one of the most fundamental of all business questions: "What makes a business a success?" His answer highlighted something every executive struggles with everyday. He said, "You've got to keep the 'gozinta' greater than the 'gozouta.'"

During the last several years, for a wide variety of reasons, exhibitors have found themselves on the wrong side of this formula and have been reporting losses in the tens of millions of dollars. Not since the 1950's, has exhibition faced such a fundamental crisis. Theatres are closing. Major circuits are either bankrupt, working through intensive debt rescheduling negotiations or just not paying their bills. Does this mean that people are no longer watching movies? Not at all. In fact, they are watching them more than ever. There are just simply not enough people watching movies in movie theatres.

The culprit most often mentioned when discussing the current crisis is over-screening. No doubt, this is major part of the problem. But from a customer's perspective, there is no such thing as over-screening. The customers simply see a wider choice of theatres -- and

new theatres at that. What they *really need* are good enough reasons to attend a movie theatre in the first place. They need to believe that there is sufficient value in doing so. Without sufficient perceived value, none of us is likely to spend money for anything. But rather than simply blaming the current financial woes on too many screens or too many seats, it would be useful to ask why so many of those seats are so empty, or, to put it another way, why the industry has failed to fill them? We may also ask why there are so many people who have completely given up and no longer go to the movies?

It is hard to imagine consumers shelling out the \$1 billion they spent on TITANIC videos, had the film never been shown in a theatre.

When a film first appears on the public's radar screen, decisions begin to be made as to whether or not to see it. Once that has been decided, the next choice is where to see it. Both choices are important. But the selection of a theatrical viewing is obviously critical for theatre owners. When too few decide to attend a movie theatre to see a film, movie theatres cannot stay in business. Today, far too many potential movie patrons are choosing to "wait for the video," or at least they are choosing something other than theatres. Indeed, many people no longer even consider a trip to the movies, except for rare occasions. According to figures published in VARIETY, sales and rentals of videos in 1999 were more than double the domestic boxoffice revenues.

Not that there is a quick fix. There isn't. Today's problems are complex. They have been years in the making and will take years to correct, assuming they can be. I suggest that one of the main factors that has brought this industry to its present condition, is that far too little attention has been paid to customers. While the focus has been on winning their dollars, efforts to win their loyalty have come up short. I further suggest that the warning signs have been around for a very long time. In the past two decades as we have seen both distribution and exhibition companies change hands, we have also seen a decrease in the belief that there is a direct connection between presentation quality and attendance.

In a 1984 meeting with Plitt Theatres' vice president, Edward M. Plitt, we agreed that a crisis, such as we now face, would occur one day unless the motion picture theatre experience was reinvented. To try to get the ball rolling, we decided to install a new sound system in the Century Plaza Theatre, Plitt's Los Angeles flagship. The theatre was a luxurious 1500 seat auditorium with both conventional and stadium seating. See Figure 1. When one first walked into this theatre, it was hard not to say, "Wow." The room was 160 feet long and 92 feet wide. The 35 and 70 MM projection was studio quality. The audience was treated to a beautiful image, filling a 50 foot curved lenticular screen. Chief

projectionist Don Pittman, ably assisted by Fred Carter, ran a booth as well as it could be done. When you attended this theatre, you really felt you got your money's worth.

The sound system we installed was a ten channel digital-ready installation with the acoustic power of nine symphony orchestras. It also introduced our advanced 4-way fully horn loaded loudspeakers. Nothing like it had been done before. (See **THE ULTIMATE SYSTEM?** in the January 1985 issue of **BOXOFFICE**. This article can also be downloaded at www.hps4000.com/pages/install/the_ultimate_system.pdf.) To inaugurate this new system, I decided to demonstrate digital motion picture sound in a commercial movie theatre for the first time. With Plitt's complete support, we enlisted the help of Glen Glenn Sound as well as Oasis Recording Studios and did just that on December 6, 1984. Digital or analog, the sound quality was the best anyone had heard in a movie theatre.



Figure 1. The Plitt Century Plaza Theatre in 1984.

Ed Plitt's reaction to the success of this demonstration was immediate, "That was great! Now what can we do?" In February of 1985, with the help of Walt Disney Studios, we premiered **FANTASIA**, the first feature film to be presented to the public with a digital soundtrack. The digital presentation of **FANTASIA** at the Century Plaza grossed five times the national average and twice as much as the next highest grossing theatre, playing

the film at the same time. The digital engagement also went on to last four times longer than the analog presentations in the rest of the country. To call it a success would be a gross understatement. The audience response to this presentation of a 45 year old film, proved that there was still a hunger for improvements in theatrical motion picture presentations -- especially in sound! See Figures 2 and 3.

While the industry did respond to these startling presentations by giving us digital motion picture sound within five years, exhibition dropped the ball by failing to install sound systems powerful enough to fully exploit the dynamics and beauty these new soundtracks made possible. In the meantime, the public's love affair with great sound and home electronics only grew stronger. Digital compact discs replaced LP's in the homes of moviegoers. VCR sales exploded with decks now present in over 90 percent of US households, according to research of the Consumer Electronics Manufacturers Association (CEMA, www.ce.org). Car stereo became a huge business with sound systems superior to those in most theatres, often available as standard equipment.



Figure 2. The marquee at the Century Plaza Theatre for FANTASIA.

As the window between theatrical and video releases continued to shrink, the market for home theatre continued to grow. Fed by an increasing number of sources from cassettes and laser discs, to cable TV as well as satellites, home video was transformed into a full fledged home theatre industry.

Multiplexes continued to proliferate. But, showmanship in cinemas began to decline as auditoriums became more similar. On the positive side, building exteriors, lobbies and concession areas were improved dramatically. Stadium seating became extremely popular with patrons tired of seeing movies through people's heads. The buildings were more attractive. For the customers, however, the gap between actually watching a movie at home, versus a theatre, became narrow -- dangerously narrow for the well-being of exhibitors. A trip to the movies began to resemble not much more than a trip to a fast food restaurant -- many people selecting a film to see only after they arrived.



Figure 3. Opening weekend lines around the block for FANTASIA in digital stereo.

Now we have the Internet, Playstation 2 as well as the DVD. Last year, annual sales of DVD players were projected at around 800,000. By 2003, annual sales are expected to approach 10 million (CEMA). In the year just ended, shipments of DVD discs were reported to have exceeded 108 million. This unprecedented consumer demand for the DVD would not have happened were it not the superior quality of its picture and sound.

Sales estimates by CEMA for the home theatre market in 2000 approached \$11 billion. The group further reports that approximately 25 million households now have a home theatre system. This number is expected to rise to nearly 35 million in just the next three years. CEMA research has also found that 64 percent of home theatre owners said that watching a movie at home "is more fun" than going out to a theatre. More fun? Perhaps this can be explained as more than half also said their that home system's picture and sound quality is "BETTER than movie theatres!"

Is this really surprising? In the period from 1984 until today, presentation in movie theatres did not markedly improve. Indeed, not only did digital movie sound usher in a large number of inadequate (sometimes pathetic) theatre sound systems, the image side of the presentation was downgraded when 70 MM release prints were all but eliminated. Even though DTS digital time-code has replaced the costly application of magnetic tracks, exhibitors and audiences alike have been deprived of the superior picture quality 70 MM provides. On the other hand, now that theatres feel they can no longer afford to employ a staff of qualified projectionists, it's hard to imagine running 70 MM prints today.

Even the simplest opportunities to improve picture quality were wasted. As we all know, the 1.85 picture aspect ratio is the least efficient use of a 35 MM release print. In a recent presentation to the Society of Motion Picture and Television Engineers, Kodak's John Pytlak reminded that seventeen years ago this industry had the opportunity to adopt a new film format. Called Iscovision, a 1.5 times image squeeze was applied to the 1.85 picture frame. It was then printed on the entire available image area of a 35 MM release print. As with the familiar Cinemascope format, an anamorphic projection lens stretched the image to fill a 1.85 screen. This highly efficient format increased light levels and reduced granularity. Image quality, sharpness and steadiness were also improved. Print costs were unaffected.

But this opportunity was lost. No one wanted to buy another lens, one of the least expensive parts of the projection system. We have been stuck with sub-optimal flat image quality ever since.

A SCARY BUSINESS

There can be no doubt that motion picture exhibition is a scary business. Most nights of the week theatre owners lose money. Exhibitors have no control over the films that are offered, their quality or appeal. If an automaker produces a clunker one year, the

company can make a better car the next year. Theatre owners don't make the movies and can only hope (pray) for good product. They do, however, have complete control of the theatres, the presentation quality and the entire experience of their customers. Yet one of the biggest complaints heard over and over again from exhibitors is that the distributors generally do not reward presentation quality. Certainly the post 1984 experience at the Century Plaza bears this out. Armed with a presentation that one paper called "the best in the area if not the country," audience support for the theatre continued to grow long after the digital presentations of FANTASIA. However, long standing problems with bookings improved only slightly. Other theatre upgrades around the country have not resulted in any improvement in bookings. Not only does this discourage upgrades to theatres, it gives a pass to inferior theatres that continue to get favorable bookings due to larger screen counts and industry politics.

Too little attention has been paid to customers. While the focus has been on winning their dollars, efforts to win their loyalty have come up short.

There is still a significant potential left in the business of operating movie theatres. Clearly, the restructuring that has begun will wring out inefficiencies. With luck, it will leave the industry with a cost structure and screen count it can live with. But more than cost-cutting needs to be done. Indeed, excessive cuts have contributed to the reduced value people perceive in attending theatres. Inadequate staff unable to "police" bad behavior in an auditorium, scratched prints projected with too little light, blown subwoofers and poor sound quality that fails to compete with home systems, are all examples of cost-cutting taken to the throat-cutting level. These and other weaknesses need to be corrected so that patrons never leave with a sense of unfulfilled potential. Audiences need to feel a movie theatre is a special place, one that is worth their effort to attend again and again.

The home theatre experience also needs to be confronted head-on with a better mousetrap. Fortunately, history shows the way. Just as the industry responded to the financial crunch of the early 1950's, with a technological revolution of wide screens and stereophonic sound (not to mention a host of spectacular films), today's presentation levels are in need of a similar overhaul. This time, however, the technology to do it does not need to be invented. It's already here. Projectors with electronic intermittent movements and triple blade shutters are here. Slower lenses that provide a greater depth of field are available, as are the highly efficient Iscovision, Cinemascope and 70 MM formats. Lamphouses large enough to give us more than enough light on the screen are also available. Just these off-the-shelf tools alone would redefine 35 MM projection, not to mention 70 MM. This could all be achieved for a fraction of the cost of a digital projection

system that cannot yet deliver such a high amount of picture information.

Six-channels or eight-channels, digital soundtracks are here, it's just that audiences rarely get to hear their full potential. Large powerful eight-channel sound systems that can deliver the dynamic range and beautiful clarity these modern mixes afford, need to become the standard for a healthy theatre industry. The eight-channel format needs to be exploited and marketed to fully differentiate the home theatre and movie theatre sound formats.

Presentations of this level would dramatically surpass the home theatre experience. There would be no mistake about it -- nor could there be. Attractive, comfortable and well managed movie theatres of this caliber would provide a reason for seeing films in theatres that would increase attendance, if properly marketed. With any luck (not to mention a host of spectacular films), attendance levels would rise to the point that preshow advertisements could be eliminated. The absence of these annoyances would help bring back many of those who have been driven away.

HIGH TICKET PRICES

One may ask how the recent building boom could be justified when neither the number of films nor the attendance at movie theatres was increasing at anywhere near the rate needed to keep up with the number of new screens? It's a good question, since while this building binge was underway, so many in the industry were saying it was crazy. While exhibitors are ultimately responsible for building theatres, distribution practices have also contributed to the present financial problems befalling modern cinemas, including the inadequate attendance. Over and over I hear people complain that the cost of going to the movies is too expensive. When distribution effectively limits exhibitors' flexibility in ticket pricing, a considerable amount of business is lost from those who would attend theatres if the admission prices were lower. Some have argued that attendance has not gone down as ticket prices have increased. But it hasn't gone up either, particularly in an era of greater disposable incomes, when consumer spending on home theatres has grown considerably.

When distribution focuses on screen counts when awarding films and clearances, theatre owners respond by building more theatres. Without a greater number of films to fill these screens, motion pictures open on a greater number of screens. Films are played out within just a few weeks, never allowing the exhibitor's percentage of ticket sales to reach a profitable level.

For sometime now I have heard exhibitors complain that the terms for film rentals need to be revised. Of course, distributors will say that theatre owners have always said this. But, with the largest portion of profits generated by a film now coming from nontheatrical venues, it may indeed be time for some adjustment. For the studios, the theatrical release of a film has become part of the advertising campaign for the video release. Under these circumstances, is it fair to continue to try to recoup all the production and advertising costs during the theatrical phase? Redistributing the burden of these costs would reduce pressures on cinema operators and perhaps even allow for ticket prices to become more competitive with home viewing. This would increase theatre attendance and would likely have a positive effect on future video sales, as even more people would wish to relive the experience.

The conventional wisdom is that movie theatres drive the ultimate success of a film in nontheatrical formats. According to VARIETY, both Paramount and Fox profited more from the video releases of TITANIC, than from the \$1.6 Billion worldwide boxoffice gross. If success in theatres is so important, then it is in everyone's best interest to help make theatres as successful as possible. It is hard to imagine consumers shelling out the \$1 billion they spent on TITANIC videos, had the film never been shown in a theatre.

The current financial crisis facing exhibition has caused many in the industry to openly question the economic viability of the movie theatre business. If the tradition of going out to the movies is to survive and regain profitability for exhibitors, many things will be forced to change. Among these are strong new measures designed to increase attendance. To do this, theatre owners must deliver motion picture presentations of the highest quality in order to compete with home viewing. Ticket prices and the perceived value of attending a cinema must become competitive with viewing alternatives. Theatrical presentation quality must be established and maintained as clearly superior to home theatre capabilities. Improving sound quality needs to become the priority it should have been all along. In other words, the sooner exhibition realizes that it is in the presentation business, particularly the sound business, the better off it will be.

Image quality needs to be optimized as well. Booth personnel need to be properly trained and given the respect their importance deserves. Maintenance needs to be a priority. After all, it's the projectionists and technicians who can best maintain the value of booth equipment -- a major portion of a company's assets. Investment needs to be focused on improving the entire experience associated with attending a movie theatre. If the "gozinta" is to be greater than the "gozouta," we don't need more theatres, we need better and more competitive theatres (not to mention a host of spectacular films).

© Copyright 2001, John F. Allen. All Rights Reserved.

John F. Allen is the founder and president of High Performance Stereo in Newton, Mass. He is also the inventor of the HPS-4000® cinema sound system and in 1984 was the first to bring digital sound to the cinema. John Allen can be reached by E-mail at johnfallen@hps4000.com.