

The Impact of COVID-19 on Film Industry

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Abstract

The COVID-19 pandemic has deeply exerted an influence on the global film industry. This paper will discuss the impact of COVID-19 on the film industry, and further, analyze how big change would the pandemic make on customers' viewing behavior in the long run. Based on the literature review, several suggestions are presented here as methods for filmmakers to act facing this situation.

Keywords

COVID-19; Film Industry; Customer Behavior.

1. Introduction

1.1. Film Industry in the US

In the US, there are three major processes before a movie comes out in full- production, distribution, and exhibition.

Production is probably the most complicated, capital intensive, and time-consuming process. In general, production includes four processes: development, financing, production, and post-production. Filmmakers coordinate with several intermediary companies and freelancers who cover different elements of the production process. Some famed filmmakers, such as Disney, Wanner, NBCUniversal, are highly integrated film-making companies occupying more capital resources and larger bargaining power compared with other filmmaking enterprises.

Distribution normally consists of four parts: sales agent, marketer, distributor, and international intermediary. Part of filmmaking studios have in-house marketers or even own distribution subsidiaries, other independent filmmakers usually cooperate with sales agents and distributors based on commission or revenue-sharing contracts.

The exhibition takes place at cinemas, TVs, different forms of VODs (Video-on-demand), and other places through physical or digital sales. Cinema owners and operators usually have the right to exclusively show a new film at cinemas over a period(known as theatre window), traditionally 90 days, before the film is available on TVs or VOD platforms.

1.2. COVID-19's Impact on Film Industry

The business model of the film industry has evolved at an extremely gradual pace until 2020 when the COVID-19 pandemic broke out and cause the movie industry to undergo a dramatic transformation. The epidemic has exerted a negative impact on almost every subsector of the film industry, except for a few sectors that were spared, such as streaming and digital rental video. With cinemas closing down and people staying indoors, the film industry suffered its worst hit in history. In addition, cinema owners are trying to bargain with filmmakers. For filmmakers, on the one hand, they need to make up for lost box office revenue and capital investment [1]; on the other hand, they need to take risks to explore other business models and revenue sources in this case.

With the pandemic lasting longer than expected and still threatening to persist, major filmmakers will play a key role in the industry's survival and post-epidemic development. The following will focus on the response of filmmakers during the epidemic, analyze the changes

that have taken place in the industry as a whole, and finally propose corresponding suggestions for filmmakers to take further measures.

The first half of 2020 saw the darkest period in its history, with box office revenue dropping by 92.8 percent year on year in China. But things looked up in the second half of the year. [2] see Figure 1.

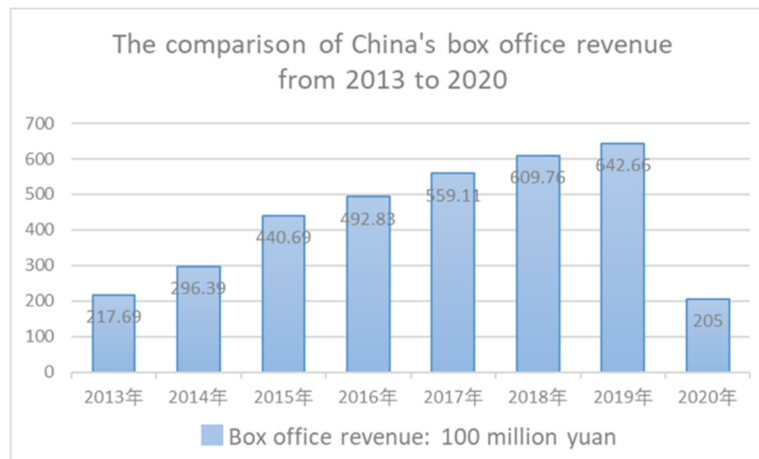


Figure 1. The comparison of China's box office revenue from 2013 to 2020

2. Analysis

Filmmakers who originally planned to release their movies in theaters had to either delay the release or turn to digital channels due to the ongoing COVID-19 pandemic. The converted decision involves many complex factors, including capital investment, production management, marketing costs, customer behavior, and so on. The following part will discuss some major filmmakers' reactions to COVID-19 and the rationality of these decisions.

2.1. VODs

NBC Universal [3] has taken the lead in releasing *Trolls World Tour*, an animated kids' movie as a sequel to *Trolls* (2016), solely on VODs. VOD platforms such as Amazon Prime and Apple iTunes offered a 48-hour rental at \$19.99 just after the movie was released in April. Later, customers can rent the movie at \$5.99 or buy at \$19.99.

An obvious reason for NBC Universal to go digital is the pandemic - the movies follow customers from cinema to their home. As schools, cinemas, and many public places were shut down, families were stuck indoors and the cinema time was replaced by indoor activities. Besides, the *Trolls World Tour* was released at the beginning of the pandemic when there were limited options for new movies online.

Filmmakers also started to take the opportunity to contact with VOD release business model and hope for a more relationship with cinema owners. Traditionally, cinema operators usually demand an extensive theater run for retaining a higher percentage of sales than VODs before the movies are released to other channels. For example, NBC Universal can keep around 80% of rental fees on VODs for *Trolls World Tour* while around 50% from ticket sales in cinemas. NBC Universal reported that there was \$100 million revenue during the first three weeks of the release, more than *Troll's* domestic box sales. However, it doesn't mean digital release works better, as the filmmaker might have lost part of secondary digital sales if the movie had been released in cinemas first. Filmmakers still need to explore the business model and build up a long-term relationship with VOD platforms.

It is different for other major filmmakers, such as Disney and Warner Bros, who have their approach to market their platforms and increase customer loyalty. Giving an example, within the first week of *Mulan*'s release on Disney Plus with an additional \$29.99 charge, Disney Plus app downloads grew by 68% and the customer spending increased by 193%. A pandemic could be appropriate timing for these studios to test whether the digital release strategy will benefit the long-term success of the companies.

For small-medium filmmakers, there are no other choices but to sell movies to VOD to recoup some money and survive the pandemic. These studios could grasp this chance to build a long-term cooperative relationship with the VODs, as an alternative distribution channel to traditional distributors and movie theaters.

2.2. Cinemas

Some studios have announced that they would delay their movies until business returns to normal in theaters instead of releasing new films online. The biggest blockbusters such as *Fast and Furious 9* and *No Time to Die* have been postponed. It does not make enough economical sense for large studios to bypass the theatre release for blockbusters, as box sale is the major revenue source for them. If the studios had released the blockbusters online without theatre release, they could risk losing revenues from both theatre release and the subsequent digital release.

Despite the pandemic broke out, Christopher Nolan's movie *Tenet* opened in movie theaters nationwide, which was a little underwhelming, with only less than 7 million at the box office during the first 2 weeks. Although there may be many other reasons, it is no denying that the epidemic is the main reason preventing people from going to the theatre. Under the influence of *Tenet*, most studios chose to delay theatrical releases as long as they had enough money to survive.

2.3. Customer Behavior

The pandemic has accelerated the trend that customers watch movies from theaters to the internet. During the pandemic, most movie theaters in the US have been shut down to reduce expenses. Even though few people visited movie theaters, the average number of movies that people watched during the pandemic increased, as people spent more time on indoor activities such as watching online movies together with friends and families.

At the same time, customers also turn to stream services gradually to get a premium experience at a relatively low price. According to the National Association of Theater Owners, the average ticket cost in 2020 was \$9.01, while Netflix's membership fee was \$8.99 a month. This streaming service offers a variety of movies and TV shows for a monthly price that is almost the cost of one single movie ticket. One could even share the Netflix experience with friends and families instead of paying for several movie tickets at the cinema.

Survey shows that the young generations are more interested in the streaming movies that they can access through their phone, laptop, or tablets. Even though they would still show up in the theater for blockbusters such as *Avengers* which requires a professional screen and stereo to enjoy, the trend seems to switch from big screens to small screens.

However, the theater experience will not be replaced completely by online entertainment. People will still go to movie theaters to enjoy the visual experience in front of the big screen [4], stay away from the realities and embrace the story both in heart and soul. That is the reason that people are willing to pay \$40 for a drive-in movie in a park at Queens, New York, to have a theatre-like experience during the pandemic.

2.4. The International Comparison

Different countries adopted various methods to transform the entertainment industry from offline to online. For instance, there are a lot of movies that echo the theme of the festival during a special festival in China. Therefore, movies containing such themes can only choose to postpone the film until next year.

To give some specific examples, Ma Jiong, directed by Zheng Xu, was the only film to be released during the Spring Festival of 2020, and other films, such as "The Leap" and "Detective Chinatown" were delayed.

In Japan, the anime movie Detective Conan was originally decided to be on April 17, 2020, to match the theme of the Olympics. (since The 2020 Olympics were scheduled to be held in Japan) Due to the pandemic, the Olympics was postponed and so did the movie.

In the United States, the example would be Mulan produced by Disney. Even though Mulan was not the only movie online, it was the first movie with a big production that decided to be released online. [5]

3. Conclusion

3.1. Recommendations to Filmmakers

Selecting an appropriate approach to deal with the impact of the epidemic is one of the most critical challenges presented to the film industry on account of that, today's film industry is differently organized, with assets more complexly integrated and diversified. During the pandemic, out of the need to maintain social distance and a growing sense of self-protection, most movie theaters shut down and few people would like to enter the theater to watch a film. The filmmaking business was also strongly hurt by the pandemic. Based on the analysis above, the practical approaches will be shared in the following paper focused on short-term and long-term strategies for filmmakers to cope with the impact of the epidemic.

Firstly, it would be beneficial to put some movies online through streaming platforms or selling them to other VOD platforms, as people prefer to watch movies online on small screens when the social distance is limited. In this way, the filmmakers can not only recoup some of their investment through online distribution but also respond quickly to the changes in customer behavior.

Secondly, the filmmakers could join hands with drive-in theaters. During this pandemic, the number of drive-in theaters has increased, as they provided a safe environment for the spectators while not affecting the viewing experience.

Thirdly, it may be possible that the epidemic will have a long-lasting influence on the film industry, hence the filmmakers should prepare for their long-term strategy. The filmmakers should seize the opportunity to build a great relationship with VODs in the long term, as the bargaining power of the VODs is surpassing the traditional distribution channel and cinemas.

Methodology

This paper applies research papers and public journals to illustrate the data collection and then concludes. The questionnaire is also used to collect consumer's opinions on their film-watching behaviors during the pandemic and the future of the film industry.

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