

BUILDING THE CINEMA OF THE FUTURE

Introduction and brief overview of the model

FULL

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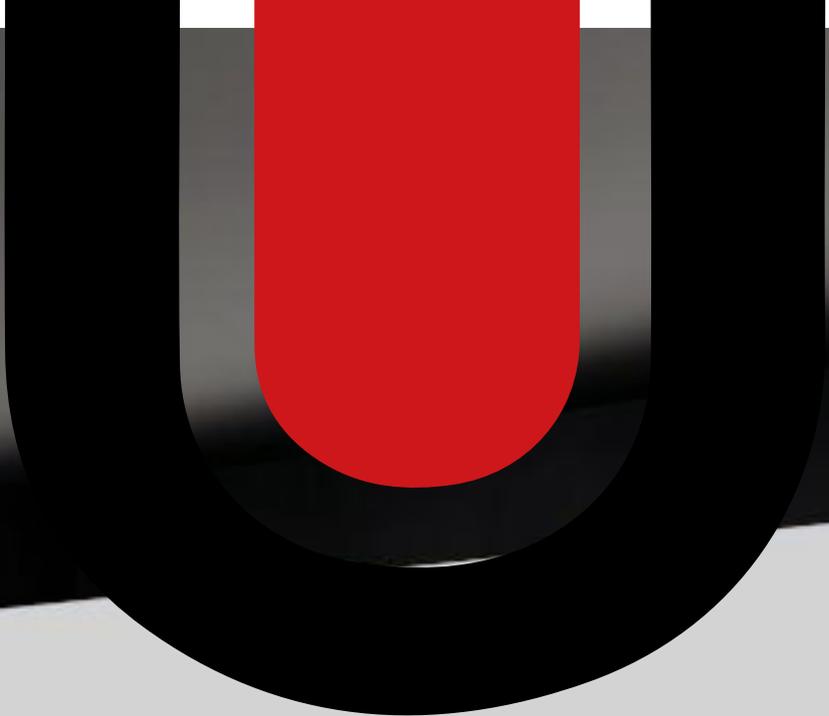
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Author: Pere Sallent

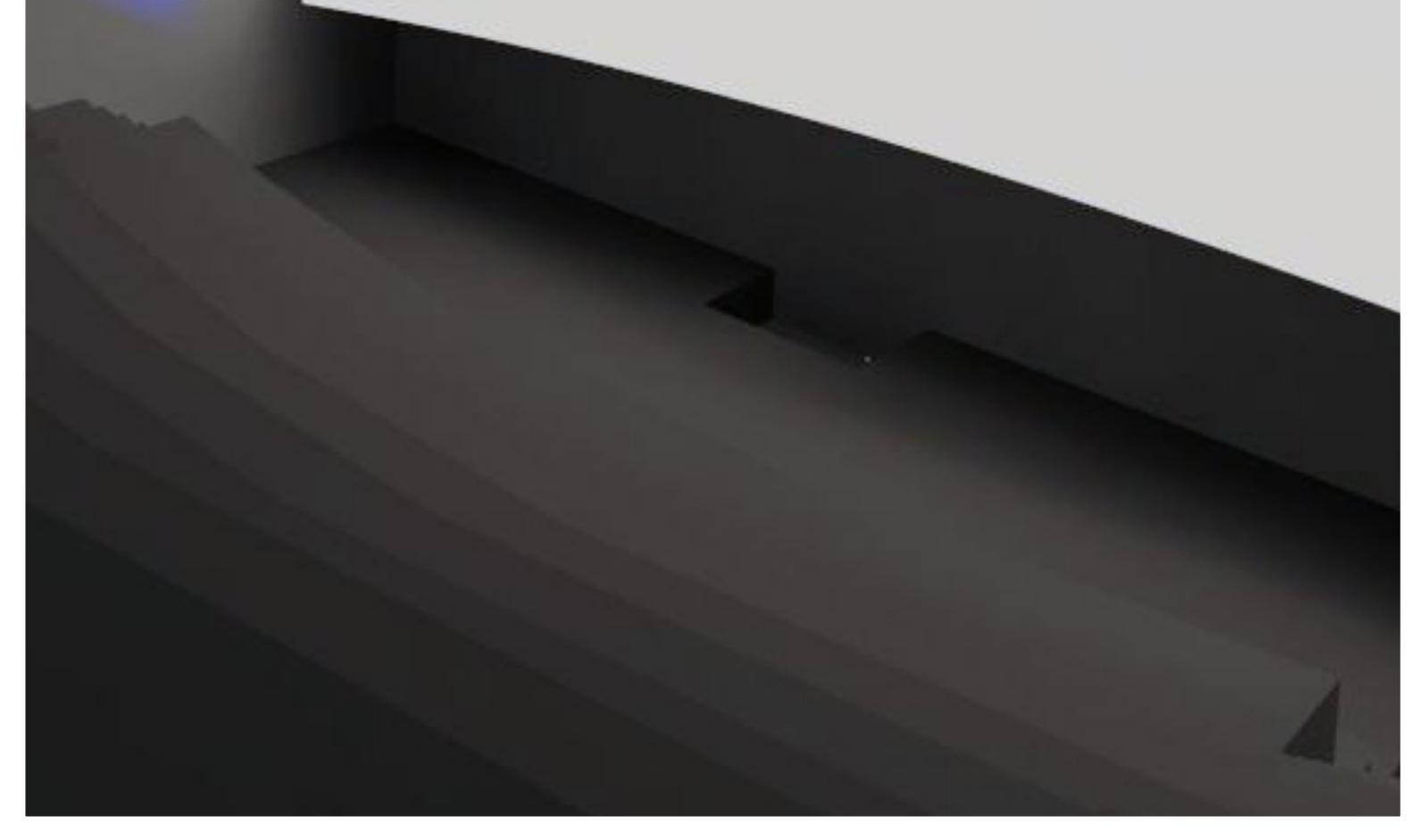
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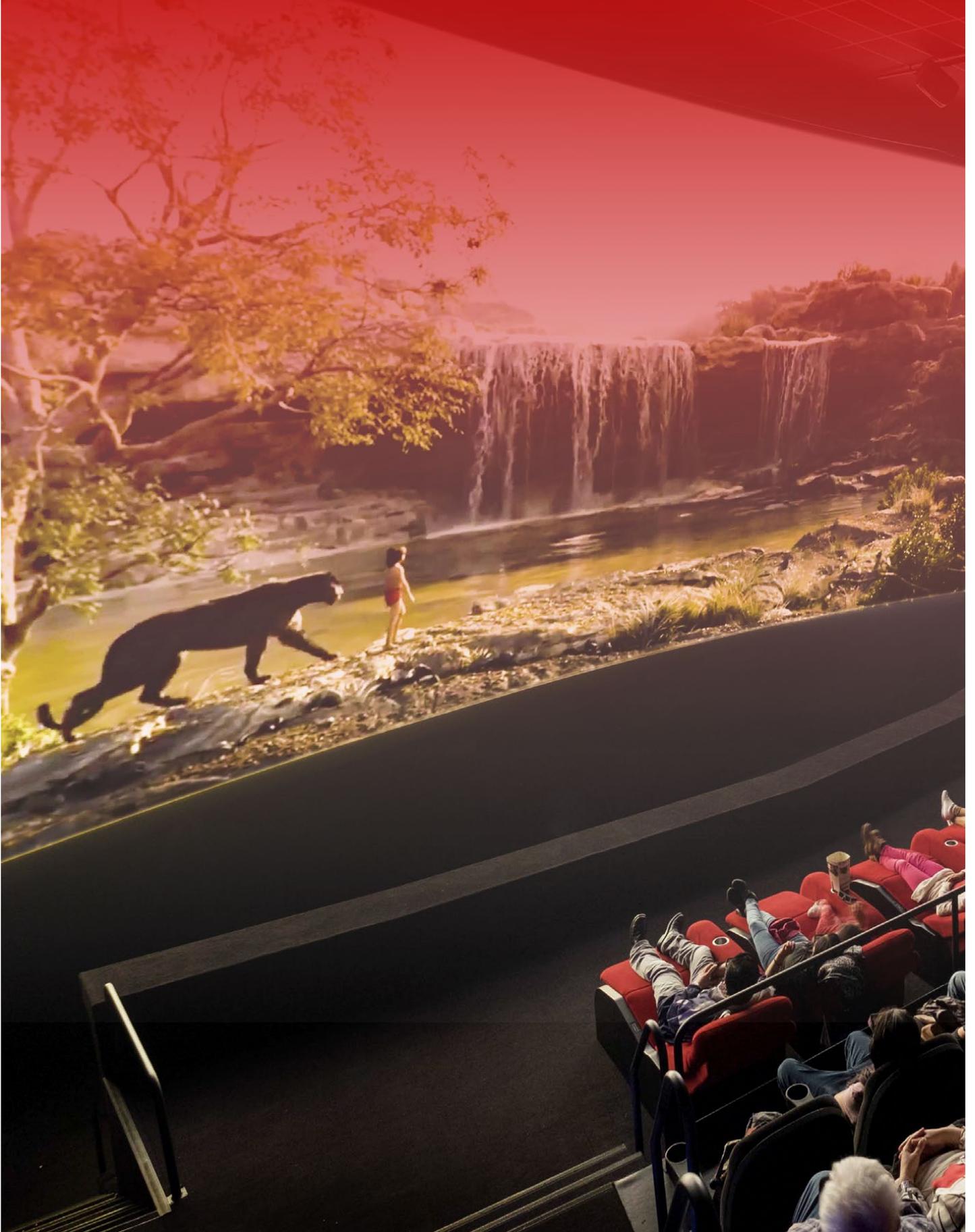
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INTRODUCTION



1 INTRODUCTION



1.1 What should the multiplex of the 21st Century be like?

Our company specializes in the design, construction and management of movie rooms. In this dossier, we are going to propose a new multiplex model that we expect to be able to tackle the future challenges of the sector.

This model is an updated and improved version of the 28-room Full Cinemas multiplex that we built in Cornellà, near Barcelona in Spain. This is our company's latest multiplex development and our best to date. We have always strived for excellence in the movie-going experience. Our main goal was not to create a great chain of cinemas, but to ensure that every new multiplex would improve the experience offered by the previous one.

When this latest complex opened its doors, the cinema sector was going through an extremely tricky period in Spain. Nevertheless, it achieved great success, in stark contrast to other operators in the sector. This success in such difficult times has spurred us to develop this model. We believe that this is the right move because the current landscape for cinemas is also highly challenging. The recent penetration of streaming in households all over the world has been a tough blow for cinemas. This drastic disruption is the second seismic shift in the history of the sector, after the emergence of television.

Building new multiplexes will become a challenge for bold cinema exhibitors. We would love to be wrong but, within the next few years, we expect that the number of cinemas open to the public will have decreased substantially and will be concentrated in wealthy, densely populated areas. The multiplexes that continue to thrive will be those that offer top-class facilities and excellent levels of service and management. The model that we propose, inspired by our multiplex that triumphed in the toughest of times, is designed to compete in this future landscape. The reflections and recommendations in this dossier are given free of charge. After many years dedicated to improving the movie-going experience, it is our pleasure and honour to share our insight with these bold cinema exhibitors who will rise to the challenge in the future. If we can contribute to their success even

slightly, that will be more than payment enough.

The current disruption is directly linked to the first great disruption in the cinema sector: the emergence of television in the 1940s. By connecting to the Internet, television became Smart TV, giving rise to this second big disruption and opening a new doorway into homes all over the world. Detecting the huge potential of this new situation, the big media companies are fiercely competing to position themselves in the new market. Their entire strategy has been redirected towards a Direct-to-Consumer (DTC) model, distributing their products straight to consumers through their own streaming channels. Of course, these products include movies, the main commercial appeal of which is based on the novelty factor, on being a new release. These big media companies decided to capitalize on this selling point for their own DTC. Breaking a long-accepted tradition, they have started to offer their new releases through their own channels, either as a Premium VOD (see note 1) or in an open format for subscribers. This is why this second great disruption is so serious for cinemas: they are losing their exclusivity with respect to showing new releases.

Previously, this exclusivity took the form of a "window" of around 90 days. This window established the minimum time between the release of a movie in cinemas and its availability through other audiovisual channels. Now, in line with the new Direct-to-Consumer principle, companies are drastically shortening this 90-day window. In some cases, they even offer a new release simultaneously in cinemas and on their own streaming channels. It is widely believed that eliminating this exclusivity window was a long-standing desire of many of the big production and distribution companies, which expected to reap great benefits from this change. For instance, they hoped that reducing the window would increase revenues from their other channels or enable them to decrease the portion of the overall revenue generated by their movies that they had to share with cinemas.

Everything seemed to indicate that the exclusivity window would be totally eliminated

before too long, but changing the status quo is not usually simple and, at least for the time being, media companies are settling for a shorter window of 45 days rather than eliminating it completely. There are various reasons that justify this turnaround. When they started messing around with the exclusivity window, cinemas were up in arms and opposed the move fiercely. However, we do not think that this opposition alone was enough to force them to reconsider their position. Other more compelling reasons include the discovery that it was not as easy as they expected to replace or surpass the net revenue generated by cinemas through their own channels. Neither was it wise to forego the showcase effect offered by cinemas. The success of a movie in cinemas is still a catalyst for success in other channels. Last but not least, another particularly surprising reason is that online piracy has become a new and unlikely ally for cinemas in this new context. Although piracy has a very negative impact on cinemas, its effect on streaming services is even more lethal. It is easy to download a streamed movie and get a superb high-quality copy within ten minutes of its release. Therefore, while it may be tempting for the media companies to replace cinemas to avoid sharing the revenue generated with them, the potential for such simple and direct top-quality piracy has forced them to put the brakes on their plans. Suicide is rarely a good option. So, before laying their cards on the table, they first have to get a grip on piracy and minimize its impact, reducing it to a marginal phenomenon that is under control. This will prove to be no easy task. For all these reasons, it is no surprise that they are treading very carefully and reining in their impulses.

To sum up, rather than eliminating cinemas' exclusivity window, they have reduced it from the 90 days that was the standard until recently down to the current 45 days (2022). Maintaining a window, albeit shorter, is good news for cinemas, but the change is still a serious challenge. While it is hard to evaluate how much of a handicap it actually imposes, there is no doubt that cutting the window by half considerably reduces the value of all cinemas in the world. Before the new disruption triggered by smart TVs and their streaming channels, cinemas were protected by two defensive barriers: exclusivity for new releases on the market, and the excellence of the movie-

going experience that some cinemas could offer. Now that a large portion of one of the barriers is falling, cinemas have to focus on enhancing the quality of the experience. However, we in the cinema sector know only too well that enhancing this quality is not easy nor cheap, which points to a complicated future.

Designing a new generation of multiplexes ready to tackle the challenge of the new disruption.

Thriving as a cinema exhibitor is no easy task, even before the current disruption. The cinema sector is very mature and conservative, saturated with screens and operating with very little and decreasing scope for manoeuvre. In the wake of this new disruption, thriving will be even tougher. However, the model that we propose here is not designed merely to survive in a hostile future, but rather to triumph and become a great business. With this goal, the model is based on two key pillars that are essential in any sector: innovation and competitiveness. We will achieve this by incorporating all the factors that, in our opinion, facilitate success, as well as identifying and bypassing any obstacles that could lead to failure. Along the way, we will give a detailed explanation of all the tricks of the trade that we have learned over the course of our many years in the business.

Two of the key features of the model are the layout of the multiplex and the architecture of the rooms, which are radically new and different. However, we also recommend innovating and competing in terms of other far more traditional aspects that are equally crucial for attracting moviegoers to the cinemas: customer service, differentiation, pricing policy and customer loyalty. All these factors are just as important as the architectural or technical aspects, or perhaps even more so.

The features that we propose are not independent from each other, but rather they all form part of an interrelated whole. To reach the full potential of the model, it should ideally be seen as a complete package, with all our recommendations applied jointly and simultaneously, thereby capitalizing on all the synergies between the different parts. However, the costs associated with the architecture and

technical features tend to be very high, while the costs related to the management or service aspects that we highlight are generally more affordable. Therefore, cinema exhibitors with more limited financial resources should focus on the recommendations that are within their reach. This obviously means, however, that they will not be able to take full advantage of the synergies generated by the overall proposal as an interrelated whole.

We do not wish to suggest that this is the only model with the capacity to succeed nor that it is the most suitable approach for all kinds of multiplex. Neither do we aim for it to be the best model for the future from all the proposals that will be developed. In fact, we hope that other models will surpass ours or bypass some of its limitations more effectively.

Let's discuss these limitations briefly, because it is always essential to know our constraints. The primary limitation of the model that we are presenting is its cost and complexity, principally due to its technical and architectural features. The model cannot just be applied anywhere as its profitability requires high audience numbers. As such, the potential implementation of the model depends on the existence of a large population in the surrounding area. Moreover, this population has to have sufficient disposable income. Another serious limitation, which is architectural in this case, comes from its inability to resolve the problems of an existing multiplex. It firstly has to be demolished, as the unique design and architecture of the model requires it to be built from scratch.

A new multiplex constructed in accordance with the guidelines that we are going to set out will worsen the difficulties faced by any other multiplex in the surrounding area. The new multiplex that we propose is competitive and predatory, designed to compete by devouring its rivals, as required by the merciless ecosystem in which it has to thrive. It will be an excellent multiplex, but not a particularly friendly one.

As the landscape in which we operate is constantly changing, this should not be considered to be a static, closed model. Predicting the future is a high-risk sport. Often, certain changes that seem imminent do not

end up happening and, instead, other alternate realities emerge that we would not even have imagined. To predict the future with any level of assurance of success, we always have to question our own opinions, frequently assessing the reality of the situation and making constant, agile adjustments based on the conclusions drawn from these reality checks. Therefore, for this model to have a future, it has to be adjusted as the sector evolves, aligning it to the new developments that surprise us along the way. Perhaps we will be able to contribute to some of these adjustments over the next few years (2022).

Without further ado, we invite exhibitors and shopping mall professionals to evaluate the model's potential. We will start with a brief overview before going into greater depth later. **After reading the overview, professionals will soon decide whether they are interested in carrying on reading.**

1.2 BRIEF OVERVIEW OF THE MODEL



Brief overview of the model

Where to open a multiplex

In order for a multiplex in the near future to be a successful business, it has to achieve large annual audience figures without too high a number of seats. This is the only way to ensure a reasonable investment and a high return.

Very high audience figures are needed because, as we will see, to succeed in this future landscape, the cost of the facilities required will also be high. **However, it will only be possible to reach these audience levels in prime locations with good transport links in densely populated areas. Moreover, the inhabitants of these areas must have a suitable and well-distributed level of disposable income (See note 1). As such an area will always be saturated with existing screens, it will always be necessary to force other multiplexes out of the market.**

It will be crucial to determine whether or not a possible location is suitable, which we can ascertain using two key parameters. The first is the population within an isochrone of approximately 20-25 minutes around the selected location (an isochrone measures the maximum driving time required to reach the chosen location from any point within its area of influence). The second is the average frequency of going to the cinema in this specific area. There are other key criteria that should also be considered, but we are basically going to focus on these two primary parameters to assess the approximate level of risk of an investment based on this model for a particular location. While we firmly believe that a multiplex designed in line with this model will always have greater appeal than a standard multiplex, it will not be profitable in any area that does not meet the minimum requirements associated with these parameters. We will look at them in depth in the “Model in Detail” section.

A multiplex based on this model can opt between charging an extremely high premium ticket price or a “reasonable” average price. In the latest multiplex that we built, Full Cinemes, **(hereinafter, FC)**, we chose the latter option (as we will see later, the concept of “reasonable price” depends on the purchasing power in each specific zone). The premium-priced option will be far less typical as very few locations are suitable for such a multiplex.

Please note that we do not have any experience of running premium-priced multiplexes. In this dossier, we will always strive to make it clear which areas we have direct experience in and which we do not.

To make a multiplex with a reasonable ticket price into a successful business, it is crucial to achieve a seat turnover rate far higher than the average in the sector. Achieving a higher seat turnover rate than our rivals may seem an obvious target, as all cinemas strive to fill each session as much as possible. It becomes less obvious, however, when we understand that **boosting this turnover rate is the primary and only strategic objective of the multiplex.** A reasonable entry price, for instance, is an essential condition for driving the turnover rate up, but it is only one of many factors. In the design phase of the multiplex, we must already be striving for this higher turnover through the layout, architecture and room sizes that will help to increase the rate. As we will see, every aspect, right down to the smallest detail, must be focused towards achieving this goal. Without such a strategy, it will only be possible to achieve an extraordinary turnover rate if you have a truly extraordinary location, of which there are very few anywhere in the world. This model will enable us to reach these rates in locations that are merely suitable, as was the case of FC. FC is located in a medium-high range shopping mall in a densely populated working-class area, Cornellà, within the Barcelona Metropolitan Area. The area is saturated with multiplexes. The main advantage that the FC location boasts is its excellent transport links with

¹ Better distributed wealth is indicated by a lower Gini coefficient, which measures the distribution of income among the inhabitants of a country or region at a certain time. The lower the Gini coefficient, the higher the equality of income distribution in the country. To give the example of a few countries, in 2018, the Gini coefficient was 25 in Norway, 41.4 in the United States and 63 in South Africa.

the surrounding area, particularly with the ring road that runs directly into the city of Barcelona and its 1.6 million inhabitants. At FC, we managed to reach a seat turnover rate three times higher than the average rate among the 25 leading multiplexes in Spain in terms of the number of movie-goers. This was the key to its success.

Architectural features and facility characteristics of the Full model.

In the multiplex that we propose, all the rooms must be highly immersive.

The main technical differentiating factor proposed by the model is that all the rooms, from the biggest to the smallest, must be extremely immersive. In qualitative terms, the larger rooms that we propose will be very similar to the traditional premium large-format premium rooms (hereinafter, PLF). However, **what really sets this model apart is that all the rooms, right down to the smallest, must be highly immersive. In the “Model in Detail” section we will explain how to build them. The current latest-generation multiplexes only tend to have one very well-equipped PLF room, as its star attraction. The other rooms are usually standard, “adequately-equipped” rooms. The multiplex of the future must go far beyond this and offer a great immersive experience every single time a movie-goer enters one of its rooms. The experience must always be excellent and homogenous. This is the basic technical difference that will transform a multiplex into the Cinema Palace of the 21st Century.**

Achieving a homogenous experience throughout all the rooms.

The experience enjoyed by the movie-goers who go to a multiplex must always be the same, regardless of whether they go to the biggest room on the first day a new movie is released or go two months later to watch it in the smallest room.

Let's see how we can achieve this homogeneity by following a few guidelines that, ideally, all the rooms in the multiplex should comply with:

- **The maximum field of view for a movie-goer sitting in the middle of the front row should be very similar for all the room sizes.** Ideally, the same should happen in the case of the movie-goer sitting in the middle of the back row. In the case of the front row, we recommend a maximum field of view of around 100° (between 90° and 100°), and 52° for the back row (between 50° and 55°). This standardized field of view for the front and back rows will also guarantee that the field of view of the middle row is standardized between rooms. As a result, the movie-goers' perception of the size of the screen is roughly the same in all the different rooms. As a bonus, regular movie-goers who tend to always sit in a certain place will enjoy a similar experience regardless of the room that they choose..
- To guarantee the visual excellence of all the seats, it is important to minimize the geometrical distortion of the image that occurs when a seat is off-centre with respect to the screen. **We propose a horizontal viewing angle of 35° for all the seats in all the rooms with respect to the centre of the respective screens.**
- **To maximize the immersive experience, all the screens should run from wall to wall and from floor to ceiling. We also recommend that the screen is significantly curved, with a moderate arc similar to a spherical curvature.**
- **All the rooms will have Scope screens.** We chose this format because, as we will explain below, they can be highly immersive yet, at the same time, help us limit the cost of the multiplex, both in terms of construction costs and the technical equipment.
- **Preferably the rows of seats will always be curved with respect to the screen. An**

immersive room strives to wrap movie-goers up in a “sensory cocoon”, both visually and acoustically. The big curved screen and the arc of the rows in front of the screen will bring us closer to achieving this goal.

- **Central aisles must always be avoided**, as they lead to the loss of some of the best seats in the auditorium.

The number and size of the rooms

Choosing the right auditorium size is crucial, as we will see, for maximizing seat turnover rates. We will discuss this point at length because it is complex and relevant, before reaching the following conclusions:

- **Depending on the available space, we must strive to ensure that the planned multiplex has a lot of rooms, as many as possible, because the more varied the movie listings, the greater the appeal.**

- **None of the rooms will be very large. There will only be medium-sized rooms, with a maximum of around 250 seats and a minimum of approximately 100.**

The company's patents (now open)

The restrictions on our company's patents were dropped in mid-2022 and now anyone interested can use them free of charge. They propose a new room layout, with trapezoidal auditoriums, each in the alternate direction to the neighbouring ones. The aim of this layout is to optimize the seat turnover rate and rein in the construction costs of an immersive multiplex. By following the guidelines set out in these patents, we can achieve a practically perfect quality of immersive projection, far superior to the standard projection in rooms with stadium seating. We believe that the trapezoidal layout helps us to achieve these objectives for the following reasons:

- **Firstly, this layout makes it possible for all the rooms to have bigger screens. The future of cinema lies in immersion, and trapezoidal**

- **Alongside these medium-sized rooms, there will be a lot of smaller rooms, with 50 seats or less. The more of these smaller rooms there are, the better. We recommend building an immersive multiplex with lots of rooms**, while limiting the total construction cost as much as possible. We are going to explain precisely how to achieve this.

rooms with the screen running all the way along the longest side helps us achieve this, thereby maximizing the size of the screen. The higher the degree of immersion, the greater the appeal of the multiplex and, therefore, the higher the seat turnover rate.

- **Secondly, this layout enables us to build rooms that, despite boasting enormous screens, are not too big nor have too many seats.** We recommend that the biggest rooms in the complex future landscape that awaits us have at most between 200 and 250 seats. The reason for this is that an auditorium with too many seats generates a serious dilemma: movie-goers want a huge screen, but that usually comes with a huge room behind it. Therefore, the movie-goers' desires conflict with the profitability of the multiplex, as it is very hard to fill a big room nowadays. We can resolve this dilemma by building rooms with screens that are just as big,

but with a lower number of seats. This is achieved thanks to the trapezoidal shape of the auditoriums, avoiding sessions with lots of empty seats. By doing so, we will optimize the seat turnover rate.

- Thirdly, **this layout efficiently makes the most of the surface area of the multiplex. The same size screen requires far fewer square metres than the traditional rectangular format, thereby enabling us to build more rooms. In turn, this allows us to offer greater diversity in our movie listings, which makes our multiplex more appealing and, once again, boosts the seat turnover rate. To sum up the above points: each room will have fewer seats than with the traditional layout, but the screens will be just as big, and the complex as a whole will have more rooms.**

- We mentioned earlier that it will become increasingly harder to fill rooms with a lot of seats, but this does not mean that it will never be necessary to cater for big audiences, such as in the case of blockbusters on the week of release, for instance. As our rooms will be medium-sized, we can easily solve this issue by projecting the movie simultaneously in as many rooms as may be required (it is important to remember that all these rooms will have just as big a screen as a traditional rectangular room with many more seats).

- Moreover, the room model specified in these patents will **enable us to achieve a practically perfect projection quality**, which is very hard to do in an auditorium with stadium seating and such a large, curved screen. **We achieve this quality thanks to a projection angle that is perfectly perpendicular to the central axis of the screen, thereby preventing the serious vertical distortion of the projection that occurs in all rooms with stadium seating around the world** (See note 2). This projection at a 90° angle to the screen axis requires the projection booth to be at the back of the auditorium between the seats in

the back rows. The movies will be projected onto a large, preferably curved screen. The projection booth must be hermetically sealed, soundproofed and compartmentalized to protect against fire, as well as meeting all of the safety regulations with respect to laser projection.

- Next, **thanks to the Scope room format and lenses that we recommend, as well as the unique position of the projection booth inside the auditorium, it will be possible to reduce the overall construction cost of the proposed immersive multiplex significantly.** The reason behind this saving is complex, as we will see in greater depth in the “Model in Detail” section.

- Last but not least, thanks to the chosen screen format and the location of the projection booth within the room, giving this 90° projection angle, we will gain a **VERY IMPORTANT BENEFIT: this perfect immersive projection no longer needs the movie DCP to be designed to measure, as is the case in most screens in Premium Large-Format rooms, which have to depend on big global PLF suppliers. Therefore, apart from the cost of the standard movie rental rate in the sector, there will be no need to pay any royalties or shares of box-office revenues to any third party. This represents a significant saving that will substantially improve the multiplex's operating account.**

- **One drawback of this layout, as we will see in the “Model in Detail” section, is that it results in a slight reduction in the number of seats.** However, we firmly believe that this disadvantage is far outweighed by the benefits described.

² Thanks to the ideas presented in these now unrestricted patents, we can now resolve this serious technical problem, which we also had to tackle at FC. The problem is caused by projecting from a traditional booth located at the back of the room, far higher than the centre of the screen, leading to a very significant vertical deviation that distorts the image, projecting a trapezoid. Moreover, at FC, the screens were also heavily curved and tilted down to boost the degree of immersion, but this accentuated the distortion even further. Although the majority of the audience did not notice this serious flaw, we certainly did, and we strive to offer an impeccable visual experience. To achieve this, we built a prototype auditorium in the complex, room 18, which we opened to the public in March 2016. The lessons we learned from this endeavour were collated in the company's patents.

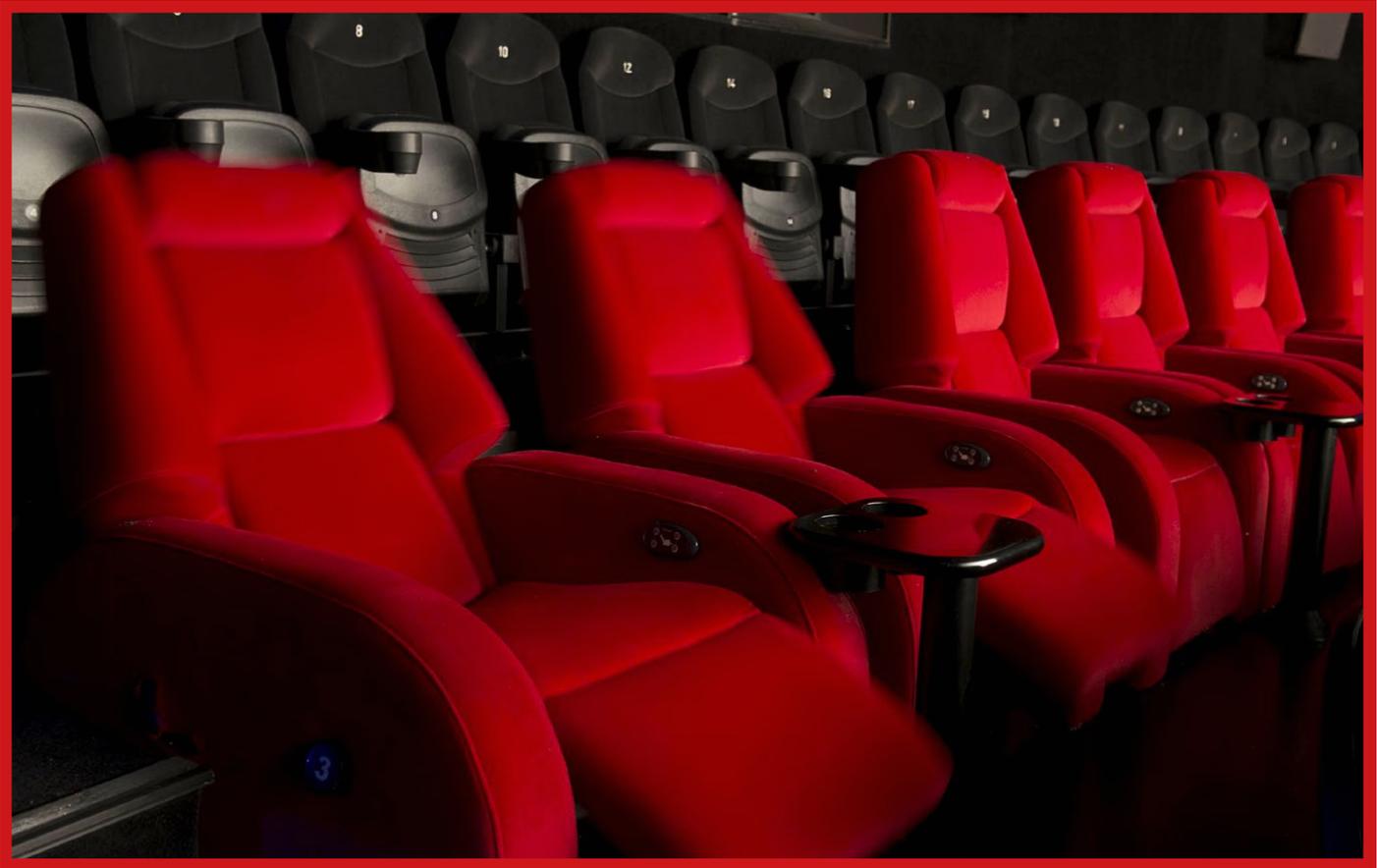


Figure 1. The reclining seats at FC.

Reclining seats.

- All the rooms should include a certain proportion of reclining seats, with seat backs and footrests that can be adjusted electronically.

- The ratio between reclining and standard seats in the room will depend on the type of multiplex chosen. In a premium-priced multiplex, 100% of the seating should be reclining seats. In contrast, in a multiplex with a reasonable average price, a mixed model is recommended, with both reclining and standard seats.

Nowadays, this recommendation goes against the grain. To explain the logic behind it, we will study their benefits and drawbacks in the “Model in Detail” section.

- We believe that reclining seats should always be offered at the same price as a standard seat, on a “first come, first served” basis. This is a decisive policy for the multiplex’s midweek success and, therefore, crucial for boosting the seat turnover rate and the profitability of the multiplex.

IMPORTANT POINTS TO BEAR IN MIND WITH RESPECT TO THE ARCHITECTURAL FEATURES AND OUR PATENTS:

POINT 1:

All our architectural recommendations and our patents rank among the most advanced in the field with respect to the visual immersion of the audience in a movie room. Some of the characteristics that we recommend here are beyond the capacities of existing lenses and we hope that this dossier helps to convince movie lens manufacturers to continue prototyping and producing the lenses required for the immersive cinema of the near future. Specifically, although it is currently possible to build immersive rooms with all the features we propose, the existing lenses are usually designed for flat screens and the screen format of those screens is 1:1.86 or 1:1.77. Immersive cinema would benefit greatly if these screens could be curved and their screen format could be Scope 1:2.39. We will present multiple reasons to support this opinion. With this in mind, we encourage our readers to keep insisting, as we do, for manufacturers to produce:

- Lenses with very short focal distances designed for curved screens.
- Secondary anamorphic lenses for Scope screens (with an anamorphic ratio of 25%) to be combined with the abovementioned lenses.

POINT 2:

It is essential to distinguish very clearly between the features that we have tried and tested at FC and the aspects that we propose in this improved version that we did not test out:

- AT FC, only 19 of the 28 rooms were as immersive as required by this model, and these were the smaller auditoriums. The large rooms were very immersive, but not to the extent specified in this model.
- We only applied the recommended maximum field of view in the front rows in the last 10 rooms that we built.
- The curvature of the screens proposed in this model is slightly more moderate than the curvature at FC. This enables us to improve some issues with respect to image distortion and auto-reflected light on the screens. The tilting of the screens over the seating area is more moderate than it was at FC, because an excessive angle of inclination also distorts the projection.
- We only tested out the trapezoidal layout of the auditoriums in alternating directions in the last 10 rooms that we built at FC. In our opinion, expanding the application of this layout to larger rooms is highly advisable.
- We only projected from a booth located between the seats of the auditorium in room 18 at FC, our prototype room, where we adjusted all the aspects until we achieved a practically perfect projection quality.
- The projectors at FC 4K were Xenon, rather than the proposed 4K laser, and 3D immersive sound (Dolby Atmos) was only installed in 19 of the 28 rooms.
- The rest of the features specified in this overview were fully applied in all the rooms: the maximum horizontal viewing angle of all the seats, the curved seating rows, the number and

size of the rooms, the reclining seats and the corresponding “first come, first served” policy.

The management of the multiplex, equally or more important than the architectural and technical aspects:

The architectural and technical features of a multiplex are fundamental for boosting its capacity to attract movie-goers but, on their own, they do not guarantee a successful investment. Management is also a decisive factor. The management recommendations that we make below are simply intended to give a direct and thorough description of the options that we chose. We do not mean to suggest that they represent the best way to manage a cinema, but there is one important assertion we can make in all certainty: this is the way we did it at FC and it worked really well. One key benefit of these management tips is that they are far easier and more affordable to implement than our architectural and technical recommendations. As a result, many of these suggestions are within the reach of any cinema exhibitor.

At our company, we regularly used to visit and study lots of cinemas all over the world. When we found certain features at other complexes that were really excellent, we analysed, improved and often replicated them. We will explain these features thoroughly as they are interesting. We will divide the management recommendations into the following sections: Service, Differentiation, Pricing Policy and Customer Loyalty.

Service.

An excellent level of service sustained over time was a key factor in FC's success. We achieved this excellence in the following ways:

- **We hired, trained and led a broad team that we strove to motivate. To achieve this, the team was well paid and we went to great lengths to ensure that the team members felt respected.**
- **We always turned our mistakes into positive**

marketing. Whenever we made an error, we always made amends by giving free tickets to the customers. Taking care of the customer, almost to the point of excess, ended up becoming a great competitive advantage.

- **We launched a smartphone app that turned the movie-goers at the multiplex into quality inspectors.** We designed, prototyped and adjusted the app, before managing to get our customers to download and use it to improve our service. We will give an overview of the features of this app and the experience we had with it.

- **We also rolled out a live chat option open to the public for an extensive timetable. We designed the chat feature to go far beyond our rivals in terms of keeping the customer happy.**

- **We trained a Community Manager to oversee all our social media. This figure was crucial for gauging the evolution of the movie-goers' perception of the multiplex over time and it enabled us to make the appropriate adjustments quickly and effectively.**

- **We gave customers a free ticket for their birthday. The ticket was only valid for weekdays and matinées, the sessions we most wanted to promote.**

- **The tickets were always numbered.**

Differentiation.

All commercial multiplexes release the same movies at the same time. As a result, differentiating your cinema and communicating these differences effectively is essential.

- Of all the differences that set FC apart, the most remarkable was the fact that **we did not show advertisements. We used the time that cinemas usually dedicate to advertising to communicate our differences.** We believe that commercials shown inside a movie room are a dream come true for any advertiser: they are shown in high definition with great sound to a captive audience who are stuck to their seat unless they want to bother the rest of the movie-goers in their row. **We recommend capitalizing on this opportunity**

and bombarding movie-goers with meticulously designed pre-show information that explains all the differences that set your cinema apart to convince your customers that the experience that they are going to enjoy at your multiplex far surpasses anything they can expect elsewhere. **If we can convince them, boosting the turnover rate will be much easier.** At FC, we achieved this. This resource should not be underestimated.

- **We thoroughly explained the features that made our multiplex different: the “Full guarantee”, the special sessions, new developments, the app, 3D immersive sound in 19 of our rooms, etc. We constantly communicated all these differences and all the changes and improvements that we were making, changing the advertising format frequently to ensure not to bore people too much.** To announce less important new initiatives or features, we used our own advertising media, such as the pre-show information or other channels in the installations themselves (LED screens, banners, programmes, newsletter with the movie listings, the website, etc.). In contrast, for important announcements, we used all available advertising media to communicate, both our own and third-party channels.

- After reminding movie-goers about all our differences in the pre-show information, we showed several trailers, but we packaged them in short 10-second “flashes” each. There were three different types of these Pre-Show Info “packages”, based on the different genres of movies that we showed: Commercial, Arthouse and Kids. Therefore, **we always linked the type of film we were showing with the kind of Pre-Show Info that accompanied it, striving to ensure that each customer would see the upcoming releases that would most interest them, so that they could enjoy them over the course of the following two or three months.**

Pricing policy.

In the “Model in Detail” section, we will highlight that the ticket price is the only significant economic parameter that is in the Exhibitor's hands. It is essential that we exploit

this resource as it can prove critical in terms of driving our competitors out of the market. We will give an overview of the pricing policy that we developed at FC (to reiterate, we do not mean to imply that this was the best or the only policy, just that we know that ours worked well). After studying our rivals' prices, FC's pricing strategy was based on the following aspects:

- **Minimizing prices in off-peak periods, setting them well below our competitors' prices, to boost midweek attendance. Offering top-class facilities for a very affordable price proved to be a powerful tactic that destroyed the competition.**
- **Maximizing prices at peak times, without exceeding reasonable pricing levels within this setting.** We decided to match the prices of the most expensive multiplex within our area of influence, which was in the most exclusive neighbourhood in the city of Barcelona. The price was comparatively expensive, but this was justified by our equipment and facilities. We subtly softened the blow using complementary ticket strategies, landing pages and occasional agreements with business or clubs, as described in the "Model in Detail" section. As a result of this strategy, we optimized revenues at the weekends and on bank holidays. It is crucial to note that we should always be very careful with low pricing policies because customer psychology matters and movie-goers tend to associate cheap prices with lower quality, which can end up being counterproductive. However, our own experience has shown us that the combination of very low prices on weekdays and expensive tickets at weekends was seen as a "rarity" for a top-class multiplex and everybody wanted to take advantage of the opportunity.
- **This pricing policy was crucial for maximizing audience numbers and the bar revenues of the multiplex and, consequently, its profits.** Although the operating margin of cinemas is always low (this model is no exception in this respect), the margin in bars tends to be high. As we will see in the "Model in Detail" section, it is

hard to increase a cinema's revenues by raising the ticket price and even harder to reduce its operating costs significantly. Anybody opting for the model that we propose should not be unduly concerned about this latter point, because we **do not recommend austerity with respect to costs. Rather, we advocate a bold, expensive excellence in all aspects of the multiplex. This excellence will be a decisive factor in boosting the seat turnover rate.**

- **At the bars, we recommend setting slightly lower prices than our competitors.** In our opinion, rip-off concession prices are a mistake that most cinemas and chains make. This represents a big competitive opportunity and we must capitalize on it fully. They forget a very basic principle: with an equal outcome, it is better to sell many products at a lower price than fewer products at a higher price. This is because the customer is more satisfied when paying less, and customer satisfaction is the holy grail of our business. **Movie-goers can add up. Lower prices at the bar make a multiplex more appealing than competing multiplexes. Therefore, it will help to increase its turnover rate. On the downside, selling a higher volume more cheaply requires a fast and efficient sales process. Bars should always be very wide and uncluttered, with minimal queues and processes designed to facilitate speedy sales. Most importantly, the bar must be staffed with enough employees for each time slot.**
- **It is essential to examine the product mix at the bar carefully to protect the overall profit margin of the products sold. We should never swap high margins for low margins. Neither should we lose sight of the fact that bar revenue is the primary source of profit for a multiplex. Some would argue the only source (See note 3).** We also recommend stocking the bar with products that movie-goers perceive as better. This information can easily be gathered using surveys.
- We will also discuss the approach to pricing that we would take in the case of a premium-priced multiplex. Although we have no direct experience of operating such complexes, we would dare to

3 This well-worn claim is also somewhat misleading. If we separate the takings from the cinemas at a multiplex and the revenue from the bar, we will always "discover" that the lion's share of the profits comes from the bar. However, this bar would not earn a penny without the cinemas around it. Nevertheless, it is always fun to rile people up by describing the cinema business as a popcorn machine and a soft drink dispenser with a few rooms around them.

suggest a very similar pricing policy to the one described above. This would consist of raising prices at peak times at the weekend and on bank holidays to premium levels, but dropping them considerably during off-peak periods, while ensuring not to undermine the premium multiplex concept. We would most likely match the average price on weekdays to the price offered by standard multiplexes in the surrounding area, using the killer slogan, “premium experience at a standard price”. Neither should we overlook the fact that, however high the premium ticket price may be, the bulk of the profits will still come from the bar. So, we would adjust the bar prices to match our non-premium rivals, but for the sake of the “glamour” factor, we would include “exclusive” and even “ridiculously exclusive” products that hardly anybody would buy. Moreover, we should always remember that, in the end, the profits will still be generated by the popcorn and soft drinks.

Customer loyalty.

FC’s customer loyalty policy was radically different. In contrast to traditional customer loyalty schemes, it was not based on points or flat rates, but rather on concepts:

- **To achieve the widespread take-up of our customer loyalty card, we made it free of charge** and streamlined the issuing process so that a customer could get it within just a couple of minutes. We also ensured that it did not cause any delays or queues at the box office.
- **We rebranded the reduced off-peak price as a “Loyalty price” reserved for cardholders.** So, when customers without a loyalty card came to the cinemas, they had to choose between paying full price for the ticket or applying for the card and paying the lower price. As the card could be issued immediately, the temptation was irresistible, especially as the reduced priced was less than half the standard price. As a result, practically all our customers requested the loyalty card.
- **We also came up with the concept of renaming the reclining seats as “Loyalty seats”, and reserved them for loyal customers** (although, to be honest, we did not really monitor this in practice).
- **The free tickets sent to customers’ homes on**

their birthday were also an exclusive offer for cardholders.

- **We ensured that the operating cost to the company of this customer loyalty scheme was low.**

• When we sold the multiplex in 2019, nine years after it opened, we had over 200,000 loyalty cardholders on the database. This database was the cornerstone of all our marketing actions.

The joint and simultaneous application of all the differential features.

Building a multiplex like the one we are proposing is expensive, but it is not too complicated. The real challenge is being able to offer such an excellent experience for an affordable price and turn the multiplex into a successful business. As this can only be achieved with a high seat turnover rate and a streamlined investment, this whole dossier has focused on explaining how to achieve these two goals.

Ideally, all the differentiating features described in this dossier should be applied jointly and simultaneously. Based on our experience at FC, we know that, if we apply all these measures, the multiplex will transform into a predator with a high capacity to devour the competition. However, driving our rivals out of the market should never be the goal, they are not the enemy. The only enemy is the comfort and ease of sitting on the sofa at home in front of a giant Smart TV. If FC strove to shine, it was to triumph over this enemy, and devouring the competition was just a logical and unavoidable consequence of this. Identifying your real enemy is an essential exercise for any cinema exhibitor who wants to succeed in the near future.

ABOUT THE AUTHOR OF THIS DOSSIER



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My name is Pere Sallent, and I am a third-generation cinema exhibition professional in Barcelona (Spain). I am the author of this dossier, and you can find out more about my professional career in Annex 1 at the end of this document. (The Author's Professional Career). As the man at the helm of a company, I take full responsibility for any errors that you may find in this dossier. In contrast, the credit for its content has to go to the two family generations that preceded me, the great teams that formed our group of companies and the excellent professionals who advised us.

I do not wish to debate the different opinions on this dossier, but I would appreciate if you could let me know of any mistakes that you may find, so that I can rectify these errors for future versions. If you feel that it would be useful to look at any aspect in greater depth, please let us know and we will strive to do so in subsequent versions. However, please note that it is not our intention to address specific queries, as this is not intended to be a consultancy service.

Our professional goal currently consists of offering the know-how that we have gathered, without expecting any financial remuneration in return. It will be our honour and pleasure if other exhibitors can take advantage of the ideas and recommendations that we are offering. We would like to contribute towards improving the movie-going experience at their cinemas or help them build even better multiplexes. If any professionals decide to follow any of our recommendations, we would be grateful if they could let us know, as we would be proud and happy to hear it.



FULL

BUILDING THE CINEMA OF THE FUTURE

Introduction and brief overview of the model