

# **Innovative marketing strategies to increase the attendance to cinemas and the purchase of legal movies**

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## **Abstract**

The movie entertainment industry has been seriously harmed over the past decade by the appearances of peer-to-peer file sharing systems. The financial management of movie businesses experienced decline in box office revenues and DVD sales. This research examines innovative marketing strategies to battle the negative effects of film piracy by discovering ways to increase the attractiveness of the cinema product and the home entertainment product. The author has found that the most important elements of an attractive movie product are affordability, accessibility, comfort and entertainment. The out-of-home experience and the in-of-home experience are treated as separately with the adoption of product improvement, product differentiation and market segmentation. The author recommends Dutch film distributor Pathé to develop an all-inclusive service that offers a wide range of both new and old releases in the form of a subscription, significantly addressing the consumer's preference for accessibility. Results also show that film distributors must exercise a low price strategy and offer subscription advantages in order to encourage the consumers to purchase the movie product. Last, innovative marketing strategies focus on upgrading the service components of the cinema product by extending special cinema features.

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## 1. Introduction

### 1.1 The film industry and piracy background

The film industry has been through a lot of changes since it was invented. The producer observes a clear change in technology and distribution, while the consumer changed its view on quality, convenience and price. With the rise of the Internet and the digitalization of films, a big threat to the movie industry has appeared: the illegal downloading of films.

The motion picture was invented in the 1890s and quickly grew into a worldwide mass entertainment industry. In the 21st century the media, especially in Hollywood, had grown into a huge entity with high profitability. A survey research of the movie industry in 2015 commissioned by the Opinion Research Corporation (ORC, 2015/2016), with in the top five grossing films *Star Wars: The Force Awakens* and *Furious 7*, gives a global box office of 38,3\$ billion with 709 total films released, a 5% increase over the previous year. International box office accounted for 71% of total global box office revenue in 2015. Total cinema screens increased by 8% worldwide. In 2016 global box office was again increased to 38,6\$ billion worldwide. MUSO, the leading content protection provider, measured 58 billion visits to stream pirated film and TV content in 2015 (ORC, 2015, 2016).

As the market for camera's and DVD players grew larger, DVD's made it possible for consumers to watch movies at home. Film companies tried to improve their DVD sales by increasing advertising expenditures for special features like the "making of". However, with the rise of the Internet, a big threat was brought to the industry: film piracy. 'Movie pirates' illegally distribute and share digital media through a peer-to-peer (P2P) <sup>1</sup> networking technology. This creates a web for consumers to watch movies, series and documentaries

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<sup>1</sup> A peer-to-peer, or P2P, network is a distributed application with equally privileged peers that partitions tasks or workloads between peers. Interconnected nodes share resources amongst each other without the use of a centralized administrative system.

for free, while financially hurting the legal sales in the movie entertainment industry. A lot of researches have examined the impact of piracy on the film industry, but there are a few that actually reveal a solution to the ever-growing issue. What needs to change in the marketing strategies of film companies and distributors to make the legal movie experience more attractive?

The Motion Picture Association (MPAA) of America defines film piracy as “the unauthorized access, copying or use of copyrighted material without permission”<sup>2</sup>. Film piracy is an illegal activity that is penalized with high fines. There is an average queue of 16 days an American film to be shared online for free by pirates after the official release (Smith & Schuker, 2010). Governments and legal institutions find it hard to fight piracy, because it is difficult to identify the Internet’s source of illegal file sharing. Piracy has become a social norm; most copyright violators are not aware of the negative consequences for the global economy of movie businesses. The film industry is constantly adjusting to the new technologies to block a danger from the industry. Contracts between film producers and on-demand services like HBO and Netflix keep the industry from losing capability and transparency in the movie market. Nonetheless, film studios and distributors need to reorganize their advertising expenditures and find new, innovative ways to attract the movie-going audience to the legal products of movie entertainment and to fight digital theft. Since the appearance of BitTorrent in 2003, the illegal distribution of motion pictures online has grown into a huge P2P file-sharing network. This has negative effects for the economy as a whole, because the film industry creates a huge number of jobs that will be lost due to film piracy.

## **1.2 Research objective**

Film piracy threatens the industry and harms the economy of movies and TV series. Salaries and jobs are the first to be damaged by the loss in profits caused by a rise in demand for film piracy. Other jobs in the branch, like DVD and video rental companies or advertisers in

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<sup>2</sup> [www.mpa.org](http://www.mpa.org)

the film industry are in danger too (Zhu, 2001). It is important for the film industry, for low- as well as for high-budget movies, to focus on new marketing strategies that make the product more attracting and adapt to the presence of film piracy. Although there are legal measurements against piracy, it has been shown that the P2P file sharing is not easily stopped. Piracy does not only concern legal and social questions but also has huge effects on economic variables. Therefore, film distributors and producers need to focus on the marketing of their products by increasing the attractiveness of their product.

Whereas many researches focus on the legal and technological fight against piracy, it is also important to look for a solution in a more progressive way. The potential number of consumers of a movie, legally or illegally, does not change. However, making the legal product more attractive than the illegal product can reform the distribution of legal and illegal movie consumption. It has to be carefully examined what it is exactly that attracts consumers to the illegal product. The elements, that create the ideal movie product in the view of the consumer, are critical. When the reorganization of both products is successfully executed, consumers will adopt their behavior and it is expected that the demand for piracy products will decrease, while the demand for the legal product will increase.

For this reason, the aim of this paper is to investigate potentially new and creative marketing strategies to make the legal movie product more attractive. This is likely to result in a reduction of the demand for film piracy. The focus of this research will lie on the film distribution in the Netherlands, with large movie distributor Pathé Nederland.

The nature of the research is explanatory and innovative, looking for successful and productive ways for movie corporation managers to battle film piracy with new marketing strategies. This research does not focus on legal procedures and actions against movie piracy, but elaborates the economic variables rather than the psychological regarding the attractiveness of the legal product.

### **1.3 Central research question and related sub questions**

The objective of this research is to find innovative marketing strategies that increase the attractiveness of the cinema product and the home entertainment, which is likely to indirectly decrease the demand for piracy. Therefore, the aim of this paper is to find an answer to the following central research question:

#### **How can Dutch film distributors use innovative marketing strategies to increase the attendance to cinemas and the purchase of legal movies?**

In sub-chapters the author separately discusses and answers the following theoretical and empirical questions, which will in turn lead to an answer to the research question:

- What are the effects of film piracy on Hollywood releases? (1)
  - What is product piracy?
  
- What marketing strategies do Dutch film distributors use? (2)
  - What is service marketing?
  - Which service-level marketing strategies are used in the movie entertainment industry and what are important elements?
  - What are innovative marketing strategies in the movie entertainment industry?

### **1.4 Thesis outline and summary chapter contents**

#### Chapter 1: Introduction

The origins, the aims and objectives of the study are presented. It outlines the structure of the thesis and presents summaries of the content of the study's chapters.

### Chapter 2: Research methodology

It presents the research justification and the research aims of this study. It discusses the selected research methodology, including the data collection, data processing, data analysis, and theory-building methodologies.

### Chapter 3: Literature review

The literature study is conducted to research the subjects related to the problem. It reviews the extant literature on the market description and explains the concepts and previous literature. Subjects described are: service marketing, the consumer's behaviour theory and marketing practices in the entertainment industry. Alternative innovative marketing strategies for the motion picture industry are proposed. The chapter reviews film distributors Pathé and Dutch foundation BREIN.

### Chapter 4: Research results

The results of the theoretical study are presented. From the perspective and reasoning of the author, innovative marketing strategies are displayed. The previously discussed is briefly summarized.

### Chapter 5: Conclusions and recommendations

Conclusions regarding innovative marketing strategies to increase the attractiveness of the cinema and home entertainment product in the movie industry. It debates the research findings and links these to the extant literature and research questions. It draws a conclusion to the research question. Finally, recommendations to Dutch film distributors are made and guidelines for further research are presented.

### Chapter 6: Reflection

A self-reflective discussion of the process of this research; the difficulties, the learning, the limitations.



## **2. Research Methodology**

The problem statement of this research clearly shows there is need for a changeover in the strategies of film distribution to reach a larger audience and to battle copyright theft.

This research is based on elaborate literature review and theoretical frameworks in the field of the film industry, marketing techniques and digitalized technologies. It obtains data through a documentary analysis without having to perform questionnaires and surveys.

The research question, formulated in paragraph 1.3, leads to a study of previous researches about marketing and film piracy in the entertainment industry. The nature of this research is exploratory. Relevant theoretical findings and practical concepts will be discussed and elaborated in order to approach the problem. This paper uses a qualitative search method: the approach contains describing, interpreting and understanding. Besides being scientifically relevant, it is also intended to be practically applicable. The development of marketing and advertising in the film industry is examined and criticized. The effect of film piracy on motion picture revenues is examined by unfolding the recognized data. Literature about service marketing in the entertainment industry is analyzed and Dutch film distributor Pathé is used as a practical example. Finally, the previously discussed will facilitate in drawing an answer to the research question.

### **2.1 Desk research: literature study**

Based on a literature study, the author summarizes the characteristics of an ideal movie product in the view of the consumer and suggests an innovative movie distributing service throughout the author's own economic reasoning. From that point on, a recommendation for film distributors in the Netherlands is made, with again cinema Pathé as a frame of reference. In this paper the author wishes to explore the efficiency and success of out-of-home and in-of-home entertainment services offered by Pathé and to examine in which way their product can be improved. The main purpose is to analyze faults, defects and inefficiencies in the distribution of films in the Netherlands. The literature that has been

examined is from both Dutch and foreign origin. In this way the study can be placed in a broader international context and perspective. The primary research libraries and databases that are used in this research to find relevant and current academic papers and publications are ProQuest, Google Scholar, ABI/Inform and EBSCOhost.

## **2.2 Field research: qualitative research**

For the qualitative study of the field research, the author has collected data through an interview with the director of foundation BREIN, Carla de Bruin, to obtain information about film piracy in the Netherlands that is required for this research. BREIN is a Dutch foundation that concentrates on the protection of copyright content. De Bruin has offered more profound information about the effects of film piracy and the legal enforcements used to fight the infringements. She has provided data of film piracy in the Netherlands for the years 2015 and 2016 and explained the legal procedures and actions against the violations. Contact with De Bruin was only throughout email and she emphasized that BREIN had never executed a market research. Therefore, she pointed the author at the importance and relevance of annual reports.

### **3. Literature Review**

#### **3.1 Service Marketing**

##### **3.1.1 Concepts**

A service is a valuable action performed to satisfy the consumer's needs. A service has four key distinguishing characteristics: intangibility, inseparability, variability and perishability. Intangibility means that a service cannot be owned and payment is for use or performance. This means the consumer may find it difficult to evaluate the service before purchase. Unlike physical goods, services are inseparable; they have simultaneous production and consumption. Service quality may be subject to variability, whereas standardization is difficult. Different people, who may vary in their attitudes, conduct services. Therefore, selection, training and rewarding of the staff in service organizations is necessary. The fourth characteristic, perishability, means that services cannot be stored in the future (Fahy & Jobber, 2012).

The essential idea of service marketing is to create a superior value to consumers (Fisk, Grove, & John, 2000). The first thing in the marketing process is to understand what the consumer wants or needs. The consumer has an individually perceived benefit, opposing an individually perceived sacrifice (Zeithaml, 1981). Perceived benefits can be derived from the quality of the product, the associated service and the image of the product. Perceived sacrifice is the total cost associated with buying the product. This is the monetary cost, but also the time and energy involved in the purchase.

Service based marketing allows companies and industries to influence the value of a consumer by fulfilling his or her needs directly or indirectly on the spot. It also permits companies to address their customers with profile-based and personal preferences by not only offering value propositions, but also adjusting these propositions to the customer's

personal benefit (Grönroos & Gummerus, 2014). The experience of a service has four different components: those who offer the service, the location/setting where the service is operated, the profile of the buyers/customers and the process of the service (Fisk, Grove, & John, 2000). Each component plays a role in the determination of the consumer's value of the product. Those who offer the service, the staff, have an important role in co-creating the perceived value by engaging with the customer.

Kotler and Armstrong (2010) have defined three major tasks for service companies to fulfill: service differentiation, service quality and service productivity (Kotler & Armstrong, 2010). Kotler and Zaltman (1971) stated "the marketing concept ... calls for most of the effort to be spent on discovering the wants of a target audience and then creating the goods and services to satisfy them" (Kotler & Zaltman, 1971).

### **3.1.2 The use of service-level marketing in the movie entertainment industry**

As service costs and quality in the motion picture window increase and the competition with the piracy product grows, service marketing sophistication becomes more important. Especially the out-of-home movie experience, the cinema, has a complex way of marketing its products. The largely grown box office industry has been expanding its advertising expenditures since the turn of the 21st century. The MPAA stated they had spent a total of 3.6 billion dollars in Hollywood studios for marketing movie releases in 2010 (MPAA, 2013). Marketing for movies is variously interacting with the product it is supposed to sell and the audience it is trying to reach (Elberse & Anand, 2007). Motion pictures are not like the regular type of merchandise, because it is not focused on mass-productions and is hard to segment to a specific type of customer.

The entertainment product is considered a service. Like illustrated in the above, a service is intangible, one cannot store or stock a service and the consumer participates in the execution of the service. Consumers experience the movie in a way that is different among individuals (variability) and that suffers intangibility and perishability. The movie product can be seen as leisure. According to De Grazia (1964) leisure is "a state of being in which activity

is performed for its own sake or as its own end". Each movie is different and unique and has the characteristics of a specific expertise. Films are enjoyed in cinemas and there has been an expansion of the experience with the introduction of 3D movies. The content and purpose of the movie product can be symbolic, social, nationalistic, political, etc.

Service marketing in the film industry is important to differentiate the legal product from the illegal piracy product. Three major segments of the motion picture industry can be distinguished: the cinema (out-of-home experience), versus the DVD/Blu-Ray consumption and on-demand services like Netflix and HBO (in-of-home experience). All three components are big targets of production companies (MPAA, 2013). These products need to be sold not only by the actual content, but also by an additional experience to the activity of buying.

As to the cinema and home experience of a movie, the author expects that consumers want to be able to watch movies whenever and wherever they want. With the new technologies, they expect full accessibility of a movie, immediately after its official release. Products like on-demand streamer Netflix or online DVD rentals focus on this segment. Movie theatres advertise their product as outdoor entertainment, creating an excursion for groups of individuals. Marketers have to create a memorable and pleasant experience for moviegoers, to create an urge for the audience to watch a new release. It is their challenge to deliver the product in a short time span and to advertise it as a commercial product, in a historical, social and/or national context. At the same time the movie needs to be placed in a position opposing its competitors.

Service-level marketing is used to make the legal product more attractive. Product differentiation must be applied to both the out-of-home and in-of-home experience.

A proper competition with the piracy product is only possible when the legal product is in fact more entertaining and special than the piracy product. The criteria of the legal product must meet consumer's benefit, uniqueness, entertainment, accessibility and a proper price

quality ratio.

Many producers attract target customers by different kinds of marketing campaigns. For example, a cross-promotional campaign with McDonalds targets children and teenagers and was used for large Hollywood pictures like *Harry Potter* and *Shrek* (Shafiulla & Babu, 2014). Smith and Telang (2009) recommend producers to focus on new marketing strategies to “compete with freely available copies of their content”, where product differentiation and market segmentation are most efficient. Two of the most strategic elements of marketing management are segmentation and positioning (Kotler, 1991). To attract more customers, producers can focus on product improvement by creating a more compelling event of out-of-home cinema experience. New structural improvements, such as 3D cinema have broadened the consumer’s perception of the movie theatre and created an extra amusement to the experience, which causes the price-quality ratio to increase. The extra amusement can be expanded by improved service components such as theme-based after parties as well as joined dinners, open-air movie displays or old-school drive-in screens. Also, the cinema product on its own can be improved. Think of more comfortable seats, monthly subscriptions with privileges and on-the-spot experience features like added wind, taste or smell. The purchase of DVD/Blu-Ray has largely been replaced by on demand services like Netflix and HBO, where consumers can watch movies whenever they like for a relatively small monthly contribution.

Mohr elaborates the power of social service marketing, i.e. buzz marketing. Word-of-mouth (WOM) and viral marketing create a so-called “buzz” via technology and add value to visiting the cinema. It is a low-cost, far-reaching marketing strategy that is efficient to combat the negative effects of film piracy (Mohr, 2007). This marketing strategy might encourage piracy, but it can serve as a promotion by indicating the popularity of a movie using WOM. For example, *Avatar* is the most pirated movie of all time, but still had one of the highest results in box office revenue (Janak, 2011). However, this type of marketing is not likely to increase the attractiveness of the movie product opposing the piracy product.

Because, in the author's opinion, creating a buzz through online technologies might increase the popularity of the movie, but is not expected to change the distribution of the legal and illegal movie product. It is therefore very important to distinguish the focus between the marketing of the movie product in general and the marketing of the service that aligns with the legal movie product.

From the author's own economic reasoning, when the service marketing of the movie product dominates the attractiveness of the piracy product and both cinema and home entertainment is fully accessible, consumers are likely to prefer the legal product.

In practice, the legal in-of-home experience is equally preferred to the illegal in-of-home experience (Ho & Weinberg, 2011). Therefore, the legal product of cinema and home entertainment must not be classified as substitutes. The cinema product must differ from the home entertainment product by applying specialties to the cinema product through product differentiation. The consumer expects the movie product to be fully mobile; it would be ideal if film distributors incorporated this service in their merchandise.

## **3.2 Film piracy**

### ***3.2.1 The effects of film piracy on motion picture revenues***

The best approach to this research is to observe the growth of film piracy and to elaborate the negative effects on Hollywood releases. The release of BitTorrent in 2003 was the beginning of a new era in the movie industry. BitTorrent was the first protocol developed to share peer-to-peer files across the world. At the time, profits of studios worldwide had grown from 8.5 billion dollars in 1980 to 45 billion dollars in 2004 (Danahar & Waldfogel, 2012). Also, the invention of the DVD caused a change in box office revenue over this period of time. Box office accounted for over 50% of studio revenues in the early 80's and declined to only 17% in 2004 (Silver, 2007). In the years after the release of BitTorrent, the MPAA executed multiple researches "to provide an accurate and detailed assessment of the

film industry's worldwide losses to piracy and the demographic profile of those engaging in piracy" (LEK, 2006). According to these researches, the worldwide motion picture industry lost 18.2 billion dollars in 2005 as a result of piracy. The primary loss in revenue is caused by box office sales rather than DVD sales. Nevertheless, box office revenue is still growing and in 2015 the motion picture industry in the United States had reached another record, breaking the 'magic 11 billion dollar barrier' (Mojo, 2017). A report prepared for BASCAP (Business Action to Stop Counterfeiting and Piracy) estimated the value of film piracy in 2015 to be 160 billion dollars worldwide and calculated the total illegal movie downloads to be 47.8 billion in the same year (BASCAP, 2016).

Previous researches that examine the effect of film piracy on the revenues of the film industry lead to ambiguous results. A research study conducted by LEK Consulting released by the MPAA, states that movie pirates have caused the United States economy to lose 6.1 billion dollars in 2005 (LEK, 2006). According to Smith and Telang (2009) piracy does not seem to be affecting the film industry through DVD sales. The effect on box office revenue is more distressing (Smith & Telang, 2009). De Vany and Walls (2007) have investigated the effect of film piracy on box office revenue and found a decrease of 40% caused by film piracy (Vany & Walls, 2007). One of the most profound researches that indicate the negative effects of movie piracy is the research of Danahar and Smith (2014). They found that the shutdown of the popular piracy website Megaupload.com increased global film revenues by 6 to 8% (Danahar & Smith, 2014). The Business Software Alliance (BSA) has found that reducing piracy by only 10% could result in an increase of 25,000 technology-based jobs and could add 38 billion dollars to the economy of the United States ((BSA), 2012). Ma, Montgomery and Smith (2016) elaborate the breakdown of piracy into a separation of negative and positive effects. On one hand, they observe the negative effect: cannibalization, a reduction of total sales caused by the offer of the piracy product. On the other hand, the positive effect occurs as the indirect promotional effect of piracy. Piracy builds awareness through word-of-mouth communication and increases a movie's popularity shortly after its release. Short-piracy (shortly after the official release) has a positive effect,



but long-piracy (long after the official release) does not. An analysis for the time period from 2011 to 2013 shows an increase of 14%, if piracy had been liquidated from the industry. Simultaneously, if piracy did not generate the indirect promotional effects, box office revenues would have been decreased by 1,5% (Ma, Montgomery, & Smith, 2016). Knowing this, the substantial group of consumers that chooses for the illegal product needs to be attracted to the legal product in order to 'step over'.

### **3.2.2 The piracy product**

Intellectual property is defined by *intangibles*, like ideas, inventions, information and expression. Objects of copyright contain music, film, writings and software (Yar, 2005). The copying and selling of products with copyright intent without the permission of the rightful manufacturer, has been growing ever since the release of peer-to-peer distribution sites. The growth of piracy in the media industry is fueled by advanced technologies and weak legal measurements. McDonald and Roberts (1994) endorse that "piracy has developed a momentum all of its own".

There are a few ways to copy a product. Counterfeit products are products that imitate an existing product. Infringement also covers look-alikes, knock-offs, and sound-alikes. Whereas counterfeit products fool its consumer, piracy products imply total awareness that the consumer is breaking an ethical code. Therefore some researchers recommend piracy fighters to respond to the pirate's moral values. Some manufacturers recommend strong proactive marketing by lowering the sales price of the movie product or by taking legal measures into their own hands, to be able to compete with the illegal piracy product. Others see piracy as a promotion, which can be used as an advantage. Alongside in the music business, piracy is seen as a huge threat facing the industry (Chiou, Huang, & Lee, 2005). A study regarding the piracy consumption behavior stated that the neutralization of non-ethical behavior, i.e. the illicit pirating, indicates a higher level of piracy in the future (Vida, Koklic, Kukar-Kinney, & Penz, 2012). The consumer behavior intentions of an individual are often coherent to perceived and underlying attitudes (Chatzidakis, Hibbert, &

Smith, 2007). This means that the level of piracy is expected to be higher in the future, when the perceived risk of an individual is small and the individual has a high level of neutralization and rationalization. To most piracy users, the practice does not or partly feel like theft. Only when consumers can identify themselves with the entertainment product, they realize how it negatively affects the producer (Turri, Smith, & Kemp, 2013).

Altogether, the piracy product has become highly successful in the 21<sup>st</sup> century. The product is, in the movie industry, most attractive because of the following matters.

First of all, consumers are impatient (Bartels & Urminsky, 2011). Ho and Weinberg (2011) describe this phenomenon as immediacy in their consumer model of movie viewing experiences. This means that, because of the time gap between the USA release and the cinema or home release, consumers will choose for the product that is released the quickest. Since the piracy product is leaked weeks before the official cinema and home release (Elberse & Anand, 2007), it is common the (impatient) consumer will choose for the piracy product, because it is more immediate. Especially when the movie is popular, the level of impatience is expected to be high. In this paper this problem is interpreted as the lack of full accessibility of the legal product.

A second problem of the consumer's behavior as to the piracy product is inconvenience. This can be treated as the pricing segment. There might be no incentive to pay for the legal product because of the existence of a cheaper alternative. When there is no or hardly any difference between the legal product and the piracy product, such factors might lead to a consumer choosing for the piracy product. Slive and Bernhardt (1998) see piracy as a form of product differentiation based on the price. A certain type of consumer refuses to buy the original product and chooses for the free piracy content. Thus, in the case the legal product is valued below the ticket or DVD price, the consumer will most likely choose for the piracy product. Ho and Weinberg (2011) have found that the authentic DVD and the pirated movie are equally preferred, meaning the consumer has no or hardly any incentive to choose for the legal product in the movie viewing experience behavior theory.

The pirated content product mainly attracts young, innovative 20-year olds. These individuals often have a low-budget lifestyle, but dominate the most knowledge regarding online technologies. In this manner the original product is less affordable, while the pirated product is easily accessed. Therefore, this segment of the population is more opposed to the infringement. Also, since the availability of technology in the Netherlands is transparent, it is coherent that the level of piracy is high (Proserpio, Salvemini, & Ghiringhelli, 2005).

### **3.2.3 Dutch foundation BREIN – protecting copyright content**

BREIN, founded in April 1998, is a Dutch Foundation that concentrates on the protection of copyright content. Located in Hoofddorp, it fights Intellectual Property Fraud on the behalf of authors, performers, publishers, producers and distributors of music, film, video, books, games and interactive software<sup>3</sup>. BREIN takes civil action against certain cases of fraud and provides information and professional expertise for criminal action by the authorities and legal institutions. The institute takes action against IP-fraud that takes place in the Netherlands or which is addressed to the Netherlands. Because of the trans-boundary nature of piracy violations, BREIN works closely with international and national content protection organizations abroad.

Foundation BREIN carries out the fight against Intellectual Property Fraud. In 2015, BREIN managed to take down 362 piracy services. Over the last five years, the blocking case of the Pirate Bay, one of the biggest operating piracy services worldwide, has been BREIN's main priority. Their goal states "the illegal activities must be ceased and prevented". Unfortunately, the request for a blocking of the Pirate Bay has been denied in 2014. In higher appeal, the European judge has authorized the blocking on the claim of piracy freeholders. BREIN's constraint strategy is aimed to enforce copyright violating content sites or online services to comply with the Intellectual Fraud law regulations. Carla de Bruin, the

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<sup>3</sup> <https://stichtingbrein.nl/wat-is-brein.php>

director of the Foundation, believes that the main reason for consumers to download illegally is because it is free. When the illegal products are in fact legal because of a lack of legal performances, the infringements will continue. The on-demand service Netflix can hardly stand its ground against the illegal merchandise of Popcorn Time<sup>4</sup>. "Availability, ease of use and affordability are the keys to success and the disruption of illegal competition through enforcement" (BREIN, 2015). The essence of their targets for collective enforcement is to support the legal product by legal measurements and interventions of the anti-competitive illegal merchandise. The fact that the illegal product is available prior to the legal product is also an important reason for the abuse of copyright content. From the author's own economic reasoning this refers back to the accessibility problem of the movie product: the consumer expects the product to be available anywhere and anytime.

### **3.3 Consumer's value theory**

To examine successful marketing strategies that reduce the demand for film piracy, it is important to look at the critical elements that make piracy content more attractive than going to the cinema or buying a DVD/Blu-Ray. There is an obvious distinction between the out-of-home (cinema) experience and the in-of-home (DVD) experience, versus the in-of-home piracy product. For the consumer, in this case the user of the pirate's product and service, there are some values that determine what choice he/she will make to experience a movie. In the Netherlands, the ethical code of stealing is rejected harshly in the social environment. This moral value is an important element in the choice for the legal product. However, this research does not focus on the legal measurements and procedures of responding to consumer's moral codes. This research focuses on economic elements rather than psychological and suggests a way for film distributors to react on these matters.

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<sup>4</sup> Popcorn Time is a multiplatform open source media player that uses the BitTorrent protocol to stream files. This service is free, yet illegal.

Consumer value drives investment and production decisions. Consumers perceive value of the services and qualities they receive and their valuation gives meaning to the product. However, this value is not constant over time and, as the environment changes, consumer's perceptions change (Hassan, 2012). From the author's perspective, there are few people who go to the movies individually. Assuming that the biggest part of the moviegoers is parted in groups of two or more, individual preferences are balanced. Movie consumption behavior is scattered and widened. Weinberg (2005) has found that "the environment of the video store will have a strong influence on preferences and choice". Chuo (2002) describes the industry of theme parks, an entertainment enterprise that is comparable to the motion picture industry. He states that the consumer has different preferences regarding new releases, i.e. aging variation and experiential variation.

The difference in preferences starts with the motivation to visit the movie theatre; this can be a pleasure trip with friends, family or lovers. The motivation of visiting can also be the need to watch a movie deliberately for work or pleasure. The cinema product can be largely seen as a product of enjoyment rather than being business-related. The heterogeneous market of moviegoers can be divided into homogenous groups of people based on the frequency of going, the age of the consumer, the gender of the visitor and the number of movie-interested friends or family.

### **3.3.1 Value of time**

The value of time in the context of movie releases is an important issue. Holbrook (1999) defines consumer's value as an "interactive relativistic preference". Consumers like to pay a certain amount of money for a given amount of time (Holbrook, 1999).

There is a time gap between the release of Hollywood films in the USA and other countries, while movies become available through illegal online distribution almost immediately after the release in the United States. This creates an attractive swift for consumers, which causes the linear time function of the waiting cost to steepen. Individuals favor not to wait because of their consumer behavior utility and participate to the piracy trend. Recent research specifies that international box office revenue is "at least 7% lower than they would have

been in the absence of pre-release piracy" (Danahar & Waldfogel, 2012). The time gap between the cinema release and the DVD release also causes consumers to choose for the easy, yet illegal piracy product. Consumers want to be up-to-date with the latest movies and because of the Internet's universal character, consumers become more and more impatient when it comes to the consumption of movies. This time window influences the accessibility of the legal product negatively, while the illegal product is fully mobile.

### **3.3.2 Value of price**

Second is the value of price. The customer segments addressed are different for all movie types, but overall there is mass competition in the film industry where prices are critical. Especially with the existence of the free piracy product. It is necessary to investigate the income elasticity in various societies. In this paper the focus lies on the Netherlands, which yields a relatively high-income elasticity in its society. A high-income elasticity means there is a strong demand for luxury goods and services: an increase in the income leads to a higher increase in the demand for these goods. However, consumers might not be willing to pay a high sales price for a luxury good like theatrical entertainment, because of the cheaper alternative provided by piracy. In that light, producers must focus on a low price strategy that covers costs, creates revenue and provides good quality and service components that differ the product from the piracy content. The cinematic product must be improved to encourage consumers to choose for the paid experience rather than for the illicit one. The issue of pricing addresses the convenience element of an attractive legal movie product, because it is in the consumer's value analysis more convenient to choose for the piracy product. The cost of a legal movie generates inconvenience in the consumer's value.

### **3.3.3 Travel distance**

Another critical element is the value of travel distance to a cinema. The consumer surplus will decrease when the distance between the consumer's home and the cinema is greater.

With the surplus decreasing, consumers will reach the breaking point where the benefit of going to the cinema equals the cost. A further decrease will cause consumers to choose for the piracy product, or to choose nothing at all. It is important to incorporate this element in the marketing strategy, because it is inevitably included in the consumer's utility function. The travel distance mainly addresses the factor of accessibility, because the piracy product is more accessible in the sense that it does not suffer from absence in certain areas. The travel distance also influences the attractiveness of the legal movie product by addressing the factor convenience and comfort.

Last, there is the matter of the political element. Movies might not be available in all countries because of legal restrictions. However, this is not an important aspect for determining successful marketing strategies, because legal restrictions are binding and are therefore not part of the consumer's behavior analysis.

### **3.4 Marketing strategies in the motion picture industry**

#### **3.4.1 Movie marketing to increase revenue**

Prior to the official release of a motion picture, producers advertise the movie by releasing the official movie trailer and a special website as a tribute to the film, containing information about the cast and crew. Most of the time the final premier is a huge spectacle, where the whole cast is present on the red carpet. The financial success of a motion picture depends on multiple factors, like advertising, critical acclaim, genre and ratings. There are some incentives that encourage customers to watch the movie, like the presence of a famous movie star in the picture (Prag & Casavant, 1994). In the pre-launch period, about 90% of all advertising costs are spent (Elberse & Anand, 2007). Whereas in the 1920's people used to go to the movies once a week, now the average is 5 times per year (Pautz, 2002). Film executives are under pressure to sell their product. Advertising expenditures have increased about 50% from 1999 to 2005 (Elberse & Anand, 2007). However, the effectiveness of this

type of advertising is questionable (Dunnett & Hoek, 1996). Big advertising budgets and strategies might be more favorable for some movies than for others.

The use of effective and efficient strategic marketing management increases a company's revenue (Osakwe, 2015). Movie advertising expenditures are exposed to the uncertainty level of the consumer of the individual's perceived benefit of the product's quality (Joo, 2008). Consumers socially learn about the quality of a movie. The theory about social learning is consistent with the word-of-mouth referring. Through social learning, consumers pass along their perception and experience as to the product to other potential customers. Advertising seems to be efficient, however only in the case of a movie with a good quality. As to movies with a bad quality, the advertisement expenditures will not be covered (Elberse & Anand, 2007). Word-of-mouth communication used for marketing strategies has proven to be particularly successful in the entertainment industry and can lower the usually necessary costs of advertising (Chevalier & Mayzlin, 2003). Consumers have different preferences, which make it impossible to address every consumer and satisfy them with a single management strategy (Kuss, Graefe, & Vaske, 1990).

Although the Internet is a threat to the film industry, academics have argued that it also represents an opportunity for marketing and promotion. Marketers can reach a widely spread, special interest audience on a low-cost base (Chevalier & Mayzlin, 2003). Movie marketing is directly related to other industries. Consumer goods industries - such as auto companies and soft drink firms - expand the marketing opportunities of movies. Hollywood considers movie trailers and television commercials to be the best promotion to attract moviegoers to the opening weekend (Marich, 2005). But the promotion of film is wider extended. It relies on both economics and culture, on the film's identity that is connected to its development as well as its advertising campaigns. These issues of identities are associated with marketing practices in a globalized economy.



### **3.4.2 Movie marketing at Pathé**

Film distributor Pathé is a chain of cinemas in the Netherlands. The Dutch head office is located in Amsterdam. The company is part of the French group Les Cinémas Gaumont Pathé and distributes movies to theatres and homes. With 1400 employees in the Netherlands, Pathé focuses on movie entertainment with a special care to hospitality, to offer the optimal movie experience. Pathé has expanded their marketing techniques by segmenting on special evenings like 'Ladies Night', '50 Plus Cinema' and 'Unlimited Night'. Hereby, Pathé can address special movie-fanciers and generate a special event out of a traditional movie.

The distribution of movies has to be accessible for all consumers. This is the central concern of film distributors worldwide. Pathé, the largest film distributor of cinemas in the Netherlands, focuses on the distribution of new international releases. The company offers the subscription 'Pathé Unlimited', which allows the subscriber to visit the cinema limitless for €19 per month. Knowing a regular ticket costs €10,50, the subscription is beneficial to frequent moviegoers. In this manner, different segments of consumers are addressed and the price is somewhat differentiated. The film distributor also offers special events, for example a fancy diner in the neighborhood included with the movie.

Pathé also focuses on the home experience of a movie; they added *Pathé Home* to their stock. From the author's reasoning, the more attractive and accessible the legal product, the smaller the possibility the consumer will choose for the illegal piracy product. Pathé reacts properly and efficient on this issue by bringing the cinema to the consumer's home. Being the main movie provider in the Netherlands, Pathé stands out by expanding their cinema product to the field of home entertainment. Meanwhile, the negative effects of film piracy are mitigated because of the product differentiation. The out-of-home and in-of-home experience is realized by the on-demand service that is incorporated in the cinema subscription. The service application is reachable through an online app through Mobile, PC, Smart TV, Tablets and Game Consoles. Payments are made through iDeal, PayPal and

Creditcard transactions. A movie can be rented for €4,99 or bought for €12,99. The price-quality ratio opposed to the price of a cinema ticket seems reasonable.

Price discrimination is applied to the entertainment business of Pathé, by giving out discounts on the tickets for 'special' movie audiences like students and children.

### **3.4.3 Movie marketing to decrease the demand for film piracy**

Since the release of BitTorrent, motion picture industries have tried to change their business strategies by making legal consumption of movies more attractive than the piracy product and by making unauthorized copyright content less attractive than legal consumption by "supporting various government anti-piracy interventions such as the shutdown of Megaupload.com and Megavideo.com" (Danaher, Smith, & Telang, 2015).

In the process of segmenting copyright violators, there are three characteristics that determine the attractiveness of the movie product: pricing, accessibility and viewing channels. Previous researches have argued that pricing is best fixed in the fight against piracy by choosing for the low price strategy (Conner & Rumelt, 1991) (Ho & Weinberg, 2011). Accessibility involves the sequential release theory, explaining for the time gap between the official release and the cinema release. Decreasing the time window can eliminate this segment (Nelson, Reid, & Gilmore, 2007). A third segment is the characteristics that determine the value of the movie experience for the consumer. This can be seen as the direct service that is delivered at the time of consumption and can be adjusted by improving on-the-spot service, the two critical elements of comfort and entertainment. This is applied the easiest in the out-of-home theatre experience, by improving service components with events like a movie night with marathon movies like *Harry Potter* (2001-2011) or *Pirates of The Caribbean* (2003-2017). Improving service components for frequent buyers and offering discounts and subscriptions can also upgrade the home entertainment service. The consumer's perceived benefits are influenced by the quality of the movie, the service at the cinema or the DVD-service and the popularity of the movie.

Pirating holds a perceived sacrifice, an individual cost. For example, the expected value of penalties or lost reputation if caught pirating, or the cost the individual ascribes to violating a moral code. Although these individual costs are hard for producers to measure, there are some legal and technological policies that can cause piracy costs to increase (Conner & Rumelt, 1991). It is important to create awareness about the harm of movie piracy, by punishing the activity and creating an ethical code that increases the sacrifice of pirating. There are incentive campaigns to warn about the consequences of film piracy, formed by Industry Trust. The aim of global campaigns like "Piracy is a crime"<sup>5</sup> is to warn people that piracy is actually against the law and to increase the individual cost of pirating by addressing an individual's moral values.

The previously discussed clarifies the critical elements that are required to increase the attractiveness of the movie product in order to decrease the demand for film piracy. It is important to realize the relevance of the accessibility of the product. First of all, as explained before, there is a separation between the out-of-home experience and the in-of-home experience. The out-of-home experience, where the movie is enjoyed in the cinema, is as to service marketing the most important subject matter to improve. This product must be affordable and embody a superior value to the consumer. The consumer must specifically choose the going out - above the staying home option. Therefore, the cinema product must contain a special addition to the experience, added by product differentiation. This can be, for example, by adding a 3D experience or including a special diner. The consumer must have been given an incentive to pay and go to the movie. However, the problem of accessibility still exists. Assuming that consumers expect the movie product to be completely mobile, because of the availability of the piracy content, film distributors need to act to this belief. The in-of-home experience must be available on the same level as the out-of-home experience, though for a lower price. Because there are no extra services included for the home entertainment, the price-quality ratio must be adjusted.

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<sup>5</sup> <http://www.theglobalipcenter.com/tag/anti-piracy/>

### 3.5 Alternative movie marketing strategies

Marketing strategies in the domain of movie consumption are important to battle the digital technologies that danger the motion picture industry. As discussed before, critical elements of the legal movie-going behavior of consumers are accessibility, pricing, comfort and entertainment. Pathé seems to have figured out a way to combine both the out-of-home and in-of-home experience by offering almost full mobility with *Pathé Home*. However, the question remains: does this decrease the demand for film piracy?

Weinberg (2005) identifies piracy as a poor substitute: the professor advises researchers of film piracy to concern the competition between DVD's sales and piracy rather than focusing on the competition with theatrical revenues. Research has found that the innovation of the home widescreen television does not influence cinema revenues negatively, because the theatre window has been improved by better facilities that increases comfort and convenience (Eliashberg, Elberse, & Leenders, 2006).

The attractiveness of the illicit piracy product is determined by two, earlier discussed, elements: impatience (the need for accessibility and mobility) and affordability (the price value). Therefore, these two product ingredients are crucial for the mix of a more attractive legal product. The author expects that most pirates are not one-time delinquents, but frequently participate to the infringements. Hence, there is need for economic incentive to change piracy consumption behavior to legal consumption behavior.

In this manner, a new service-level product that offers a large range of movies needs to be developed. Pathé already responded to the importance of mobility by delivering Pathé Home to the market and offering a product that can be benefit from both at home and in the movie theatre. On-demand service Netflix offers a wide selection of movies for only €9,99 per month. Focusing on a differentiated price strategy can increase the attractiveness of the movie product. Chamberlin (1965) defines product differentiation as "the

distinguishing of an existing product that is important to the buyer and leads to a preference". Darryl Zanuck (1950), an American film producer, said in a letter to Henry King about the advertising of movies, "it must have at least an *idea* that would lift it out of the commonplace". A special incentive must be created to attract the customer. Also, regarding the product differentiation theory, segments of customers have different perceptions of quality and are willing to pay different prices because of differences in utility. An individual must be able to choose for the kind of service he or she desires. Film distributors must address to these wishes, by creating a product that is adjusted to different segments. For example, a subscription to the movie theatre or an on-demand service holding different price categories, providing "a range of products that would appeal to different fractions of the audience" (Maltby, 1995).

The movie audience can be addressed in different segments by offering a price system in which frequent moviegoers receive discounts and special treatments. Using the example of the Pathé Unlimited subscription, the attractiveness of the product can be increased by segmenting its consumer. The cinema product is a leisure, service-level product. If a film distributor is able to successfully divide the market into a homogenous market that shares more preferences and interests than the overall market, advantages can be obtained (Chuo, 2002). Torkildsen (1992) stated that in the market for leisure products "in order to market leisure successfully, we must sell benefits to customers". The special focal points of the movie product, both out-of-home and in-of-home, as stated in this research are affordability, accessibility, comfort and entertainment. Consumers experience these elements subjectively and different.

In many markets it is common that producers charge the same price for differentiated products. With the cinema product this is also the case. However, consumers regard movies as imperfect substitutes and might be willing to pay more for one than for another because of individual preferences (Holbrook, 1999). Many consumers might consider home entertainment as substitutes for the cinema, which causes the piracy product to be the

concurrent of both legal products. With the existence of a free home entertainment option, a part of this group chooses for the illegal product. Consumer's behavior towards the movie entertainment industry might change seasonally (Orbach, 2004). The demand for the cinema product is probably higher in the summer than in the winter, because consumers prefer to go outside when the weather is good. In the same reasoning, consumers would prefer the consumption of home on-demand services in the winter. This theory needs to be incorporated in the pricing strategy of film distributors. Although it might be impossible to differentiate pricing on differences in demand, changes in pricing to the consumer's expectations and values are likely to increase the attractiveness of the movie product (Orbach, 2004). Although consumers might value the out-of-home and in-of-home entertainment as substitutes, distributors might need to consider the products as different in order to adjust these valuations.

Recently, the online service FILM.NL was developed to improve the accessibility of legal content. By searching on a specific movie, the website shows the availability of the movie, offering a schedule with cinemas and on-demand services where the product is feasible. This feature might respond to the consumers need for accessibility and convenience. However, it still lacks the advantages of an all-inclusive online service that includes both the out-of-home and in-of-home experience of the legal movie product.

A recent global report executed by the PwC has predicted for 2020 that the yields on VOD (video on-demand) will exceed the revenues of physical content like DVD. The director of film distributor Dutch Filmworks, Van Turnhout (2017) suggests the introduction of Amazon to the Netherlands, where on-demand provider Amazon Prime could participate in the market for paid VOD (Waardenburg, 2017).

## **4. Research Results**

### **4.1 Outcome literature review**

The central question of this study was: How can Dutch film distributors use innovative marketing strategies to increase the attendance to cinemas and the purchase of legal movies?

Previous researches have led to ambiguous results. It is important to realize that the movie product must be treated and recognized as a service. Smith and Telang (2009) accentuate the importance of product differentiation and market segmentation. The product can be improved by creating a more compelling event out of cinema, by which the cinema product is differentiated from the home product. Mohr (2009) recommends buzz marketing to increase the popularity of movies, but this theory is not expected to change the distribution between the legal and the illegal product. De Vany and Walls (2007) have found that film piracy causes box office revenues to decrease by 40%. The attractiveness of the piracy product is impatience (Bartels & Urminsky, 2011) and the pirated content can be considered as a form of product differentiation based on the price (Slive & Bernhardt, 1998). Ho and Weinberg (2011) have found that in the field of home entertainment, the DVD and pirated content are equally preferred. Therefore both products are seen as substitutes and in order to increase the attractiveness of the legal product, the efficient technique is product differentiation. Carla de Bruin, director of Intellectual Fraud-fighter BREIN, thinks the main reason consumers choose for the piracy product is because it is free. She also emphasizes the negative effects of the time window between the official release and the legal national release. Danahar and Waldfogel (2012) confirm the latter as they found that international box office revenues would have been 7% higher without pre-release piracy.

Nelson, Reid and Gilmore (2007) recommend film distributors to decrease the time window in order to increase the accessibility of the legal product. Conner and Rumult (1991) recommend the low price strategy in order to increase the affordability of the legal product. Ho and Weinberg (2011) recommend adjusting movie-marketing strategies by focusing on

improvement of viewing channels. Product improvement must be applied to increase the comfort and entertainment, which is directed mostly at the out-of-home experience.

All in all, there is a clear vision of a loss in revenue, especially in box office revenue, but there is also sign of improvement of total sales because of piracy. Piracy seems to boost the popularity of movies and works indirectly as a promotion of large Hollywood movies. The demand for film piracy is continuously increasing. The motion picture industry is financially damaged.

This research has found that the main cause for the attractiveness of the piracy product is impatience and inconvenience. The time gap between the official release in the USA and the national cinema release makes the illegal product more accurate and immediate, thus more attractive. This is defined as the accessibility of the movie product. Inconvenience means the consumer might have no incentive to pay a price higher than the price of the illegal product.

Companies use service-level marketing to fulfill the needs of their consumers directly or indirectly by addressing personal preferences. Movies are considered as service based products and are treated like services. Service marketing in the film industry is important to differentiate the legal product from the illegal product. The marketing terms of product differentiation and market segmentation are most relevant. The out-of-home and in-of-home movie experiences must be differentiated, because they must not be considered as substitutes. The legal product must be more entertaining and more accessible in order to increase attractiveness. The out-of-home experience must create a superior value to the consumer, because the individual must prefer it to staying home. The attractiveness of the cinema product can be improved by creating a more compelling event, with 3D features and on the spot service improvements. The in-of-home experience is a bigger concurrent of the illegal product in a way that the legal product directly substitutes the illegal product. Therefore the price must be as low as possible and the legal product must be fully accessible in a short time span after its official release. The author reasons that consumers



are likely to prefer the legal product, when the service marketing of the legal product dominates the attractiveness of the piracy product and when both cinema and home entertainment is fully accessible. This research found the special focal points of the movie product to be affordability, accessibility, comfort and entertainment.

## **4.2 The practical example of film distributor Pathé**

Dutch film distributor Pathé is continuously trying to adjust to the technological changes in the environment of the movie industry. The company has offered its customers a monthly subscription that allows consumers to visit the cinema unlimited for 19 euros per month. Another new product that is segmented to the frequent moviegoer is Pathé Home. This product offers a wide range of new and old releases both at home and in the cinema. The segment is directed at accessibility and convenience and is therefore considered a successful strategy to improve the attractiveness of the legal product. However, research shows Pathé is not a desirable concurrent to the illegal proposition yet, because it lacks full accessibility and does not particularly focus on the low price strategy.

## **4.3 Outcome findings BREIN**

Foundation BREIN has emphasized the important elements of the legal product in order to successfully compete with the illegal product. Affordability, ease of use and availability are critical in the marketing process of attracting the audience to the legal product. BREIN accentuates the influence of pricing, stressing that most consumers choose for the piracy content because it is free. BREIN mostly focuses on legal enforcement to stop illegal downloading, but recommends marketing innovations to focus on the pricing of the product and the availability of the legal product, insinuating that the second reason consumers choose for the illegal product is that it is available online prior to the national release.

Therefore, BREIN implicitly suggests film producers and distributors should lower prices and aim for a smaller time window regarding movie releases for home use.

#### **4.4 The ideal movie product**

All in all, there are a few critical elements that increase the consumer's value of the movie product. From previous researches, the author has found four main factors that are critical in the determination of alternative, successful marketing strategies for the movie industry.

The following factors are addressed as the main factors in this research:

- **Accessibility**
  - Because a movie is sequentially released, consumers tend to choose for the product with the highest accessibility or mobility. The consumer desires a small time gap, providing a product that is (almost) perfectly mobile in its distribution. The purchase of the legal movie product must be convenient.
- **Pricing**
  - Copyright violators must be given an incentive to change their behavior in the market for films to legal consumption. This means that the pricing strategy needs to be balanced, because of the existence of a free illegal product. In order to prevent illegal consumption, consumers must be willing to pay a certain price for the legal product. From previous researches, a low price strategy seems like the best option.
- **Comfort and entertainment**
  - The out-of-home entertainment differs from the in-of-home experience in characteristics, because it is more expensive. Therefore it must be presented as a special, more entertaining service-level product. The author expects the consumer's behavior to adjust to the quality of facilities. The theatrical environment offers a lot of advantages for the consumer that cannot be experienced at home. Expansions of the product are more comfortable seats and

a more realistic movie experience by improved sound system and visual size. In this manner, the consumer's valuation of the cinema product increases and the attractiveness of the out-of-home experience, the cinema, upgraded.

From the author's economic reasoning, the ideal movie product as experienced by the consumer is accessible, affordable, comfortable and entertaining. The author emphasizes the importance of separating the characteristics of the out-of-home and in-of-home experience, by assigning the elements of accessibility and pricing to the in-of-home experience and comfort and entertainment to the out-of-home experience. In this paper an innovative marketing strategy is explored in the form of an adjustment of the movie service, increasing the attractiveness of the product and mitigating the demand for film piracy.

#### **4.5 The characteristics of an innovative movie marketing service**

First of all, the author believes that the cinema product and the home entertainment product (DVD or Blu-Ray) must be perfectly separated and must not be considered substitutes. The results show this is only possible when the two products are fully differentiated in characteristics. The important elements of the in-of-home experience are therefore: accessibility and pricing. For the cinema product they contain comfort and entertainment. This separation is important for an increase of both products to battle copyright theft. The challenge to the provider of the service is to address these products and to deliver them to their consumers in the best way possible. Naturally, all elements still matter to both products.

The element of pricing, belonging to the legal home product, can be fixed by offering a price as low as possible. Because there is no large difference between the service of the home legal product and the illegal product, it is very important to address the affordability of the legal product. The best option is to use the low price strategy. This strategy can be

extended by offering discounts for frequent movie-buyers and by awarding these frequent visitors with specialties like an included diner when having bought 8 movies in a month, for example. In this way, frequent movie consumers are encouraged to increase their consumption. However, these consumers are probably not the ones who create the large demand for film piracy. Therefore, to decrease that demand, frequent movie-buyers can be awarded by introducing their friends in the home subscription to on-demand movies.

Accessibility can be improved by decreasing the time gap between the USA release and the Dutch movie distribution. Also, the mobility of the legal product can be improved by smoothening the purchase of the movie. For example, there already exists an app that enables the consumer to watch bought movies on their mobile phones or computers. When these objectives are executed, consumers will be less likely to choose for the illegal product.

Comfort can be increased by continuously improving the on-the-spot service and facilities both in the cinema and at home. Think of more comfortable seats and an easier way to get to the theatre by train, bus or taxi, etcetera. The level of entertainment of the out-of-home experience can be increased by an expansion of the movie product, for example live performances prior to the movie or an included dinner close to the cinema. These are targets that increase the attractiveness of going to the cinema. Increasing the strength of the service proposition with for example more movies at the same time or more personal experience is likely to increase the perceived benefit of the customer.

## **5. Conclusion and Recommendations**

### **5.1 Conclusions and debate**

In consideration of this research, accessibility is the most important and relevant focal point that is most likely to improve the attractiveness of the movie product and dominate the attractiveness of the illegal product. Unfortunately, there is no product available that covers full accessibility of a movie. Netflix comes close with its on-demand service of wide range and Pathé addressed this issue correctly with Pathé Home. However, piracy consumption offers a more accessible and wider range of movies than any legal film distributor. Therefore, producers and film distributors need to cooperate and invent a new service that offers all available cinema products at home at the same time. Simultaneously, this cinema and on-demand service must address different segments of moviegoers by offering discounts and awards.

This research confirms the importance of the accessibility of the movie product, in reality for both the out-of-home and the in-of-home experience. The author estimates the expectations of the consumer by verifying his or her concern about the mobility of the movie product. The reason why most pirates choose for the pirated content is because that product is easier accessed, obtainable and cheaper. To battle this interest, the technologies regarding the legal product must be improved. A good example of a film-distributing product that addressed this issue is Pathé Home. However this service lacks a wide range of movies and must be extended in order to work properly and to operate as a sustainable concurrent of pirated content.

Innovative marketing strategies therefore are aimed at product improvement, product differentiation and market segmentation. BREIN confirms the importance of these approaches in the battle against piracy infringements. The home entertainment of the movie

product is marketed by improving accessibility and availability, while keeping the price as low as possible. Home entertainment services must offer a wide range of movies in order to be a significant competition to the piracy content. Offering a home entertainment service that provides in the consumer's need for immediacy and affordability is likely to increase the purchase of the legal product. The cinema entertainment is again marketed by improving on-the-spot service components by improving comfort and entertainment. In this item, product differentiation is important to prevent both services to be considered substitutes. The cinema product must be marketed by creating a memorable experience and by delivering a service that is more widespread and comprehensive than the home entertainment service. The cinema product must be improved to increase the attendance to the theatre; this can be realized by creating an extra factor of amusement to the experience. Product improvement can be applied with stretched service components like live performances in the movie theatre and included dinners prior to the movie. The boosting of the level of entertainment in the cinema experience is expected to attract more customers. Finally, a service that adds together the out-of-home experience and the in-of-home experience in the form of a subscription can be segmented to different consumers by offering discounts and privileges for frequent buyers. Differentiating on types of movies or age variation can further segment the service. Altogether, this is likely to create an urge for moviegoers to visit the theatre more often or to watch the movie legally at home.

The final answer to the central research question: **"How can Dutch film distributors use innovative marketing strategies to increase the attendance to cinemas and the purchase of legal movies?"** is the following. In order to increase the attendance to the cinema and the purchase of legal movies, Pathé Nederland must focus on the previously discussed critical elements: accessibility, affordability, comfort and entertainment.

The innovative marketing strategies that will solve this question are listed below.

- **All-inclusive service:**

- Pathé Home and Pathé Unlimited should be added together, in an all-inclusive online service that offers a wide range of both cinema and home entertainment products. In that way, the on-demand service enables consumers to choose between the home product and the cinema product. It is important that the home entertainment is available at the same time as the cinema release, in order to prevent consumers who prefer to stay at home to choose for the piracy product. Thus, the products must be offered by a service that presents the products altogether simultaneously, in a way that addresses the convenience of the consumer. The accessibility also reacts on the time window problem of movie releases; this must be minimum in order to fight film piracy.

- **Pricing**

- Pathé must NOT treat the home entertainment and cinema products as substitutes. They must differentiate on the pricing of both products in the all-inclusive service they offer. The home entertainment product contains less special features and on-the-spot service components than the cinema product and must therefore cost less. In the service as a whole the lowest price strategy must be applied.

- **Subscription advantages**

- Frequent movie –goers or –buyers must be encouraged to continue their consumer behavior. Therefore, Pathé would prosper by offering discounts for frequent buyers. Pathé could also present a point system, where consumers earn points for movie products they have bought and can get free passes with a certain number of collected coins.

- **Cinema product improvement**

- o Pathé can improve their marketing strategy by upgrading the service ingredients of their cinema product. Because the cinema product is more expensive than the home entertainment product, the quality of the experience must be advanced. Pathé can focus on a wider extend of special cinema features like open-air movie displays, old school drive-in screens or special genre marathons.

## **5.2 Recommendation to the movie industry**

The author, based on this elaborate review of previous research and its own economic reasoning, suggests a service to the movie industry that enables full distribution of old and new releases simultaneously in the form of a subscription. The service must provide the choice of watching a purchased movie at home or at the cinema. Because the two products, at home and in the theatre, are not considered as substitutes the products must be seen as two different services and the prices must be differentiated inside the subscription. The level of comfort and entertainment in the cinema experience should be improved in order to demand a higher price for the out-of-home product than for the in-of-home product. In the case the consumer is not willing to pay the higher price, the objective is the individual will choose for the legal in-of-home product rather than the illegal product. This goal can be achieved by offering the movie, preferably with a minimum time gap, in the form of an on-demand service that can be consumed at home against the lowest price possible. Similarly, with the use of a subscription that is connected to both the cinema product and the home product, the consumer is offered the possibility of choosing between the two. Also, a saving system can be incorporated, by which the consumer can spare coins after having visited a certain amount of movies in a month.



Dutch film distributor Pathé must therefore pay attention to the following marketing strategies. These strategies focus mainly on product differentiation, market segmentation and product improvement. The attendance of cinema and purchase of legal movies can be increased by focusing at these methods. Product differentiation concentrates on the separation in characteristics between the home entertainment product and the cinema product, executed to dismiss the consumer's belief of them being substitutes. The effect will be a healthy rivalry between the home product and the piracy product, while the cinema product is different from those two. Focusing on product improvement can increase the attendance to cinemas. For example, boosting the comfort by improving the quality of the seats or extending the content of the cinema product by offering an included restaurant diner previous to the movie. Market segmentation directs its purposes on the heterogeneous groups of movie consumers and separates the groups into homogeneous parts. Pathé can execute this objective by segmenting its consumers separately throughout their subscriptions. For example, frequent moviegoers can collect and win coins by visiting the movies, by which they could qualify for special treatments in the movie theatre. In that way, Pathé can also adjust its movie prices on their segmented customers. Altogether, the author recommends Pathé to expand its online on-demand movie service, by incorporating the Unlimited Pathé subscription and combining it with an on-demand streaming hub for home entertainment.

### **5.3 Recommendation to future academic researchers**

Recommendations to further academic research to this subject, are the following. First of all, this research lacks empirical evidence and a qualitative survey could be enhanced to follow and measure the Dutch market for movies. Second, future studies could focus on economic models to determine a good low price strategy, using discrete and clear measurements. Also, future researchers could focus more on improvement of legal action against movie piracy. The author recommends further investigating of the promotion of legal movies throughout social media and buzzing marketing. If the period of this research would have

been longer and the opportunities wider extended, it would have been valuable to test the all-inclusive service that is recommended to a large audience. This test can be executed by first measuring the individual benefits and sacrifices of consumers for both the piracy product and the legal product. Then, it could be determined what consumers are willing to pay and what they expect of the all-inclusive legal movie service. From that point on, the most efficient way of delivering the service can be established. It would be interesting to study the consumer's behavior analysis to the consuming of both the piracy content and the legal product more intensively. Throughout qualitative surveys, a more empirical study can be composed.

## **6. Reflection**

The author of this research has enjoyed the process of writing this study and has improved her academic writing skills. She wishes to thank Dr A.T. Barendregt who has supervised her during the process. The author has learned from the fact that this research was based on an extensive literature study, which increased her knowledge of marketing strategies in the service industry and the consequences of piracy. Also, the author is content with the chosen subject and feels the study has come to a favorable result. However, the author considers the limitations of this research to be the lack of sufficient empirical prove and qualitative research. Therefore recommendations for further academic research are advised. The author is this paper was highly motivated writing this paper, because of the content and relevance of this subject and was able to make satisfying improvements during the process because of the support of Dr Barendregt. The author had difficulties with finding empirical prove for parts of the study, especially regarding the use of the recommended marketing strategies in practice. But all in all, the author is very pleased with the results of the research and is content it all ran so smoothly.

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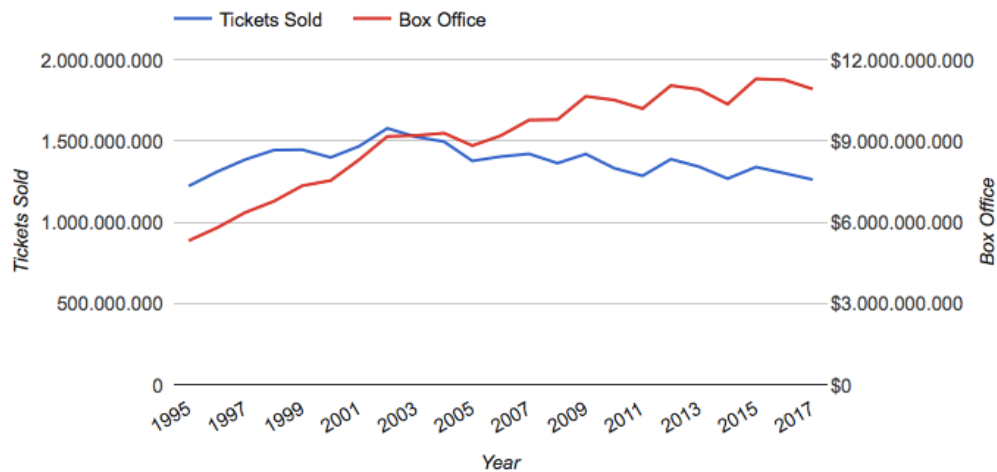
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## Appendix

### Appendix 1A: USA Movie Theatrical Market 1995-2017 (source: *The Numbers*)



Year	Tickets Sold	Total Box Office	Total Inflation Adjusted Box Office	Average Ticket Price
2017	570,206,971	\$4,932,291,850	\$4,932,291,850	
2016	1,300,652,133	\$11,250,644,383	\$11,250,644,383	\$8.65
2015	1,338,896,756	\$11,286,903,046	\$11,581,456,967	\$8.43
2014	1,267,279,234	\$10,353,674,454	\$10,961,965,400	\$8.17
2013	1,340,223,235	\$10,896,017,881	\$11,592,931,004	\$8.13
2012	1,387,104,895	\$11,041,357,917	\$11,998,457,364	\$7.96
2011	1,284,679,354	\$10,187,509,720	\$11,112,476,440	\$7.93
2010	1,331,636,233	\$10,506,612,110	\$11,518,653,439	\$7.89
2009	1,418,841,184	\$10,641,310,754	\$12,272,958,163	\$7.50
2008	1,362,435,970	\$9,782,292,328	\$11,785,071,154	\$7.18
2007	1,419,660,704	\$9,767,268,194	\$12,280,065,100	\$6.88
2006	1,403,069,991	\$9,190,110,914	\$12,136,555,438	\$6.55
2005	1,376,193,127	\$8,821,400,084	\$11,902,185,388	\$6.41
2004	1,494,939,272	\$9,283,574,830	\$12,931,224,732	\$6.21
2003	1,524,982,768	\$9,195,647,984	\$13,191,100,965	\$6.03
2002	1,576,889,752	\$9,161,731,254	\$13,640,096,368	\$5.81
2001	1,465,961,374	\$8,297,343,031	\$12,680,565,914	\$5.66
2000	1,397,576,766	\$7,532,940,433	\$12,089,039,033	\$5.39
1999	1,445,166,323	\$7,341,446,224	\$12,500,688,704	\$5.08
1998	1,442,986,620	\$6,767,608,245	\$12,481,834,274	\$4.69
1997	1,385,216,757	\$6,358,145,799	\$11,982,124,970	\$4.59
1996	1,310,013,419	\$5,790,260,095	\$11,331,589,090	\$4.42
1995	1,221,825,463	\$5,314,941,459	\$10,568,790,251	\$4.35



