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Why Is Popcorn So Expensive at the Movies?

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Recently, there was quite a furore in India about the steep pricing of food items at multiplexes. There were several Public Interest Litigations filed against multiplexes and the matter is now being heard in the Supreme Court. While the law will decide on the subject, it might be worthwhile to look at the popcorn price issue through a broader lens than just how much popcorn costs and how much it is sold for in multiplexes.

As a consumer, there is no question that food items are expensive at multiplexes when compared to a regular food outlet and yet I would disagree with the accusation that at an aggregate level multiplexes are profiteering. I believe the best measure to put that accusation to bed is the Return on Equity (RoE) that multiplexes make i.e. what returns are providers of capital making on their investment. Average RoE for the two leading multiplex chains in India, PVR and Inox Leisure, for the past five years is 10.8% and 8.1%[1] respectively. These numbers barely match the cost of capital in India and in the context of the fact that utilities like National Thermal Power Corporation and Power Grid are allowed to make 15.5%[2] RoE in India, they don't seem exorbitant at all in my view.

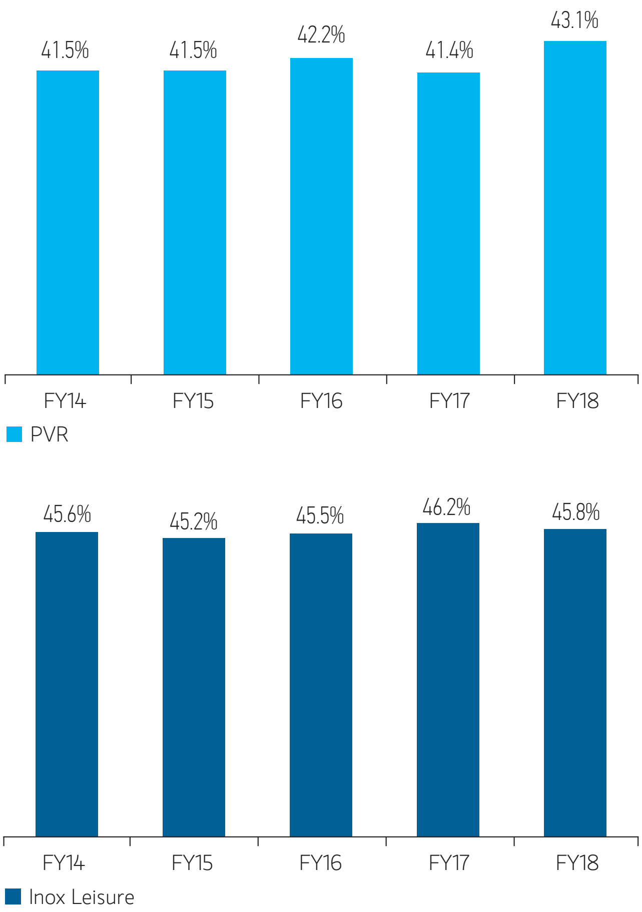
This begs the question as to why does a fairly consolidated industry (top 4 chains account for about 70%[3] of multiplex screens in India) have to charge steep prices for Food & Beverage (F&B) items and yet not make a respectable return on equity. The answer lies in some of the other cost items

[1] Source: Company data, Data as of December 2018
[2] Source: Central Electricity Regulatory Commission, Data as of December 2018
[3] Source: Inox leisure, EY-FICCI Report, Data as of December 2018

that multiplexes have to contend with. The largest is obviously content cost i.e. the amount that multiplexes have to pay the film distributors/producers out of the box office collections. *Display 1* shows that this number at 43-45% of net box office collections has remained quite stagnant over the past few years. In other words, even a progressively consolidating multiplex industry has not been able to weigh on the content producers/distributors to extract lower costs for themselves which can be passed on to the consumer through lower ticket prices and/or lower F&B prices.

DISPLAY 1

Distribution Costs (% of Net Box Office Collections)



Source: Company data, Data as of December 2018

If we examine the film-making value chain, although numbers are not available in the public domain, I do not believe that producers of movie content are making extortionate profits. There were news reports[4] about the retreat of the likes of Balaji and Walt Disney from the movie-making business in India due to mounting losses. So the consumer is paying through her nose for the popcorn and yet neither the multiplex nor the creator of content is making a lot of money. So where does this buck really stop? Clues to this might lie in the annually published list of highest paid movie stars in the world. *Display 2* shows the lists for the last two years with Salman Khan and Akshay Kumar making it to the list in both years.

DISPLAY 2

Bollywood Made, Hollywood Paid

World's top 10 highest paid actors

RANK	2018	AMOUNT EARNED (USD MILLION)	2017	AMOUNT EARNED (USD MILLION)
1	George Clooney	239.0	Mark Wahlberg	68.0
2	Dwayne Johnson	124.0	Dwayne Johnson	65.0
3	Robert Downey Jr	81.0	Vin Diesel	54.5
4	Chris Hemsworth	64.5	Adam Sandler	50.5
5	Jackie Chan	45.5	Jackie Chan	49.0
6	Will Smith	42.0	Robert Downey Jr	48.0
7	**Akshay Kumar**	40.5	Tom Cruise	43.0
8	Adam Sandler	39.5	**Shah Rukh Khan**	38.0
9	**Salman Khan**	38.5	**Salman Khan**	37.0
10	Chris Evans	34.0	**Akshay Kumar**	35.5

Source: Forbes 'Top Ten' list, Data as of December 2018

I find this ridiculous. The Indian movie stars cater primarily to domestic box office while the Hollywood stars cater to the global box office. Indian box office collections, including global collections of Indian movies, were less than 4%[5] of global box office collections in 2017 or in other words, Salman and Akshay's potential market is a tiny fraction of that of Dwayne 'The Rock' Johnson and yet they earn on average 40% of what Johnson does. Put differently, if you look at the Global Fortune 500 companies, the highest ranked domestic Indian company in terms of sales stands at Number 137 (Indian Oil) and Number 111 (HDFC Bank)[6] in terms of market cap and rightly so. HDFC Bank, for instance, catering exclusively to the Indian market, given the size differences of Indian and global economies cannot justifiably be a Fortune Top 10 company. In the context of their potential market, Indian movie stars are in my opinion clearly overpaid and content producers need to think about this urgently especially with the waning box office appeal of these A-listers.

The other thing I find perplexing is the amount of money movie producers spend on marketing the movie. In industry parlance, this is called Publicity & Advertising (P&A) cost. Again, while industry-level data is not available in the public domain, we gleaned through trade websites to look at 25 recently released movie titles where data was available. We found that on average, a whopping 30%[7] of the total cost of a movie is spent on P&A. For what is essentially a one-

[4] An Insider's View: Why is Bollywood Going Bust? (2018, March 14). *The Quint.* Retrieved January 8, 2019 from https://www.thequint.com/entertainment/bollywood-studios-economy-disney-india-utv-motion-pictures-balaji-motion-pictures-dharma-shut-down

[5] Source: MPAA Theatrical Market Statistics, Data as of December 2017

[6] Source: Fortune Global 500 list 2018, Bloomberg, as of December 2018

[7] Source: *Bollymoviereviewz*. Retrieved December 31, 2018 from *https://www.bollymoviereviewz.com/*

time consumption product, this number dwarfs the advertising and promotion spends of even consumer companies. India's preeminent consumer company, Hindustan Unilever, spends about 15%[8] of its total cost on advertising and sales promotion.

So What's the Conclusion Here?

I believe that movie producers will have to aggressively cut costs, especially on what they pay talent and P&A spends. Multiplexes will have to negotiate harder to cut down the share that they pay movie producers while at the same time maximizing other sources of revenue like movie advertising and share of fees from ticket aggregators. And all this will have to feed through to lower ticket and F&B pricing. For a movie crazy nation like India, it is surprising that like-for-like tickets sold have not grown at all for PVR and Inox over the last few years.[9] I think hefty ticket and F&B prices would bear the bulk of the blame. As alternate means of affordable and convenient entertainment make surprisingly fast inroads in India, if moviegoing has to remain relevant, entire cost structures have to deflate and ultimately lead to lower cost to consumers and higher footfalls. A lower popcorn price is the best Diwali/Eid/Christmas gift that our Khans, Kapoors, Kumars and Singhs can give their audiences.

[8] Source: Company data, Data as of end of Fiscal Year 2018

[9] Inox Leisure like-for-like growth was -9%, 17%, -5% and -4% in FY15,16,17 and 18 respectively. PVR like-for-like growth was -13%, 11%, -3% and -6% in FY15,16,17 and 18 respectively Source: Company data, Data as of end of Fiscal Year 2018

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