



Cinema Pricing Study

Benchmark and best practices of the top 5 chains
in Germany

AT A GLANCE

2016 was a year with strong blockbusters like *Rogue One: A Star Wars Story* and *Finding Dory* which were filling the cinema halls. Even though it was not the best one in terms of attendance in Germany, exhibitors listed more than a billion Euro in annual revenue, which means a rise of 11.5% since 2010.

In this study we review the development of attendance, ticket revenue and ticket prices over the last years. We examine the pricing models of the top German chains and look at the pricing innovations that may shape the next years.

Insights

- Pricing in the German cinema industry has matured during the last years
- Various price surcharges and discounts give customers more choice in what they are willing to pay - however not all techniques are beneficial to customers and exhibitors
- Some Cineplex theaters, UCI Germany and Cinemaxx have emerged as the most innovative players
- In our analysis of the Berlin Market, CineStar CUBIX had the largest price spread of nearly 200% to see the same film in the same theater – ranging from 6.50 to 13.30 EUR – depending on day of the week, seat quality and the booking channel a customer chooses
- Recent pricing innovations that are likely to spread throughout the German market over the coming years are discounts for online purchases, bundling of ticket and concession sales, installation of premium seats, offering up to four price categories for the same show and switching to true demand based dynamic pricing

1 Snapshot of the German market

With 1.02 billion euro in annual revenue and 121 million visitors for 2016, the German cinema market is still stable. Although 2016 was not one of the strongest years in cinema attendance and revenue, there has been a 5% increase in visitors and exhibitors have achieved a 11.5% revenue increase since 2010 by increasing the average ticket price (ATP).

Price differentiation through movie, PLF screen and 3D surcharges as well as segmented auditoriums has driven average ticket prices up by over 16% since 2010. Additionally, practices, such as UCI's monthly subscription fee ("Unlimited card"), give customers more choice in what they want to pay.

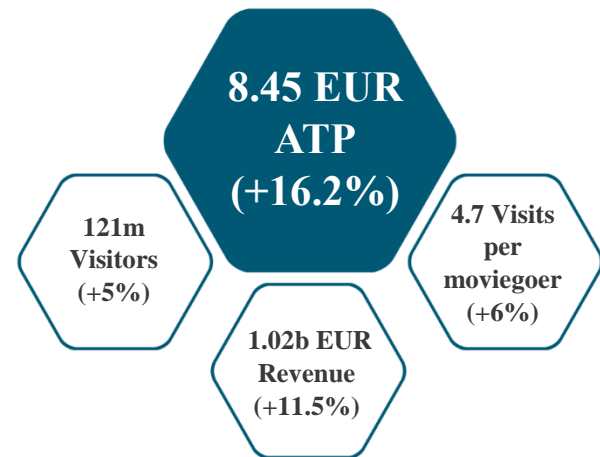


EXHIBIT 1: Market KPIs, Actuals 2016 (change vs. 2010),
Source: GfK study at www.ffa.de

1.1 Price maturity

The German market implements a number of variable pricing concepts, setting it apart from other large markets such as the UK. Practices such as offering discounts for sitting in front or shows on low demand days create natural segments, which allow customers to choose what they are willing to pay. Likewise, cinemas are able to boost revenues via price surcharges for blockbusters, 3D movies, PLF screens or VIP seats.

Exhibit 2 demonstrates Smart Pricer's perception of German cinemas' price maturity. The criteria were selected using a combination of microeconomic price factors and a price perception survey covering over 300 cinemagoers. Customer segmentation and demand were chosen due to their relevance on ticket pricing theory. Movie popularity, seat quality and time of booking emerged in a survey as relevant factors in willingness to pay.

While variable pricing can boost revenues, its inability to adapt to actual demand conditions creates inefficiencies, such as unsold seats in overpriced, yet underperforming blockbusters at the end of their cinema lifecycle.

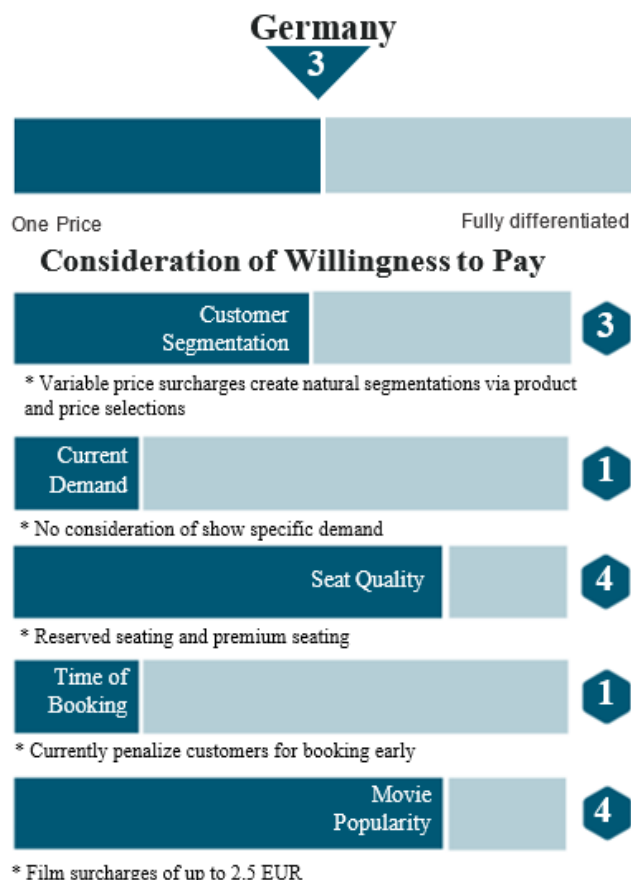


EXHIBIT 2: German Market Price Maturity Ranking & Willingness to Pay;
1 = not considered; 5 = fully considered

1.2 Recent stagnation in demand

Even with blockbuster films such as *Rogue One: A Star Wars Story* and *Finding Dory*, 2016 was German cinema's lowest in terms of visitors since 2010. Moreover, the number of visitors in Germany has fluctuated since 2000 between 121 and 178 million visitors.

One demand driver is falling interest of young and middle aged visitors (14 - 39 years old). Substitute goods such as home film streaming, gaming and social media consume an increasing share of this generation's time and budget. While the number of visitors has been relatively stagnant, the frequency of those who do come has increased slightly since 2011. Thus, a smaller share of the population comes more often to the cinema.

1.3 Variable pricing to increase ATP

Since the "cinema price war" in 2005, the average ticket price charged by German cinemas has steadily increased. The uplifts were achieved through a combination of slightly higher base prices with an ever-increasing number of price surcharges based on day, seat quality, and – since the advent of 3D in 2009 – release type. In 2010 this portfolio of surcharges was extended with premium seating surcharges for new seats with extra legroom. A year later exhibitors switched from "length related" to "film related" surcharges. New auditorium surcharges, such as UCI's iSense and Cinemaxx's "1st Class Saal", give customers more product choices while also increasing the price.

By implementing these surcharges, cinemas engage in variable pricing. The benefit of variable pricing is that customers show their total willingness to pay by selecting the film, time, seat and booking channel, allowing cinemas to capture more consumer surplus. Since 2000, ATP has increased by 56% by implementing these practices, significantly outpacing German inflation, which was 25% over the same period.

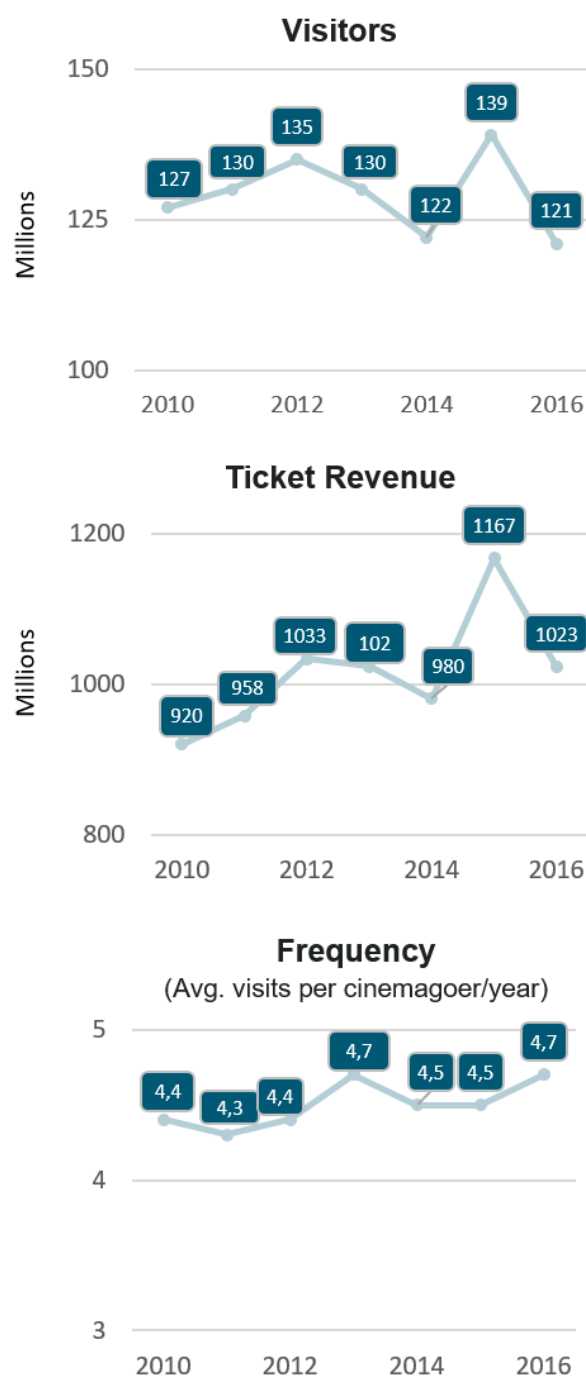


EXHIBIT 3-5: Historic sales metrics
Source: www.ffa.de for 2015

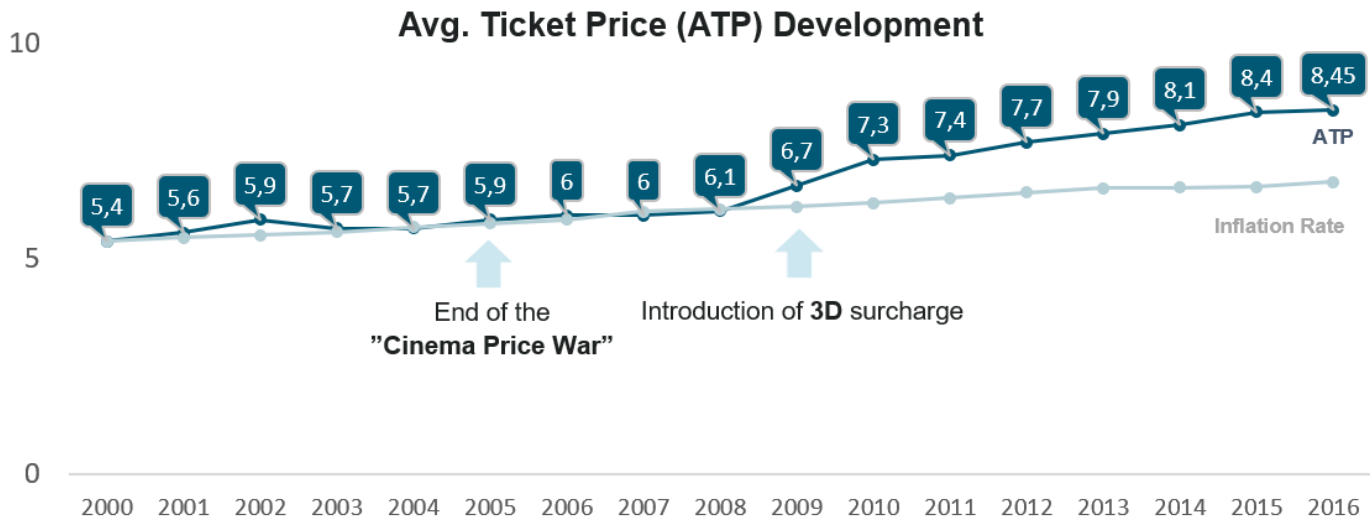


EXHIBIT 6: Average Ticket Price Development since 2000

German inflation rate scaled to fit ATP (year 2000=100 and year 2016=125)

Sources: www.inflation.eu/inflation-rates/germany/historic-inflation/cpi-inflation-germany.aspx & www.ffa.de

Variable pricing is not only about increasing prices. It also gives customers choices in how much they pay. Price sensitive customers, such as families with children, can save money by going to films earlier in the day or sitting in cheaper seats in the front. As we demonstrate in section 3.2, there is a wide range of prices available to customers, giving cost conscious movie fans the option to see the latest films for well below the average ticket price.

Despite the benefits of variable pricing, some of the techniques employed have been misguided. One example is a number of German exhibitors currently charge an additional fee for booking a ticket online in order to skim willingness to pay. Online booking channels are cheaper to maintain than the box office, the cinema receives revenue earlier and it collects valuable customer data. Charging for online transactions penalizes a customer for a purchasing behavior that benefits cinemas.

Understanding the needs of different customer segments is the foundation for a sound variable pricing policy. Customers more readily accept variable pricing if they understand the reason for the price increase, such as a high quality film or a crowded Saturday night show. If properly implemented, static variable pricing can increase revenues by 3 - 5% in a way customers accept.

*Golden rule of pricing: A service
is worth what a customer is
willing to pay for it*

Through offering a variety of options, cinemas have given film fans flexibility in price and increased their revenue per ticket. Yet, despite a general trend toward improved pricing practices, the individual cinema chains have adapted at various levels, which is the focus of the next section.

	1  ADV.	2 	3 	4 	5 
Film quality and movie surcharge	 (0€ - 2€)	  (0€ - 2,5€)	  (0€ - 2,5€)	  (0€ - 2,5€)	  (0€ - 2,5€)
Seat quality and location (Stalls, galleries, premium seats)	 (0€ - 1,5€)	  (0€ - 3€) 3 Categories, premium seats	  (0€ - 2,5€) 3 Categories, premium seats	 (0€ - 1,5€)	 (0€ - 1€)
Peak and off-peak times (Mon - Wed vs Thu - Sun; afternoon vs evening)	 (Weekend + 1€)	  (Weekend + 1,7€)	  (Weekend + 1,7€)	 (Weekend + 1€)	 (Weekend + 1€)
Online vs. box office	 (Web +0,5€)	  (Web +0€, Reservations +0,6€)	 (Web + 0,5€, Reservations ³ +0,7€)	 (Web + 0,5€ pro Ticket)	 (Web + 0,5€ pro Ticket)
Film format (2D, 3D, 4DX)	 (+3€)	 (+3€)	 (+2,8€ - 3,1€) ²	 (+3€)	 (+3€)
Other	 (Food and beverage bundles)	  (Dynamic pricing rolling out)	 (Still offers web reservations)	 (Still offers web reservations)	 (Still offers web reservations)

EXHIBIT 7: Smart Pricer's ranking of the top cinema chains' price maturity

- 1) Fixed 3D prices, difference to 2D price depends on weekday
- 2) Offer a cinema Tuesday "Kino Dienstag" 0.50€ - 1€ extra discount on weekday price
- 3) Available at selected theaters only, some theaters (Essen & Muhlheim) offer 1st Class Auditoriums
- 4) 3D surcharges are weekday specific

2 Pricing benchmark of the top chains in Germany

Smart Pricer believes in product and price differentiation to drive revenues, incentivizing online sales to collect customer data, and abolishing reservations to simplify operations and stimulate online sales. Cinemas following these practices receive a higher ranking.

1. **Cineplex:** As will be demonstrated later, select Cineplex theaters, such as in Mannheim and Pforzheim, set them apart by offering innovative pricing techniques on top of the normal surcharges. For example, they offer bundle tickets with concessions and premium seating to give movie-goers more product and price choices.
2. **UCI Kinowelt:** UCI offers one of the highest peak day and lowest off-day base prices, allowing overall prices to better follow demand. By excluding a web surcharge and using a large range of film surcharges (0 - 2.5 EUR), UCI incentivizes web purchases and captures willingness to pay for top movies. Additionally, by implementing dynamic pricing in Germany, they are taking a big step toward the best pricing policies, regardless of industry.

3. **Cinemaxx:** Positives include film surcharges of up to 2.5 EUR and a high price variance between Monday-Wednesday and Thursday-Sunday. Though negatives include accepting reservations and charging 0.50 EUR for online purchases, which punishes customers willing to pay early.
4. **CineStar:** CineStar offers a large cinema Tuesday discount “Kino Dienstag”, but their 0.50 EUR web surcharge per ticket severely punishes customers willing to pay early for expensive tickets, and they still offer web reservations.
5. **Kinopolis:** Positives include differentiated prices by seat and day. Negatives include lower seat surcharges only up to 1 EUR and charging 0.50 EUR for web purchases.

3 Pricing practices of the key players in Berlin

With a general introduction to the effectiveness of the cinema chains’ pricing policies, it is worthwhile to take a deeper look into the prices a customer can pay. To do so, we have selected Berlin as a highly competitive market where 4 of the top 5 players are present. To include Kinopolis, we have added their Mathäuser cinema in Munich to the benchmark. For each of these cinemas we examine the offered base prices and surcharges.

3.1 Base prices

The base prices are relatively similar in all 5 cinemas, with Kinopolis charging the highest price of 9.90 EUR - mainly driven by its prime location in Munich. The base price offered depends on the customer group (e.g. adult, child, etc.) and the day of the week. All 5 selected cinemas offer discounts for both students and children, making the next cinema visit more affordable for families and students. Cinemaxx offers the lowest overall base price, at 4.6 EUR for a child.

Additionally, all of the cinemas attempt to shift demand to low demand days. Cineplex, CineStar, and Kinopolis offer “Kino Dienstag” making Tuesday the lowest priced day of the week. Once understood by customers, the discount led to higher attendance on Tuesdays compared to Mondays and Wednesdays. This demonstrates both the influence that price has on demand and the importance of communication strategies when attempting to change consumer behavior.



EXHIBIT 8 : Map of Berlin (Munich) with selected cinema locations

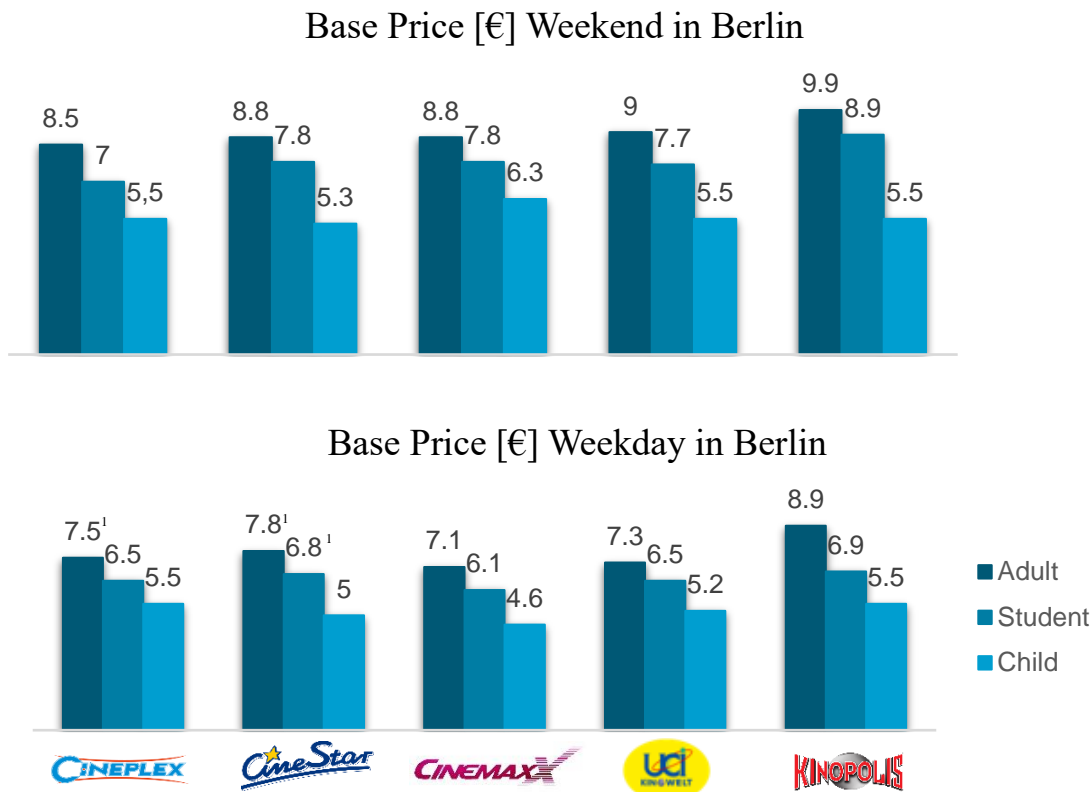


EXHIBIT 9, 10: Based prices of weekend & weekday
 On Tuesday: 1) 6.50 EUR 2) 6.90 EUR

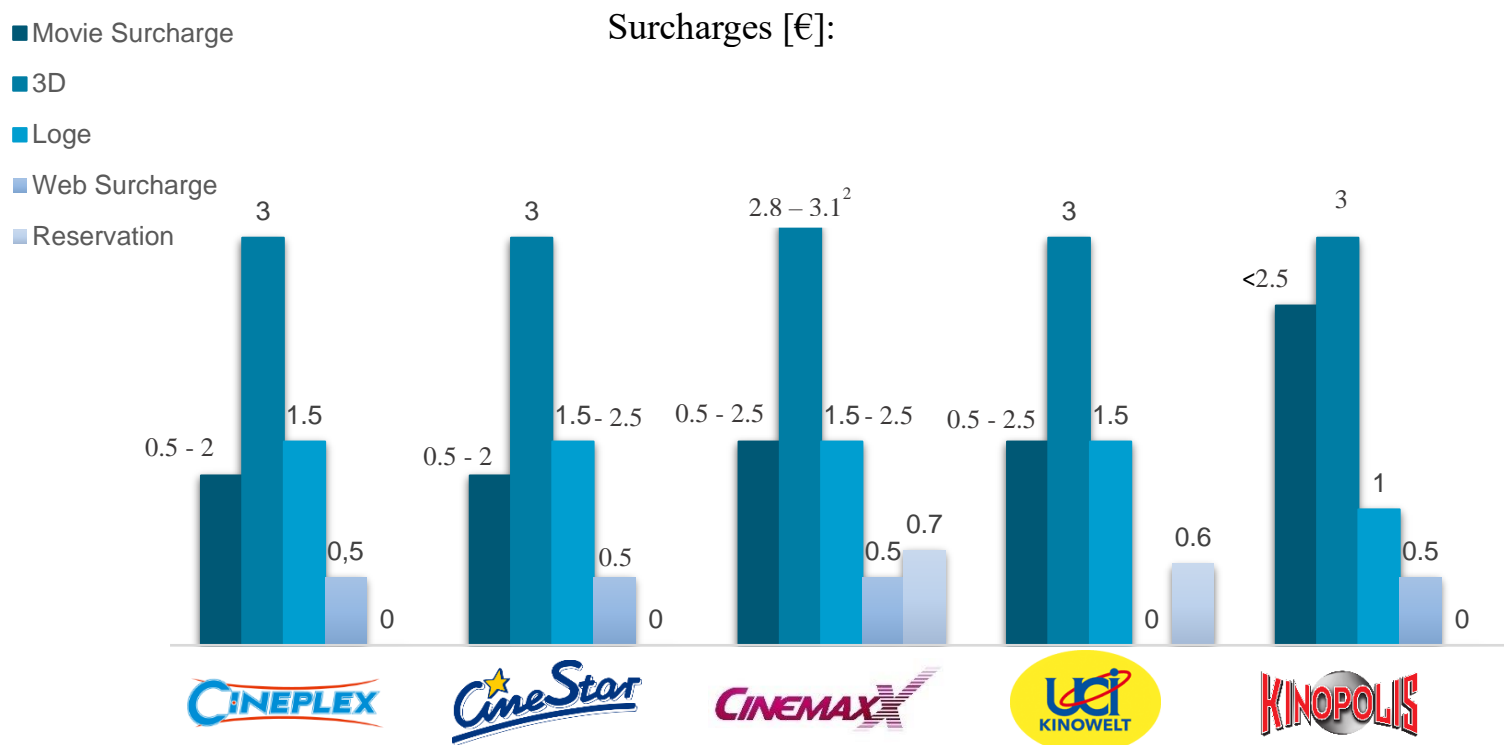
3.2 Price surcharges and discounts

Price surcharges offered by the 5 cinemas have a substantial range and include movie surcharges, 3D surcharges, seat quality surcharges, web surcharges and reservation fees. CineStar and UCI currently charge 1 EUR for 3D glasses on top of a 3 EUR 3D charge, while the others include the glasses in the cost. Kinopolis offers matinee discounts for films before noon, and UCI offers 50 cent movie points discount for cardholders.

Movie surcharges originated for films that had long run times, but are now purely film surcharges, whose range of 0 to 2.5 EUR can be set by the cinema. The current static nature of the surcharge can actually deter people from seeing top movies, even when the demand for the films has dropped later in the movie life cycle.

If the surcharges adjusted to actual demand of the films, price sensitive customers would be able to see the movies a few weeks after their release, thereby incentivizing customers to see films in the theaters rather than waiting to view them at home.

While surcharges increase the potential revenue of cinemas, they can lead to unhappy customers when surcharges nearly double the base price. In the current example, CineStar CUBIX can charge nearly 8 EUR in surcharges on top of an 8.50 EUR base price. Such discrepancies in true cost and published prices can lead to unhappy customers. The true cost of seeing a film at the 5 cinemas is highlighted in [Exhibit 11](#).



Other:

Movie Points
Discount: - 0.50 €

Matinee (before 12h)
5.90€ (Mo-Fr)
6.90€ (Sa-So)

EXHIBIT 11: Data from 15.11.2017

1) Web surcharge is 10% per ticket (base price incl. surcharges), range is calculated on the basis of the cheapest ticket available vs. the most expensive ticket

2) Cinemaxx 3D surcharges are weekday specific

3) Reservation fee only applies for phone reservations

EXHIBIT 12: True cost of attendance for 2 customers with different willingness to pay

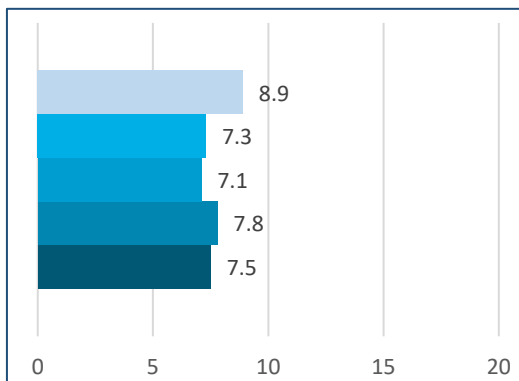
To illustrate the impact of the variable pricing policies, the true cost of attendance is calculated for 2 customer segments, the super saver and the premium customer. The super saver uses every opportunity to reduce the price, while the premium customer values convenience over price. With a range between 7.10 and 15.95 EUR, customers in the German market can choose what they are willing to pay.

‘Matt’ – Super Saver Customer



- Tuesday show
- Purchase at the box office
- 2D film
- Cheapest seat – ‘Stalls’
- Discount by loyalty card

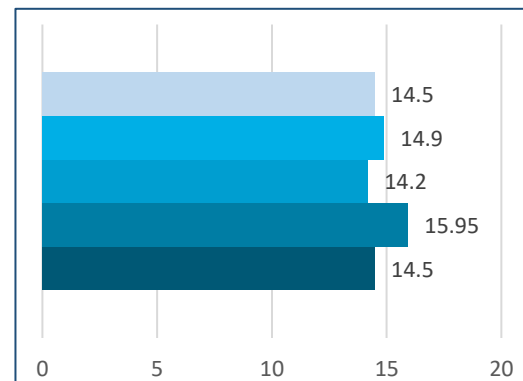
(“Rogue One:
A Star Wars
Story”)
Prices in [€]:



“George” – Premium Customer



- Saturday prime time
- Advance online booking
- 3D film
- Best seat – ‘Balcony’
- No loyalty card



■ Kinopolis
■ UCI
■ Cinemaxx
■ Cinestar
■ Cineplex

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4 Selected best practices in the German market

While the German market is already relatively mature in terms of price differentiation, certain players have gone beyond common practice and innovated further. We found the following 5 practices especially rewarding as they add value for customers and allow cinemas to earn more.



	Kinokasse Automat	Internet	
Erwachsener	10,90 €* [*]	9,90 €* [*]	1. Abolishing reservations and giving online discounts
TicketPlus mit kleinem Snack und Getränk 0,5 l	17,50 €* ^{**}	17,50 €* ^{**}	2. TicketPlus "Bundle"
Jugendlicher bis 17 Jahre vor 19 Uhr	7,90 €	7,90 €	
Kind bis 11 Jahre	5,90 €* ^{**}	5,40 €* ^{**}	
Eltern Großeltern Geschwister vor 19 Uhr als Begleitung des Kindes	5,90 €* ^{**}	5,40 €* ^{**}	
Schüler Student	mittwochs 6,90 €	mittwochs 6,40 €	
Zuschläge			
Filmlänge	ab 111 Min. 0,50 € ab 131 Min. 1,00 € ab 151 Min. 1,50 €		
3D-Vorführung	3,00 €		
Comfort-Platz ⁽¹⁾	1,00 €		3. Premium seating
veranstaltungsbezogener Zuschlag	0,50 € - 2,00 €		

EXHIBIT 13: Pricing card from Cinemaxx Mannheim

4.1 The top 5 pricing innovations in the German Market

- Abolishing reservations and giving online discounts (UCI and Cineplex Mannheim)
 - By giving up to a 1 EUR discount for tickets purchased online, cinemas can increase their online share. Unlike reservations, web purchases ensure revenue, reduce operational cost for call centers and box-office sales and allow cinemas to collect data of their more and more digitized customers.
- Ticket and concession bundling (Cineplex Mannheim)
 - Bundling is a beneficial price incentive for customers to purchase more. McDonalds has driven bundling to perfection – almost always selling extras around its core product (the burger). By offering bundles with one-click to add popcorn and drinks to the ticket, cinemas simplify the purchasing experience for their customers and generate higher food and beverage revenues.
- Premium seating (UCI, Cinemaxx and CineStar at selected theaters)
 - Already common practice at airlines with their business or premium economy cabins, German exhibitors have started to differentiate their seats as well. Customers going for the best experience have the option to buy wider seats with more legroom for a 3 EUR surcharge.

4. Four price categories (Cineplex Pforzheim)

- Increasing the number of price categories gives customers more choice in price while also saving good seats for price insensitive customers who want to purchase at the last minute.

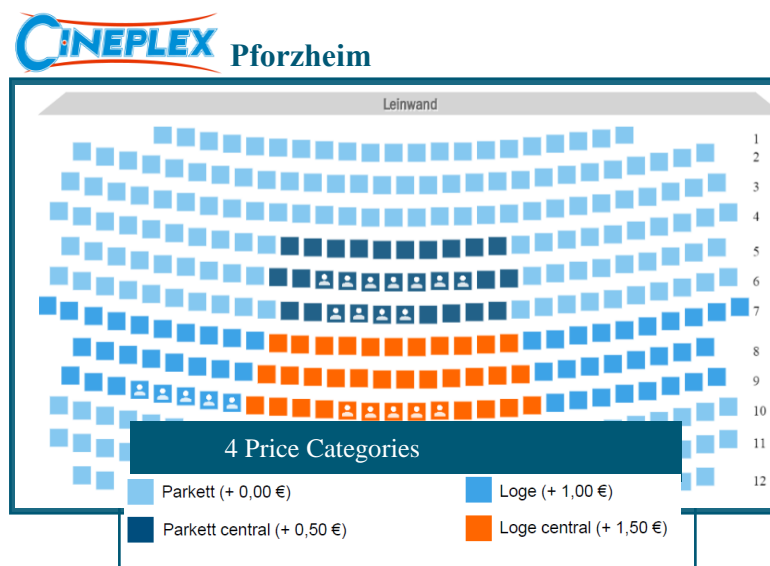


EXHIBIT 14: Auditorium layout & base price list

5. Dynamic pricing (UCI at selected theaters)

- Dynamic pricing allows the base price of films to adjust to the actual demand conditions, such as movie life cycle, show time, day of the week, and actual bookings. The size of each price category for every film adjusts dynamically based on real-time demand conditions. The result is customers have a choice in what they are willing to pay by selecting the specific show and seat.

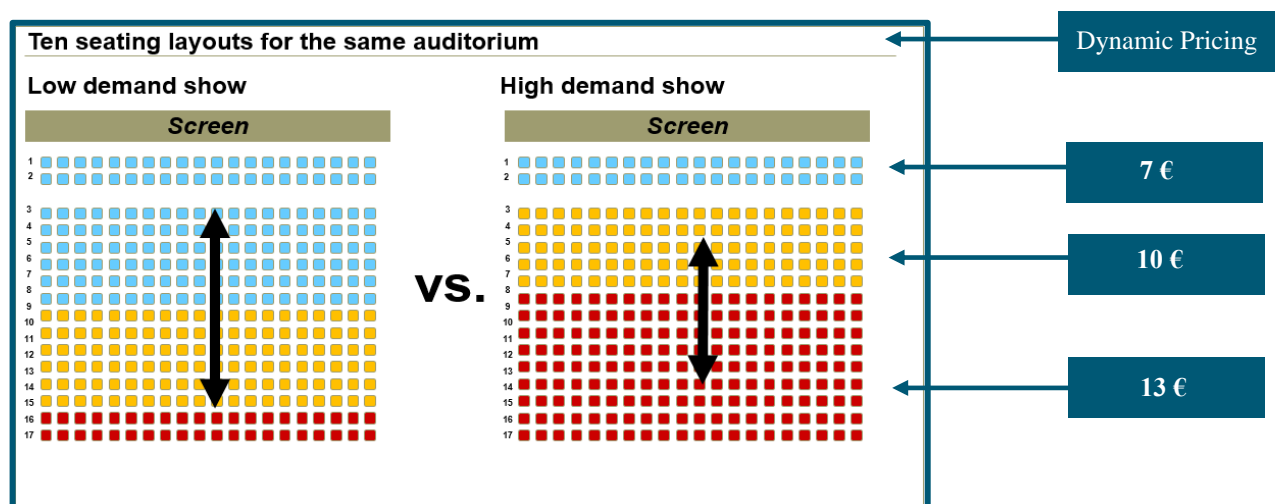


EXHIBIT 15: Selected theaters adjust the size of multiple seat categories based on current demand factors

Conclusion and Outlook

The German market is fairly advanced in differentiating prices via film surcharges, day specific pricing and seat differentiation. As demonstrated above, such practices lead to price differentials of up to factor 2 between saver and premium tickets.

Product and pricing innovations such as incentivizing online sales, bundling ticket and concessions, installation of premium seats and more price categories will allow customers to have more choice in product and price for a specific show.

However, the list of surcharges cannot be extended infinitely and the current static pricing model creates inefficiencies, as it does not consider true demand for an individual show.

Therefore, we believe the megatrend of dynamic pricing is the next frontier for cinema pricing. Dynamic pricing optimizes the price mix for every show over time. It incentivizes early bookings and reacts to the actual demand of the show. Implementing dynamic pricing would replace multiple surcharges with an easy to understand single price per seat for customers. The end goal could be dynamic pricing that is based on discrete choice models enabling individualized discounts based on each customer's purchasing history and willingness to pay.

Sources

SOURCE 1: Cinema pricing survey of Hochschule für Wirtschaft und Recht (HWR), 2015, n = 293

Exhibits

EXHIBITS 1: Market KPIs, Actuals 2016 (change vs. 2010), Source: GfK study at www.ffa.de

EXHIBITS 2: German Market Price Maturity Ranking & Willingness to Pay

EXHIBIT 3-5: Historic sales metrics, Source: www.ffa.de

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Smart Pricer's mission is to help cinemas get pricing right.

Before Smart Pricer, our founders helped shape revenue management systems for airlines. We used this airline pricing knowledge to craft a revolutionary pricing software for cinemas.

Our software first uses algorithms to understand demand patterns and segment customers. It then adjusts the size of seating categories to optimize the price mix in real-time. Cinemas using our dynamic pricing software experience a significant revenue increase with good customer acceptance.

For more information visit: <http://www.smart-pricer.com/>

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