A Strategic and Economic Case Analysis of AMC Theaters

Student's Name
ECO 6301: Economics for Managers
Institutional Affiliation
Professor's Name
Date

A Strategic and Economic Case Analysis of AMC Theaters

AMC Theatres is one of the most iconic and largest movie theater chains in the United States and globally. It was founded in 1920 and has its headquarters in Kansas City, Missouri. It has more than 2,947 screens in 368 theaters in Europe and, in the United States, 8,094 screens across 593 theaters. It is listed on the New York Stock Exchange (NYSE) and has its principal shareholders as Wanda Group and Silver Lake Partners, a Chinese conglomerate and a private equity firm, respectively (Harrigan et al., 2020). This analysis presents the progress and positioning of AMC Theaters, starting with an industry perspective of the impact of COVID-19. Secondly, the analysis will present an explanation of price discrimination in the movie theater market, followed by the development of an ideal incentive structure. The analysis then applies concepts of economies of scale and scope and game theory to the AMC business model. Finally, it provides an analysis of AMC Theatre's potential for expansion, asymmetric information issues, and the concepts of moral hazard to short selling using AMC as an example.

The pre-COVID market for the industry saw a revenue of 11.8 and 11.4 billion dollars in 2018 and 2019, respectively. However, these were significantly affected by the COVID-19 pandemic. Regardless of AMC theatres being the largest, it was affected by the COVID-19 pandemic as other businesses lost revenues, profits, and staff. Other industry players were also affected by COVID-19, as all activities were limited or stopped. According to Harrigan et al. (2020), the industry players that survived the era of COVID-19 were those that showed a high level of innovation. The government's movement and gathering restriction policies led to a sharp decrease in the number of people frequenting the theaters. Moon reports that one of the leading AMC theatre competitors, Cinemark, laid off 17,500 hourly-paid employees and further reduced the salaries of headquarters employees by up to 50%. Ideally, movies, a significant part of entertainment, were suspended, losing companies millions in revenue. Revenues in 2020 were less than 500 million dollars, with about 4.5 billion dollars in 2021, still 60% of the pre-COVID-19 levels (McClintock, 2022).

One of the major issues raised in the entertainment industry is the issue of price discrimination. In the movie theater industry, price discrimination is when the company offers a different price to different customers for the same product. Botta & Wiedemann (2020) present an analysis of what price discrimination would look like in their analysis of personalized pricing in online markets. On the one hand, discrimination can be based on information and data to understand how much a client is willing to pay and extract this price from them. Other discrimination methods are providing a discount once a customer spends a certain amount and, finally, providing different prices for markets perceived to be vulnerable, such as older people, retirees, people with disabilities, students, children, and others. In the movie theater market, the latter type of price discrimination is the most used, also called third-degree price discrimination.

An incentive pay structure that would increase the earnings per employee would be based on performance tracking and individual achievements in making sales. In an example of an incentive pay structure for theaters, there would be upselling incentives, concession sales commissions, and bonuses for achieving targets. Targets would be based on the number of tickets, the number of customers, sales achieved, and other metrics. This would require regular and constant individual performance tracking and reviews to ensure every employee's performance is tracked and valued.

Economies of scale refer to situations where the company benefits by having a large volume of consumption of its products, since the fixed costs of running the theaters are higher than the variable costs. With lower consumption of the products, the benefits to the company gradually decrease. In the case of AMC theatres, running the theatre, including costs such as maintenance and running a film, does not change with the number of people in the theatre. Therefore, with more people in the theatre, these costs can be spread out to all the tickets, leaving a margin for the company, as compared to where there are few people in the theatre. Economies of scope, on the other hand, are realized when a company produces a variety of services that can be charged at premium prices. AMC theatres, as reported by Vega (2023), offer premium services and pricing strategies that either group its viewers or have A-list members who pay for seasonal tickets, whether or not they visit the theatres.

Game theory is a strategic decision-making model that is used by businesses in competition to anticipate each other's actions and reactions. One such competition is between short sellers who bet on the value of the business stock declining and meme stock sellers who attempt to squeeze out short sellers. While short sellers would sell the stock at a point to anticipate its decline and, thus, not make losses, meme stock enthusiasts would want to buy the stock at that point for it to appreciate and, therefore, make a higher return on their investment. For AMC theatres, its decline in the market and the emergence of alternatives for movie watching, including platforms like Netflix, are points for strategic decision-making. Short sellers would sell at this point, arguing for the stock's decline, while meme stock enthusiasts would trust in the company's creativity and argue for its survival and thriving.

AMC Theatre's expansion potential is bright, considering its investors' international nature and the film industry's growth in other countries. There are newer markets in Africa and Asia that can provide ready needs for the services and products of the theatre chain. AMC Theatres can merge with and acquire other organizations in these countries and set up to capture their markets. The main trade policy issues would emerge around content regulation and intellectual property guidelines (Duarte, 2022). Others would include economic-specific issues such as currency fluctuations and strength, as well as political influences.

Short sellers rely on information that is not readily available to the public. This means they have access to some pertinent information that can influence decision-making. This is information asymmetry, as the valuable information is one-sided. Meme stocks, on the other hand, are mainly influenced by online information and communications. This information can be easily distorted and lead to distorted decision-making (Bazargan et al., 2020). Specifically, retail investors may not have information that institutional investors may have, creating a background for information asymmetry. According to Ho et al. (2022), asymmetric information can affect both short sellers and meme stock traders, as one investor may not react as the other expects them to respond when they do not have the same information and data. AMC can be both a source and a victim of information symmetry, especially in the current social media-driven information age.

Moral hazards in short selling are underscored by the trader's risky behavior. The risky behavior is trading with the assumption that any losses will be recovered by other stocks or profits. This can lead to increased losses (Talley et al., 2021). In the meme stock traders, information is based on online information and speculations based on a social media "movement." The moral hazard in this case is explained by Guan (2022) as the spreading of information without vetting its factual accuracy can encourage riskier investment by others, leading to increased losses by the investors. For AMC, information online that places it in a particularly favorable light can be spread to motivate the meme stock investors to invest more (Loewenstein, 2022). Similarly, unfavorable information can be spread to discourage investment and, thus, favor short sellers' ambition for a declining stock.

In conclusion, this case analysis has centered on AMC Theatres to analyze its position in the industry and the industry itself. It started with a background of AMC theaters and then delved into the analysis of the impact of COVID-19 on the industry. It also presented an analysis of price, including price discrimination and incentives that can be employed as remuneration for theater employees who are paid hourly. This analysis then applied different concepts to the industry and AMC theatres. These include economies of scale and scope, game theory, asymmetric information issues, and moral hazard in short selling and meme stocks. Finally, it provided an analysis of AMC Theatre's potential for expansion.

References

Bazargan, A., Zolfaghari, S., & Karray, S. (2020). Should competing firms offer 'Buy n times, get one free'loyalty programs? A gametheoretic analysis. Journal of the Operational Research Society, 71(2), 280–300.

Botta, M., & Wiedemann, K. (2020). To discriminate or not to discriminate? Personalised pricing in online markets as exploitative abuse of dominance. European Journal of Law and Economics, 50(3), 381–404. https://doi.org/10.1007/s10657019096363

Duarte, S. (2022). Amc equity research: the future of the big screen. Retrieved from, 27796_duarte_martins_mendes_cruz_silva_amc_part_1_211803_1191985369.pdf

Guan, S. S. (2022). Meme Investors and Retail Risk. BCL Rev., 63, 2051.

Harrigan, K., Dar, K., Kamenchenko, N., Kim, T., & Malyshkin, K. (2020). AMC Entertainment Holdings, Inc.

Ho, E., Rajagopalan, A., Skvortsov, A., Arulampalam, S., & Piraveenan, M. (2022). Game Theory in defence applications: A review. Sensors, 22(3), 1032.

Loewenstein, M. (2022). Short Squeeze, GameStop, the Common Law and a Call for Regulation. GameStop, the Common Law and a Call for Regulation (January 5, 2022), 50, 22–23.

McClintock, P. (2022, January 1). Box Office Ends Year 60 Percent Behind 2019 With $4.5B Domestically. The Hollywood Reporter. https://www.hollywoodreporter.com/business/business-news/2021-box-office-revenue-stormy-year-1235067966/

Moon, S. (2020). Effects of COVID19 on the Entertainment Industry. IDOSR Journal of Experimental Sciences, 5(1), 8–12.

Talley, E. L., Waldock, K., & Mitts, J. (2021). Beyond Unprecedented, S2 Ep2: Meme Stock Mania.

Vega, N. (2023, February 6). AMC Theatres is changing the way it prices movie tickets—here's how it will work. CNBC. https://www.cnbc.com/2023/02/06/amc-theatres-will-soon-charge-you-more-money-for-the-best-seats.html