Strategic Product Re-Design in Spatially Complex Markets: Evidence from Motion-Pictures

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Abstract

We empirically examine strategic product exit in motion-pictures exhibition with data from a major metropolitan market. We formally incorporate the spatial aspects of competition, and identify the impact of relative location on a film’s run length, accounting for within-chain and across-chain competition. We find that theatre-specific film survival depends on both within-theatre relative performance and across-theatre competitive factors. Specifically, theatres increase a film’s time to exit when neighboring theatres are owned by different chains, and avoid business stealing, by shortening the time to exit, when neighboring theatres are owned by the same chain. We include controls for movie-specific and theatre-specific characteristics, including theatre capacity. In addition, we consider empirically the impact of word-of-mouth, based on user reviews, on the duration of a film’s theatrical run length.

JEL Classifications: L10, C41, L82

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