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SEARCH-EXPERIENCE FRAMEWORK: A CASE OF MOVIE INDUSTRY

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ABSTRACT

A very important criterion that differentiates a service and a product is the associated tangibility/intangibility. When new products are launched in the market, customers have the benefit of seeing, touching and feeling the product. Any associated incongruity can be resolved once they are able to examine the products on their own. But this is not the case with services, because lots of intangibility is associated with the services being provided and the consumer finds it tough to resolve any incongruity associated with the service. The present study tries to identify elements of a movie's success at the box office. The mainobjective of this paper is to recognize the effect of various search-experience framework on performance of a movie at the box office. Using the multivariate regression analysis with short-term and long-term box office performance of a movie as dependent variables, hypothesis developed with regard to various factors are tested against a sample of 201 movies. The results show that factors considered in the study explain a significant amount of a movie's box office success. The study helps in better understanding of the movie industry, there by contributing to reducing the number of movie failures at box office.

KEYWORDS

Search-experience framework, Movie industry, box office revenues, sequels, audience ratings, advertising budget, production budget.

1. INTRODUCTION

The motions picture industry when compared to other businesses still remains one of the most competitive and innovative industry across domains, it is growing stronger and faster each year. Though the movie industry is growing steadily a lot of unpredictability exists with the customers. Movies come under the categories of services where there is constant innovation taking place; each movie is different from the earlier ones. And it becomes very difficult for the prospective viewer to find out about the movie without experiencing it. Economics of information theory raises the issue of how various attributes interrelate to consumers search and experience. Nelson (1970) extends the work done by Stigler (1961) and identifies factors which differentiate search and experience attributes. Usually when a new product is launched in the market people can evaluate the products by seeing, touching and felling it. People use search attributes to find more and more information about the product and evaluate the product. From the literature it can be seen that consumers basically judge products on the basis of two traits: search and experience attributes (Thurau et.al, 2001). Search attributes are described as those characteristics which can be reviewed by the consumer without actually using what is being offered, that is he is not directly involved in the judgment of the product/service. On the other hand experience qualities are those features which have to be experienced before a consumer makes any judgment. In case of services (especially service innovations) the search attributes are more or less missing and the consumer has to entirely depend on experience attributes to evaluate the offering.

In case of movies which come in the category of experiential learning, that is it has to be experienced to evaluate the movie. In such case as movies where there are not many search attributes present, people have to depend on experience attributes. Movies are an example of service innovation products which are highly experience goods and are characterized by asymmetry of information between the buyer and the seller (Eliashberg and Sawhney, 1994). They are innovative products because every movie is new in story, cast, and directors and so on. And a viewer cannot judge the value he/she can derive from the movie unless they have experienced it after seeing it. To resolve the uncertainties associated with such offerings, a consumer tries to gather more and more information from various sources. The present study inspects the influence of search and experience attributes/factors on both short-term success (first week box office revenues) and long-term success (box office revenues collected after first week) and tries to find out does these qualities really have an impact on the success of the movies.

2. LITERATURE REVIEW

Search and attribute are associated to communication between the distributor and the consumer (Thurau et.al, 2001). Search attributes are the ones provided by the supplier of the service and experience attributes are communicated by other experienced people in the field or people who have experienced the service. The search attributes for a movie constitute of genre of the movie, if the movie is a sequel, presence of the star, budget of the movie, distributor of the movie and MPAA ratings for the movie. And the experience related attributes for a movie constitute of critics review of the movie, review by the audience and word of mouth effects.

Previous literature examining the determinants of a movie's success has proposed various factors that contribute significantly to a movie's performance at box office. The factors can be classified into different headings like search and experience related attributes. What influence does a star have on the success of a movie in the box-office? How much can a star persuade potential audience to see a particular movie? Is success guaranteed for a movie which has a star in it? Elberse (2007) in her study tries to study the impact of presence of a star actor on the success of a movie. The study tries to study whether this investment in star cast provides sufficient returns or not. Vast literature on this topic in the past has provided mixed results. The author analyzed 1200 casting pronouncement on real and stimulated stock markets. The result of the analysis showed strong relationship between presence of a star and box-office revenues.

Sequels: The literature on branding suggests that a brand extension takes place when an organization utilizes the name of a recognized brand to launch a new product (Keller, 1998). So a movie sequel can be very well thought of as a brand extension. Using a brand extension reduces the uncertainty in a consumer associated with a new product. As they can gather consumers focus very easily. In case of movies producing a sequel acts like a signal to the potential audience regarding the quality of the movie. There has been mixed results with regards to sequel as a variable, having a positive impact on box-office. Sood and Dreze (2006) suggest a reversal of effect of brand names as compared to earlier research findings. The study suggests that dissimilarity is more like than similarity when consumers are evaluating extensions (this is in case of evaluation of numbered vs. named sequels).

Production Budget: Most of the works done in the area of studying the factors that have an impact on box-office revenue do include the variable production budget. This is considered as a very important predictor of future revenues. Huge production budgets mean inclusion of high profile cast and directors, expensive sets and costumes, lots of special effects etc, which provide some kind of signal to the audience about the movie and may attract them (Basuroy et.al, 2003). Previous researches have supported production budget as significant predictors of box-office revenues. Chang and Ki (2005) find a significant effect of production budget in all the three models they developed. Basuroy et.al (2003) predict that when a movie receives more negative reviews than positive reviews then budget has a positive and significant, where as when number of positive reviews are more there is no significant effect of budget. Gemseret.al's (2007) study which was conducted for movies released in the Netherlands revealed that budget did not have significant impact on both art house movies and

mainstream motion pictures. Various other studies have found positive and significant impact of production budget on box-office revenues (Zyfryden, 2000; Thurau et.al, 2006; King, 2007 and Lampel&Shamsie, 2000).

Advertising Budget: Advertising budget represent a huge part of a movie's budget and most of it is spend before the release of the film (Basuroy et.al, 2006). Investing in advertisement can act as a positive signal to the potential viewers, as studios would like to spend more on advertising only when they think that the quality of movie is good. Basuroy et.al (2006) have found significant impact of advertising budget on first week box-office revenues. Zufryden, 1996 has shown that the intensity of advertising is shown to influence a movie's box office performance. However it is probable that movies with high production cost or which have heavy star cast would spend more on advertising to create responsiveness and buzz, thereby making sure that a positive response arises from the viewers for the movie at the box office.

Number of Screens: the more a product is distributed the more quickly it reaches to the mass and the more revenue it generates. Hence it is very realistic to predict that the more the number of screens a movie is released the higher the box –office returns. Several researchers (Chang and Ki, 2005; Thrau et.al, 2006; Basuroy et.al, 2003; Liu, 2006; Basuroy et.al, 2006; Zufryden, 1996; Zufryden, 2000; King, 2007; Lampel&Shamsie, 2000; Gemser et.al, 2007 (only for main stream movies); and Larceneux, 2007) predict and number of screens indeed has a positive and significant impact both on the opening week box-office and the total box-office revenue of a movie.

Distributor: A lot of research has not been conducted using distributor as a predictive variable of box office success; distributors having influence in market will have a distinct advantage over competitors as they can use their power to gain more number of screens for showing the movie distributed by them (Chang and Ki, 2005). Chang and Ki (2005) study show that the power of distributors does not have any significant impact on first week and total box office revenues, but it does have a positive and significant effect on the length of the run of a particular movie. Basuroy et.al (2006) also found that distributors tend to have some effect on the opening week of the box office. Gemser et.al (2007) from their study show that distributors do not have any significant influence on box office revenues of both art films as well as main stream movies.

Genre: Movie genres also at times act as cue for a viewer about a movie's quality, certain type of genre receive more attention than others by consumers. Genre as a whole and each genre separately have been considered as predictors of box office success. Chang and Ki (2005) classified the movies into seven genres (action/adventure, children/family, comedy, drama, horror, mystery/suspense and sci-fi/fantasy) and their study showed that only drama as a genre had significant but negative relationship with total box office revenue. All the other genres had no significant effect. Liu (2006) did not find any relationship between genre and box office revenues. Zufryden (1996) from his study showed that only action and comedy genre movies were significant and all the others did not have any impact on box office.

MPAA ratings: The rating provided by MPAA for every movie is often considered as a strong signal to the prospective viewer about the content of the movie. These ratings basically grade the movie based on its content and suggest the appropriateness of it for a particular kind of audience. Liu's (2006) study did not find any significant relationship between MPAA rating and box office revenues. Basuroy et.al (2003) reported in their study that only rating 'G' had some significant but negative relationship with the opening week box office. All other ratings (PG, PG13 and R) did not have any significant effect. Chang and Ki (2005) found significant positive relationship between rating 'PG' and total box office returns and significant but negative impact of rating 'R' on total box office revenue. But none of the rating had any effect on the opening week box office revenues.

Critics Ratings: Critics ratings are one of the most studied variables by previous researchers. Critics refers to "persons usually employed by newspapers, television stations or other media who see newly released movies, understand the content of the movie and provide their subjective views and comments for the public's information" (Eliashberg and Shugan, 1997). In the absence of information regarding the quality of the movie, consumers usually depend on these critical ratings in order to judge the quality of the movie. It acts as a very good signaling mechanism for people. Critics help people to know more about a movie in detail. Chang and Ki (2005) found that critics rating form a very significant variable in predicting the total box office revenue, but the same does not have any significant impact in predicting the opening week's box office. This suggests that critics' ratings act as predictors of box office revenues than influencers as predicted by Eliashberg and Shugan (Eliashberg and Shugan, 1997). Liu (2006) found a significant impact of critics' review on performance of a movie at the box office. Basuroy et.al (2006) also found that critics' reviews are significant. Larceneux (2007) in his study reports that the buzz created by critics has a positive and significant effect on both opening box office and long term box office revenue. The study also states that number of critics rating a movie is not related to number of screens a movie is released. Reinstein and Snyder (2005), found critics reviews to have an effect on opening week box office. The study also found that critics' reviews are significantly positive for limited release movies and movies in the genre drama. They also suggest that a positive critical review not only increases the opening weekend revenue, it also increases the movies total box office revenue.

Audience Ratings: other than critics rating another source from where people can get a lot of information is the word of mouth. It tends to carry more weight as this word of mouth is based on someone's experience with the movie. The genre, MPAA rating, sequels and remakes and presence of stars in a movie are considered important determinants of audience reviews and ratings. It creates a buzz among the people and can pull people who at first were not interested in going to the theatres. Not enough study has been done on this variable by the past researchers. Chang and Ki(2005), found that audience rating had a very significant and positive influence on both the total box office and first week box office revenues. Liu (2006) found that number of reviews by viewers had a significant impact on both initial and long term box office but the valence of the reviews did not have any significant impact.

3. METHOD

The study sample consisted of 201 movies screened in American theatres between May 2003 and December 2004. The sample was finally reduced to 197 movies after accounting for missing value data. The data was operationalized by collecting data from various sources on the internet. In the present study we would see the impact experiential attributes and search attributes on box-office revenues (opening (first week) box office and total box office revenue). Data for all the variables were collected from the following reliable sources: the numbers.com (www.the-numbers.com), internet movie database (www.imdb.com), yahoo movies (http://movies.yahoo.com), Metacritic.com, and Rottentomatoes.com. Separate multivariate regression analysis with short-term box office revenues and long-term box office revenues as dependent variables were carried out. The analysis was carried out on SPSS 16.0.

3.1 SAMPLE CHARACTERISTICS

Table 1 provides the descriptive statistics (mean, standard deviation, minimum and maximum) of the variables used in the study. The movies selected in the sample had an average opening week box office collection of nearly US $ 20 million and an average collection of $ 52 million in the long term box office. This shows us that nearly 38% of a movie's revenue is earned in the first week itself. The average production budget was $ 50 million and average advertising budget was $ 23 million. This is clearly an evidence to show that the movie studios leave no stones unturned to make their films a huge success and hence they invest huge amount in promoting their films. Critic ratings which can influence people to go or not to go for a movie, all the ratings here are on a scale of 1 – 10, mean metacritic rating is 5.237, rotten tomatoes has a mean rating of 4.9455 and mean yahoo critic rating is 5.3655. Yahoo viewers have a mean rating of 5.9848 and mean rating of IMDB viewers is 6.1970. The average number of screens in which movies opened for screening is 2440. The sampled movie consisted of 42 (21.32%) action/adventure movies and 73 (37%) of the movie were of the genre comedy.

3.2 RESULTS

Table 2 correspond to the results of the multiple regression analysis with opening box office revenue as the dependent variable and table 3 presents the results with long term box office revenue as the dependent variable. Both the models were significant and the independent variables were explaining a high amount of variations in the dependent variable (adjusted R^2 = 0.884 and 0.741 respectively). Table 2 which contains the results of multiple regression of model 1 (dependent variable: opening week box office) tells us that distributor (Sony, Universal and Newline), genre (drama), sequel (based on earlier movie), advertising budget, opening screens, MPAA ratings (PG, PG13 and R) and critics ratings were having significant impact on opening box office revenues. In congruence with the other studies sequel 2 based on earlier movies adaptation was found to have significant impact on opening week's revenue where as sequel which were adapted from other sources were found to be insignificant.

In the second multiple regression model (table 3) where the dependent variable is long term box office revenues, the following independent variables were found to have significant effect on the dependent variables: genre (animation and fantasy), sequel (both adapted from other sources and based on earlier movie), production budget, opening screens, viewers ratings and number of viewers' ratings.

4. DISCUSSION

The different aspects of search and experience attributes have differential impact on the box office success of any movie. As per the literature search attributes should create an initial buzz and contribute to the initial success of the movie, though it cannot be said that search qualities will not have any impact on the success of the product at the later part. On the other hand experience qualities basically have an effect on the products success at the later part of the product. So in case of movie industry also the search attributes should have an impact on the opening week box office revenues (they will also have an effect on the long term revenues) and experiential attributes should impact the long term box office revenues. A sequel is a search quality because consumers (viewers) would like to have an idea about the movie and a sequel provides that clue. In the study it was found that movies based on prior movies rather than adapted from various other sources has better signaling properties and positively affect box office revenues. MPAA ratings of the movie also relate to the search attributes as it informs everyone that what type of viewers can watch a particular movie. From the present study we found that MPAA ratings (PG, PG13 and R) were having a significant negative impact on box office revenue. It can be said that when a movie is about to be released its MPAA rating plays a very important role in attracting the viewers to the theatres and have an impact on the box office revenues. The movies having these ratings should put extra effort to provide more information to the viewer about the movie.

Budget of the movie can inform a lot about the movie, heavy budget films tend to have good stars or exotic locations, huge sets, or heavy use of graphics and technology. But in the study we did not find production budget to have any significance in explaining the box office revenues. On the other hand advertising budget was found to be significant. As the consumer tries to search for information about the movie, advertisements help him/her to resolve the uncertainty existing with the movie. The genre of the movie sends a signal to the viewer what can be expected from the movie and people search for movies towards which they are more oriented. From our study we found that other than drama no other genre had any significant impact on the opening week box office revenues. Drama is significant but is negatively related to the success of the movie in the initial phase after the movie is released. People give lot of credibility to the distributor of the movie. Well known distributors are thought of as providers of good quality movies. We found three distributors (Sony, Universal and Newline) to have a positive impact on the box office revenues.

A very strange observation from our study is that, critics' rating which would come under experiential attributes was found to be significantly impacting the short term box office revenue. But the same thing did not have any significant effect on the long term box office revenues. As expected viewers rating is an experience attribute, as people will post a review only after seeing a movie and it was found to have significant impact on the long term box office revenues. It was also found that the total number of viewers posting their reviews significantly increase the long term box office revenue. In this case as discussed earlier few of the variables which are classified as search attributes have some effect on long term revenues. Genre (fantasy) was found to have negative relationship, where as animation was having significant positive relationship. Sequel both based on earlier movies and adapted from other sources were found to have an impact on the long term box office. In this case production budget was significant but not advertising budget. Number of screens a movie is released was found to be significant in both opening week's revenue and long term revenues.

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TABLES

TABLE 1: DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
opening week box office	198	45572	150139984	20665000	22279851
long term box office	198	4516074	370050815	52253000	56453736.9
production budget	198	130000	200000000	50633000	39620599
advertising budget	198	1000000	80000000	23035000	14664784
Meta critic rating	198	1.50	9.40	5.2374	1.71911
rotten tomato rating	198	.20	9.80	4.9455	2.72739
yahoo critic rating	197	1.00	9.00	5.3655	1.85671
sequels	198	.00	1.00	.3889	.48873
yahoo viewers rating	198	2.00	9.00	5.9848	1.26442
imdb viewers rating	198	2.00	8.50	6.1970	1.27911
opening screens	198	2	4163	2440.68	1073.786
Valid N (listwise)	197				

TABLE 2: COEFFICIENTS[a]

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	5.704	.992		5.752	.000
BueVis	.145	.146	.029	.992	.323
Sony	.246	.129	.052	1.901	.059
WB	.142	.129	.031	1.097	.274
Univ	.404	.200	.055	2.016	.045
Newli	.441	.217	.054	2.031	.044
DWSKG	.053	.222	.006	.237	.813
TCFox	.180	.172	.028	1.042	.299
D_G_A	.069	.118	.021	.589	.556
D_G_Ani	.185	.231	.025	.801	.424
D_G_Dr	-.310	.141	-.071	-2.201	.029
D_G_Ho	.241	.179	.039	1.349	.179
D_G_Fa	.085	.286	.009	.298	.766
D_G_SF	.327	.214	.042	1.524	.129
D_G_Oth	.038	.140	.007	.274	.784
Sequel1_other	.039	.093	.011	.414	.680
Squel2_movie	.537	.116	.128	4.611	.000
Code_lnBUD	-.038	.062	-.027	-.611	.542
Code_lnADVBUD	.340	.076	.173	4.463	.000
LnOpnScrn	.698	.029	.819	24.176	.000
D_G	-.551	.467	-.036	-1.180	.240
D_PG	-.693	.261	-.179	-2.655	.009
D_PG13	-.540	.245	-.176	-2.201	.029
D_R	-.515	.254	-.154	-2.029	.044
Code_Y_Cri	.130	.025	.157	5.293	.000

a. Dependent Variable: lnOBO

TABLE 3: COEFFICIENTS[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.999	.946		5.282	.000
	Code_lnOBO	.395	.072	.677	5.499	.000
	BueVis	-.026	.128	-.009	-.201	.841
	Sony	-.008	.114	-.003	-.067	.947
	WB	-.177	.114	-.066	-1.553	.122
	Univ	-.004	.181	.000	-.023	.982
	Newli	-.104	.194	-.022	-.535	.594
	DWSKG	-.172	.194	-.036	-.885	.378
	TCFox	-.044	.151	-.012	-.290	.772
	D_G_A	-.166	.103	-.085	-1.616	.108
	D_G_Ani	.414	.204	.097	2.028	.044
	D_G_Dr	.013	.125	.005	.100	.920
	D_G_Ho	.070	.157	.020	.448	.655
	D_G_Fa	-.533	.250	-.094	-2.133	.034
	D_G_SF	-.065	.188	-.015	-.348	.728
	D_G_Oth	.076	.123	.025	.616	.538
	Sequel1_other	.190	.082	.095	2.323	.021
	Squel2_movie	.258	.108	.106	2.399	.018
	Code_lnBUD	.097	.056	.118	1.735	.085
	Code_lnADVBUD	.083	.072	.073	1.148	.253
	LnOpnScrn	-.296	.055	-.595	-5.401	.000
	D_G	.041	.409	.005	.101	.920
	D_PG	-.015	.232	-.007	-.066	.948
	D_PG13	-.254	.217	-.142	-1.169	.244
	D_R	-.313	.224	-.161	-1.395	.165
	Ln_no	.467	.053	.490	8.875	.000
	Code_Y_vei	.090	.039	.124	2.320	.022
	Code_Y_Cri	.003	.028	.006	.105	.917

a. Dependent Variable: Code_lnLTBO

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