

## Hollywood Film Industry and the Changes in the Theatrical Release

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### Abstract

*In this paper, we examine the shortening of the theatrical window whereby films play at theaters for 90 days as one of the most portentous issues that could reshape the Hollywood film industry. We first examine the windows system that protected the status of movie theaters and the studios' attempt to shorten the theatrical release to create a premium VOD window in response to the declining revenue of DVDs after 2007 and the rise of streaming services. We then look at some of the major disruptions in distribution COVID-19 brought about. We also explore the shortening of the theatrical release in the wake of the pandemic and shows the changes in the theatrical release, along with the expansion of streaming services, raise questions over the long-held primacy of the theatrical release and the definition of film with the theatrical release as its part. From this, we highlight Hollywood at the crossroads of major changes with its future less certain than ever before.*

**Keywords:** *Hollywood Film Industry, Theatrical Release, Windows System, Streaming Services, COVID-19*

### 1. INTRODUCTION

This paper aims to examine the evolution of film distribution, especially the theatrical release, and show how the Hollywood film industry is at one of the major crossroads of changes with grave implications for its future. Ever since the rise of the film industry, theaters have been the primary channel of showing films, screening them for the first time. The industry has also survived the onslaught of the home entertainment revolution that opened up the era of watching films at home.

Their privileged position was largely possible as this coincided with the economic interest of Hollywood major studios. Yet, this has been under growing strains since the late 2000s due to the decline in the digital video disc (DVD) revenue, which was wrought by the changing technology. More recently, the outbreak of Coronavirus disease (COVID-19) further threatened the primacy of the theatrical release, while more and more films are skipping theaters to be released on streaming platforms.

As the theatrical release has long been part of the film industry, the changes to it can radically alter the way in which we have enjoyed and defined what film is. As films have to be distributed to realize revenue, the changes in distribution is an important economic matter. Accordingly, this has been the major concern for the studios in search of profit, which, in turn, influences the Hollywood film industry as a whole.

Given this significance, the paper aims to examine the changes to the theatrical release as one of the most portentous issues that could reshape the definition of film and the Hollywood film industry, as well as an

instance showing how changing technology, especially streaming services, has been affecting Hollywood. It looks at Hollywood as the foremost example of the film industry and the major studios as the most dominant players in Hollywood. By looking at this, it intends to show Hollywood in flux with its future less certain than ever before, as the longstanding theatrical release term is altered and streaming services further expand.

The paper first examines the “windows system” that protected the status of movie theaters despite the rise of home entertainment, the studios’ attempt to alter that in the late 2000s, and the ensuing arguments with theaters. It then looks at some of the major disruptions in distribution that the outbreak of COVID-19 brought about. Finally, it examines the resulting changes in the theatrical release and what this means for the Hollywood film industry.

## 2. HOLLYWOOD FILM DISTRIBUTION

Hollywood initially opposed the arrival of home entertainment, notably videos, fearing the rival means to watch films at home would erode box office revenue. Yet, the major studios devised the so-called “windows system” that shattered such concern. As the Table 1 shows, films were first released at theaters for some months (eventually 90 days, which was also called as holdback) exclusively.

**Table 1. The traditional distribution windows in 2000**

1 Theatrical	Release date month 4
2 Home Video/DVD	Month 4-6
3 PPV (Pay Per View)/ VOD (Video On Demand)	Month 6-9
4 Pay (Cable) TV	Month 12-16
5 Free TV	Month 24-36

Once the theatrical release was over, the next window, video/DVD, would open followed by Pay Per View window/Video On Demand (VOD), then cable television and finally free television. This process ensures that films shown on one window could not be shown on the others (one exception was video/DVD window which remained open indefinitely) [1].

In this way, the studios could not only tap into one window at a time, but charge more to those eager to see new films sooner. In short, having control over the production and distribution of the most popular films in Hollywood that could feed and make money for these windows, the studios created a scheme that allowed them to squeeze out the maximum profit from each window [2]. Reflecting this, home entertainment turned out to be a windfall that, by the late 1980s, generated more revenue than that of box office [3].

Yet, the lucrative home entertainment market did not eclipse theaters. Rather, they became more, not less, significant, since premiering films first at theaters became an important marketing occasion, helping to establish a film’s recognition and value in the subsequent home entertainment windows. In fact, a film’s home entertainment revenue was largely proportionate to its box office take, making the latter as the best predictor of its performance in other windows [4].

In the new millennium, however, the studios sought to alter this profitable arrangement first triggered by the declining revenue of DVDs. Introduced in 1997, DVDs brought in more revenue than videos it replaced and became the biggest revenue source, as its sales and rentals revenue came to account for nearly half of a film’s revenue [5]. Yet, DVD revenue began to fall from 2007 due to the rise of cheaper options to rent films such as Netflix’s DVD-by-mail rental services, Redbox’s \$1 per DVD rental kiosks, and later streaming services pioneered by Netflix [6].

Given the magnitude of DVD revenue, Hollywood had to find new revenue sources to make up for declining

DVD money. It was in this context that the studios came up with a plan for premium video on demand (PVOD) in April 2011, which would also incur the shortening of the theatrical window. Under this model, new films were offered to satellite (Direct-TV) customers two months after their theatrical debut for \$29.99 per film. As the studios would get 80% of this, PVOD was seen as the most effective way to offset the falling DVD revenue [1].

Besides, as the PVOD price was set far higher than that of a movie ticket, the studios figured PVOD would not compete with theatergoing [7]. Yet, the former would be cheaper than the latter, if family members or friends watch a film together on PVOD. Given this, the National Association of Theatre Owners (representing big theater chains in the U.S.) opposed creating PVOD by shortening the theatrical window, arguing that PVOD would hurt box office revenue, as people would wait to see films at home instead of going to theaters.

In response, the studios countered that PVOD was designed for those who did not go to the theater anyway and that theater owners also hurt theatergoing by raising ticket prices. Besides, most films made the bulk of the box office revenue in the first few weeks of their release, so reducing the 90-day theatrical period would not really affect the box office return [7]. Yet, theater owners responded with a threat to boycott any films offered on other windows during the exclusive theatrical release.

In the end, PVOD did not take off. The consumer response to PVOD was weak largely because the initial titles offered on PVOD were not so popular, with Direct TV and the studios failing to promote them aggressively [8]. In November 2011, as Universal cancelled its plan to offer *Tower Heist* as a PVOD to cable subscribers for \$59.99 three weeks after its theatrical debut amid the threat to boycott the film, PVOD seemed to be a dead cause [9].

### 3. THE PANDEMIC AND CHANGES IN FILM DISTRIBUTION

As it turned out, the PVOD issue reemerged around mid-2017, this time prompted by streaming services that had replaced DVDs. By then, as streaming services allowed people to watch them anytime anywhere, people were increasingly used to getting what they wanted when they wanted. Additionally, Netflix, in an effort to release films to its subscribers as soon as possible, disregarded the windows process, offering original films exclusively on its platform without a theatrical release.

Given this, the studios argued the rigid 90-day theatrical window was archaic [7]. Moreover, independent films had been available on PVOD day-and-date with their theatrical release to boost revenue, but without the problem with theaters [9]. In fact, theaters were mostly concerned with big-budget tentpole and franchise films. Boasting high production values and continuing into sequels and spinoffs, they could drive audiences to theaters and increase concession sales, the real source of profit for theaters.

Even so, theaters did continue to defend the 90-day window obstinately, as they feared once they gave in and the PVOD platform was fully launched, the period of the theatrical release as well as PVOD prices would further fall over time. However, precisely because the studios had become so successful with mega-franchises, the leverage started to shift toward them. According to Ben Fritz, by mid-2017, while the studios and theaters were still in negotiation on how PVOD would work, few doubted that it would happen [7].

Yet, shortening the theatrical window was not as easy because of the theaters' threat to boycott. As such, it took the outbreak of COVID-19 in early 2020 for change to happen. As the theater closure due to the pandemic made the theatrical release impossible, the studios instantly moved their films to PVOD or streaming platforms. In particular, Universal saw that *Troll World Tour*, released exclusively on PVOD in April 2020, earned about the same as what its predecessor, *Troll*, made at the box office in 2016, since PVOD revenue split, 80%, was better than that of theaters, around 50%. It thus announced that it would release its films onwards at theaters and on PVOD simultaneously [10].

AMC, the world's largest theater chain, countered with a threat to boycott, but could not carry it out due to the theater closure. Instead, in July, AMC came to a surprising deal with Universal to shorten the theatrical

release, the first of such cases. This allowed the studio to move its films to PVOD for \$20 or higher after 17 days in theaters—or 31 days if a film's first domestic weekend gross is more than \$50 million, while regular priced \$3-6 rentals that could undercut theater admission still have to wait 90 days. In return, AMC would receive 20% of PVOD revenue [11].

Another unthinkable action came in late August when Disney decided to skip the theaters for *Mulan*, putting it on Disney+, its streaming platform launched in November 2019. After the pandemic hit, Disney released such films as *Hamilton* and *Artemis Fowl* on Disney+ in lieu of the theatrical debut, but it was not expected to skip the theaters for a tentpole film like *Mulan*, given that it could generate over \$1 billion at the global box office if not for the pandemic. In fact, Disney did wait to be able to release it theatrically, putting off its release several times since its planned debut in March 2020.

Yet, as the theater shutdown prolonged, Disney put the film on Disney+ for an additional \$30 (unlike *Hamilton* and *Artemis Fowl* offered for the basic Disney+ subscription fee). It was obviously intended to recover some of investment on the film, as Disney did not have to split the revenue with anyone by creating a PVOD window on Disney+. At the same time, by bringing a high-profile film like *Mulan* to Disney+, Disney also wanted to help grow subscribers for Disney+ and find how much money people were willing to pay to watch a film originally meant for the theaters [12].

Given the possible repercussions of putting a big film like *Mulan* on streaming services by the largest media company, which was also considered as one of the staunchest allies of the theatrical experience, Disney intended *Mulan* to be a one-off. Yet, even while it did not skip the theaters afterwards, it put its films on Disney+ day-and-date with their theatrical releases—some for premium price (*Raya and the Last Dragon*, *Cruella*, *Black Widow*, and *Jungle Cruise*) and others for the basic subscription fee (like *Soul* and *Luca*) [13].

Others with streaming platforms to feed and grow jumped on the bandwagon. In December 2020, Warner Bros. announced it would put all its 2021 films, beginning with *Wonder Woman 1984*, on HBO Max, its streaming entity for the basic subscription fee simultaneously with their theatrical debut [14]. Universal and Paramount also put the animated features, *The Boss Baby: Family Business* and *Paw Patrol: The Movie*, respectively on their streaming services day-and-date with the theatrical release [15]. This was most likely a move to attract families to their platforms.

#### 4. LOOKING AT THE AFTERMATH

As the theater shutdown due to the pandemic made it impossible to release films at theaters, this not only hit theaters hard financially, but so rendered their threat to boycott unviable, depriving theaters of their most formidable weapon vis-à-vis the studios' push for the shortened theatrical release. Accordingly, the studios discarded the long-held theatrical distribution almost overnight, placing the survival of the theaters in serious question.

Yet, theaters, although greatly weakened, are not dead yet. The box office is still an important source of revenue to the studios, generating over \$41 billion across the world in 2019. Disney set a record, earning over \$11 billion of this [16]. In particular, for tentpoles that make well over hundreds of thousands of, or even a billion, dollars at the box office, the theatrical release is necessary to make them a success. This explains why the studios had held out for the theatrical releases of big-budget films like *007 No Time to Die*. In addition, the theatrical release is still driving home entertainment revenue including PVOD.

Given this, the studios forgoing the theatrical release is the COVID-era exception necessitated by the theater closure. As such, as the pandemic subsided and more theaters began to reopen in 2021, the studios yet again came to embrace the exclusive theatrical release, giving up the day-and-date releases. For instance, in July 2021, Warner Bros. announced that it would return to cinema-only releases in 2022 and struck a deal with the major theater chains to screen its films for 45 days exclusively [11].

Likewise, after *Jungle Cruise*, Disney was largely committed to the exclusive theatrical release for the rest

of the year. Paramount gave *A Quiet Place Part II* a 45-day exclusive theatrical window, after which it would head to its streaming service [11]. All these indicate that even the studios attached to major streaming services still need theaters in order to make a major release a success, especially where big-budget tentpoles are concerned.

Yet, the theatrical exclusivity of 45, 31 or 17 days is a far cry from 90 days of the pre-pandemic times. It means the studios now can move their films to PVOD or streaming platforms—where they get between 80 and 100% of the revenue—much earlier than before, i. e., after screening them at theaters at least for three weekends when most of box office revenue is earned, although they are likely to keep their big films there as long as they bring people in.

In fact, as the studios' parent conglomerates started, or had plans for, streaming services right before the pandemic to counter Netflix's growing power and to profit from the expanding streaming field, they would have sought to grow them by providing their best content as soon as possible. This would certainly include premium films just out of the theaters. As such, the presence of streaming services owned by these companies would have led to the shortened theatrical term even without the pandemic. Self-owned streaming services have become all the more important, as the lockdown measure enforced by the pandemic helped to expand the streaming market.

Given this context, the newly agreed theatrical term reflects their desire to keep films at theaters long enough to get most box office revenue and awards eligibility and simultaneously to nurture their nascent streaming services and make money by moving films to them as soon as possible. It is the sign of the shifting reality that theaters, while still important, are not necessarily a priority or an equal player. Rather, they are one platform among many with the greater significance of streaming services.

Both Disney's release of *Mulan* on Disney+ despite the short-term losses this would incur and Warner Bros.' plan to send 10 of its 2022 movies directly to HBO Max without theatrical release despite its return to cinema for its big films are the indication of that changing priority [17]. Meanwhile, Paramount's decision to add *Snake Eyes* to its streaming services 25 days after its theatrical release in July 2021, not 45 days as planned, due to its lackluster box office return [13] shows that the interest in moving films to PVOD or streaming would only increase if the theatrical revenue is poor [17].

Paramount's case also reveals the fundamental instability of the new release scheme. In fact, unlike the previous 90-day window, no uniform rule has yet emerged. Rather, the theatrical window, at least for now, is akin to a case-by-case negotiation, while some films are sent directly to streaming platforms. It is because the studios, with theaters weakened, now have the power to set the terms of distribution as they see fit and can be selective about the theatrical term. Given this, the rise of a more standardized practice could possibly take quite some time.

## 5. CONCLUSION

For a long while, the theatrical window whereby films play at theaters for a certain exclusive period (eventually 90 days) had been held as sacrosanct in Hollywood. As the studios sought to shorten that, the theater owners fought off such encroachment. They were not alone in this regard, since the theatrical release, having been with film business from the start, is supported as an integral part and required to be eligible for awards nominations.

Yet, the outbreak of the pandemic provided an unexpected catalyst for drastic change. Films now not only stay at theaters much shorter than before, but could skip them altogether as streaming services expand its reach. These, along with the lack of the uniform rule to replace the prior 90-day theatrical window, mark the studios' heightened power over the distribution of its films as well as the new normal in the post-pandemic era.

The shortened time between a movie's release in theaters and its availability on streaming services with relatively low subscription fee could hurt the theatrical attendance, but this would not mean the end of theaters.

Watching a film on the big screen that allows the cinematic experience is vastly different from watching it on TV at home. People are thus likely to continue to go to the theaters, even as they watch a movie in the comfort of their home.

At the same time, more films are now streamed at home than screened at theaters, a trend that will only continue. Accordingly, the notion of film as we know it, with the theatrical release as its essential part, will be further thrown into question. Some, like the defenders of the theatrical release, may lament this as a downfall of film to mere content. Yet, as the majority of films are not a cinematic experience, the lack of the theatrical release, for better or worse, would not make a movie less of a movie.

## ACKNOWLEDGEMENT

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