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Cinema chains in Russia

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Abstract

Changes in the global services sector led to the rapid growth of cinema chains worldwide. This is caused by changes in the global services sector. A substantial growth in number and scope of cinema chains is expected in the next decades, especially on the emerging markets. This paper sheds light on the development of cinema chains in Russia. A brief description of the local cinema market situation is presented. The main trends in the Russian cinema sector are analyzed and key factors stimulating the development of cinema chains in Russia are outlined. The potential of cinema chains is revealed. The major players' positions and strategies are described ("Karo Film", "Cinema Park", "KinoMax", "Formula Kino" et al.). The crucial role of cooperation and coordination between the various actors in the field is revealed and explained by the complex nature of contemporary movie display services. Special attention is paid to the existing opportunities of customer value creation.

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Introduction

Outstripping growth of service sector is sustainable trend in development of the contemporary global economy (Lovelock 2001). A special place in this sector belongs to the film industry; it plays an important role in the economies of many countries and has good prospects for the next years (Lee 2011; Katz and Nolen 2012; Gupta 2013). International box office revenues increased by 32% in 2012 as compared to 2007, primarily due to the fast-growing markets of China, Brazil and Russia (Bose 2006; Athique and Hill 2009; Balaeva, Burnatseva, Predvoditeleva, Sheresheva and Tretyak 2012).

At the same time serious qualitative changes occur in the global film industry which faces a number of challenges and is in search of new ways to mitigate the possibility of reduced attention by audiences (Acland 2003; Lewis 2012; Zhao, Ishihara and Lounsbury 2013, 1747). Therefore new technologies and approaches emerge in movie production, promotion and distribution, as well as new approaches to films promoting and distribution (Dettmer 2003; Collins, Hand and Ryder 2005; Athique and Hill 2007; Simeonidou, Hunter, Ghandour and Nejabati 2008; Wakabayashi, Yamashita and Yamada 2009; Dogra, Ghosh, Ray, Bhattacharya and Sarkar 2010).

This can largely be explained by the growing awareness that the ability to form complex experiences and to provide memorable events for the clients is the most important success factor in the contemporary service markets, especially in the entertainment sector. Contemporary services are about customer experiences (Pine and Gilmore 1999) – the sum of all experiences a customer has with a supplier of services, over the duration of his/her relationship with that supplier. Participation in the film consumption experience (attraction, interaction, awareness, discovery) appears to be an important component of consumer satisfaction. J. Pine and J. Gilmore emphasize the role of a company as a producer of experience and indicate that new business models are needed based on the joint efforts of the company, its customers and partners, and many other stakeholders.

Thus, movie theaters which have always been a critical distribution channel for motion pictures, tend to change their strategies taking into account value creating aspects of networking which is considered to be an important source of sustainable competitive advantage in the fast changing environment (Micanti, Baruffa and Frescura 2007; Gazetas, 2008; Vinayaka 2009; Sheresheva 2010). It is now widely accepted that network form of business organization in service sector is one of the best ways to form a recognizable image and unified product. Network coordination mechanism allows achieving synergy by cooperative use of resources, common infrastructure, harmonization of policies, and a unified marketing policy (Baggio, Sheresheva, 2014; Sheresheva, 2014). That's why large cinema chains have already gained competitive advantages over individual movie theaters.

The aim of the study presented in this paper was to shed light on the development of cinema chains in Russia. The research design combines both qualitative and quantitative methodologies as part of the study. The desk-based investigation method was used to understand the current trends on the Russian film market. A wide range of both foreign and Russian literature, the results of a number of relevant studies as well as statistics, had to be examined to define the current situation on the market and to reveal the key factors that influence the development of cinema chains in Russia. A number of in-depth interviews with open-ended questions were held with experts, from both academic and business fields.

The paper is organized as follows. Firstly, a brief description of the local cinema market situation is presented. Secondly, the main trends in the Russian cinema sector are analyzed and key factors stimulating the development of cinema chains in Russia are outlined. Thirdly, the major players' positions and strategies are described. The crucial role of cooperation and coordination between the various actors in the field is revealed and explained by the complex nature of contemporary movie display services. Special attention is paid to the existing opportunities of customer value creation. The last section provides conclusions and future research proposals.

Russian cinema market: history and modernity

To better understand the current state of the Russian cinema market, one must take into account the conditions and the history of its formation.

Russian film directors and producers were at the origins of the world cinema (Gillespie 2003; Beumers 2009). In the early twentieth century, the industry has become a victim to the Russian October Revolution and the Civil War. Hostile environment defined lag compared to the leading cinema markets.

Nevertheless, the industry managed to develop quite actively after the II World War. More than 130 feature films were produced in the USSR annually. There was a well-developed network of state-owned cinemas in the Soviet Union. These were single cinema halls located either in separate buildings or in special rooms in residential buildings. Besides, there was a widespread practice of showing films in rural clubs. By the end of the 1980s, there were more than 153,000 special rooms adapted for 35 mm film screenings, and more than 4,860 cinemas offering 5-8 film sessions per day. In accordance with the official statistical data, an average resident of the USSR visited cinema more than 12 times per year.

After the collapse of the Soviet Union in the early 1990s, the film industry experienced another catastrophic decline. No more than ten movies were produced annually, and no foreign films delivered. Russian cinemas had nothing to display, special rooms and buildings were used for other purposes (Fedorov 1999; Lawton 2002).

The modern history of the Russian film industry starts since 1996, when the country's first cinema *Kodak Kinomir* was opened and equipped with Dolby Surround system. For this first cinema, delivery and dubbing foreign films began. Its success was evident in permanent huge queues for tickets in spite of the high prices. Russian business has realized the high commercial potential of the film industry. As a result, the industry received substantial investments.

By this time, a former cinema and were already in the municipal property. Businessmen began to actively take these buildings for rent, remodel them and re-use for cinema again. During reconstruction one usually made up to four cinema halls out of previously single huge hall. It is important to note that it did not make sense at the moment to do more halls. There was very little amount of movies (both purchased overseas, and produced locally), even to ensure the functioning of four cinema halls.

Currently cinema is one of the most popular Russian entertainments. Russia takes place in the top ten countries with the biggest box offices of films released in these countries. Nevertheless, the Russian film distribution, like the global one, faces a problem of forming a complex cinema service which attracts viewers, despite the growth of the attractiveness of "home cinema" and the hard competition from other mass entertainment sectors (Antonov 2009; Kalabikhina 2013).

Emergence of cinema chains in Russia

The history of cinema chains operating in Russia dates back to the late 1990s. The first cinema chains in Russia, including existing today *KinoMax* and *Karo Film*, faced a number of challenges, because the international standards were not simply translated to the Russian market. There was low quality infrastructure in the country, and an obvious need for significant investment in training and education necessary for providing an effective workforce. During this period there was no choice except to create cinemas in the former Soviet cinema buildings. This imposed severe restrictions on their comfort and the number of halls.

At the turn of the twenty-first century, construction of first shopping centers in Russia became a strong trend which helped to boost entertaining segments. Some of the major anchor tenants in these shopping centers have become cinema chains. In March 2000, the first cinema with four halls opened in the newly built shopping center *Karo Film at Sheremetyevskaya* in Moscow. However, there were still no multiplexes in Russia in that time due the inertial mentality of local business and limited retail space to rent. First cinemas in the shopping centers had not more than four halls; six halls in the largest cinemas were considered to be enough.

At the beginning of the new century, active construction of large malls created the conditions for the "new wave" cinema chains - multiplexes with 8-16 halls which operated in the premises of the largest shopping malls. In 2003, the first cinema of the *Kinostar de Lux* cinema chain was opened. The first one of the *Cinema Park* chain was opened a year later.

Today, the majority of new cinemas are the anchor tenants of shopping and recreation centers, one of whose functions is to generate an additional stream of visitors. Cinema chains gradually become the major players of the market; they unite old cinemas and create new multiplexes.

In accordance with our data obtained in 2013, cinema chains take an increasing share of the market in large Russian cities (Table 1). In particular, in Moscow, St. Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Kazan, Rostov-on-Don and Ufa the amount of cinemas that are cinema chain members exceeds the number of single cinemas. In Samara, Chelyabinsk, Perm and Volgograd the balance between them is approximately equal. The majority of cinemas in Omsk and Krasnoyarsk are single cinemas. The largest amount of cinema chains, as it was expected initially, was detected in Moscow and St. Petersburg (18 and 12 cinema chains, respectively). In other large Russian cities there appeared to be up to 7 cinema chains.

Table 1 – Cinemas and cinema chains in large Russian cities

	City													
Cinemas	Moscow	St. Petersburg	Novosibirsk	Yekaterinburg	Nizhny Novgorod	Samara	Omsk	Kazan	Chelyabinsk	Rostov-on-Don	Ufa	Volgograd	Perm	Krasnoyarsk
Total	117	48	17	16	13	8	12	11	11	11	10	9	7	7
Single	35	11	7	3	2	4	11	3	5	2	4	5	3	5
Members of cinema chains	82	37	10	13	11	4	1	8	6	9	6	4	4	2
Number of cinema chains	18	12	4	7	6	4	1	5	3	5	3	4	3	2

Source: results of the research conducted by the authors

Market share of the Top 10 cinema chains in Russia is about 30%, more than 44% of all cinemas in Russia are members of those leading chains (Table 2).

Table 2 - Top 10 cinema chains in Russia

№	Cinema chain	Number of cinemas in the chain	Number of cinema halls in the chain	Number of digital cinema halls	Business model
1	Cinema Park	30	284	281	First model
2	Formula Kino	34	252	248	Transition from the second to the first model
3	Karo Film	28	189	189	Second model
4	KinoMax	29	171	102	Third model
5	Premierzal	95	136	123	Fourth model
6	Luxor	20	136	123	First model
7	Cinema Star	18	89	74	First model
8	Monitor	23	88	77	Fourth model
9	Mirage Cinema	11	69	69	First model
10	KinoFormat	12	66	43	Combines third and fourth models
	In total	300	1344	1329	

Source: results of the research conducted by the authors

The early twenty-first century witnessed the beginning of regional expansion of emerging cinema chains. Being established in Moscow and St. Petersburg, cinema chains made sporadic attempts to enter the regional markets at the end of the last century. Now they followed retailers in their active expansion to the Russian regions.

The process of penetrating the regional markets appeared to be not easy. To facilitate penetration into the regions, they usually initiated collaboration with local business. Thus, many regional cinemas, being part of the federal chain, legally were owned partly by the "parent chain" company, partly by local businessmen.

Business models of cinema chains

As our study has shown, several business models are used by different cinema chains operating on the Russian market.

The first business model is represented by the "new wave" cinema chains (multiplexes located in large malls). The main characteristic features of this model are unified service standards, unified approach to the design of cinemas, and their location. The most prominent representative of this group is *Cinema Park* chain created by *Interros*. All the cinemas of this chain are branches of closed joint-stock company *Cinema Park*. Highly centralized management and decision making are inherent for this model, as well as decisive voting rights of the owner, especially concerning investments.

The second business model is more complex. The development of cinema chains which prefer this model usually dates back to the last century. *Karo Film* can be considered to be the most genuine representative of such a model. Basically, all cinemas of the chain in this model are separate legal

entities. At the same time, controlling stake in each of these entities belongs to the cinema chain owners or parent companies. Service standards are unified, just like in the first business model, operational management is centralized but investment activity is often decentralized. Besides, a variety of formats within those cinema chains (from single cinema hall to multiplexes) is not always conducive to success in standardization. Such companies do not make any attempt to distinguish several solid formats within the chain, which could be perceived by consumers (moviegoers) as a kind of mini-brands that provide one-level services in terms of quality and consumer value.
The third business model is largely based on the franchising concept. The concept is useful if rapid extensive development is planned. Since such countries, including Russia, do not have a long history of entrepreneurship, franchising provides small companies with the opportunity to use a known brand name and the existing reputation to attract customers, as well as with a clear working structure and know-how. As an example, *KinoMax* chain can be named. However, the model is not very popular in Russia. Small cinemas and newly built multiplexes usually are willing to participate in such programs, but most parent companies do not see the possibility of transferring their service standards to existing cinemas and fear the loss of reputation.
The fourth business model is quite widespread in Russian regions. Each cinema in the chain operates under its own brand, operational management is completely independent, the role of parent company is to deliver service, namely to help cinemas in their interactions with distributors, to obtain copies of films, advertising materials and reporting. Thus, everything is decentralized except repertoire planning.
In accordance with our findings, the main current trend in the Russian film market is the reorientation to the first business model. Most newcomers on the market pursue this model. This is largely determined by its greater transparency (which is important for potential investors), economic efficiency and expanding investment opportunities for chain owners.
Recently occurred mergers and acquisitions also demonstrate movement in this direction. As an example, the *Investment Group A1* has recently bought 100 % of the *Kronverk Cinema* chain, and after a while, 55.66 % share of the *Formula Kino* chain. Operational management became fully centralized, exchange shares with co-owners leaded to the ownership of 75 % minus one share in all the structures of both acquired cinema chains. Then *Investment Group A1* initiated rebranding of *Kronverk Cinema* chain to establish unified *Formula Kino* brand. However, the process has not yet been completed.
It should be emphasized that each strategy has its pros and cons and should be considered in the context of the main trends on the Russian market.

Advantages of cinema chains

On a basis of in-depth interviews with respondents representing management of single cinemas and cinema chains in Russia, we can conclude that the main perceived advantages of cinema chains as compared to individual cinemas, are as follows:

- recognizable brand perceived by consumers as a service quality guarantee, promising to perform certain service standards cinema chains, which allows to attract and retain customers;
- reduced costs for equipment of screens (economies of scale);
- reduced costs for purchasing (the rights to show films);
- reduced marketing and advertising costs;
- reduced costs for related services, first of all due to better and more sustainable relationships to food and drinks providers (cafes and bars, many of them also being a chain).

Decreased management costs were also mentioned which are the result of creating a common knowledge base on film market and the exchange of complementary resources and competencies.

Some negative network externalities were mentioned which make Russian business cautions about networking. Still, positive network externalities and synergies which help to maximize total revenues were underlined as a main effect.
Thus, network forms of business, due to the interaction between members and exchange knowledge and competencies that are crucial for the success in the industry, help to neutralize the possible shortcomings and weaknesses of each chain member, and allow maximum increase in the value of the complex final cinema product. The success of any strategy depends on the networking activities and on the position gained within the network. Thus, the ability to develop network relations and to orchestrate network activities appears to be crucial for all cinema chains operating in Russia.

Conclusion

The overall objective of this investigation is to present evidence of the state of the Russian cinema market and perspectives of cinema chains in Russia. The research addressed questions on how the local film industry has changed in at the turn of the twenty-first century due to substantial changes in the institutional environment, as compared with the previous decades.
Our study presented in the paper helped to give a preliminary answer to these questions. As a result of the study, we can conclude the gradual development of cinema chains in the Russian film industry. However, cinema chains are widely spread only in large cities, while their potential in Russia is still underutilized. The main challenge for both international and domestic cinema chains is embedding into complex environment and building network relationships with the main actors of the Russian film market.
One can predict a further increase in the number and size of cinema chains, as this contributes to the character of the services provided by cinemas. Interaction between chain members and exchange knowledge and competencies can not only neutralize the possible shortcomings and weaknesses of each network member, but also to create a comprehensive final product with added value.
The main trends on the Russian film market are more or less similar to those on the world market. Still, further research is needed to make more solid conclusions based on detailed comparisons between Russian and Western cinema chains at the turn of the new century.
The results of the study are embedded in courses on marketing and networking in the experience economy, as well as in Summer School courses for foreign students. This research can also be useful in commercial practice of local firms which are now turning to the network approach in business and therefore seek to make cinema chains services more attractive for consumers.
Findings suggest there is scope for further research. It is important to look at the role of inter-firm networking in gaining competitive advantage and the mechanisms of value creation through alliance relationships in the Russian film industry. Cross-cultural study of the perceived value of the complex cinema product as a whole and its components, as well as of the role of customers in co-creating cinema product value also remain promising avenues for further research.

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