Partner Project - Assignment 2

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**Introduction**

SARS-CoV2, or Coronavirus (COVID-19), has swept around the world, causing widespread panic, nations closing businesses and public gatherings, and in June of 2020 had already resulted in "more than 5 million cases and deaths approaching 400,000 since its formal identification in Wuhan China in December 2019" (Hiscott et al., 2020, Introduction). However, this global pandemic has also forced many new standard operating procedures for businesses, including work from home, new innovative processes (zoom meetings, for example), and new challenges to business models. While these practices and innovations seem like they have revolutionized the way our business runs in beneficial ways, some companies face threats that could ultimately lead to bankruptcy or worse.

AMC Entertainment Holdings, Inc. (AMC Theatres, AMC), owned by the Wanda Group, was founded in 1920 and is the world's largest movie theater chain with almost 400 theaters in Europe and just over 600 in the United States. Movie theaters, as well as nearly all non-essential businesses all over the world, were forced to shut down due to government-mandated quarantines and other regulations. With this, some companies were forced to make massive employee cuts, debt restructuring, and have even had to innovate and restructure their business to keep money flowing (Tito's Vodka started making hand sanitizer to keep revenues up). As for AMC, this pandemic has thrown them into extreme economic stress where they are struggling, but hopeful, to survive. AMC revenues went from a steady $1.5 billion in 2019 to $18.9 million. According to the Hollywood Reporter (Vlessing, 2020), this is anticipated to drop to $11.9 million by the end of the quarter. Along with the revenue loss, Hollywood Reporter also noted that AMC stock dropped about $5.47 a share (Vlessing).

According to USA Today (Bomey, 2020), AMC Theatres is facing numerous specific problems. As the global pandemic has triggered government responses, including banning large gatherings, this has effectively prohibited AMC Theatres from doing its traditional business of filling auditoriums with large groups of people to watch films. The loss of revenue has put a tremendous strain on the profitability and cash flow of the organization. The pressure to reopen is substantial as there are no other current viable revenue streams available. The pipeline of new films was also disrupted by COVID-19 related challenges, resulting in delayed release dates. Further, major studios opt for direct-to-streaming releases instead of the traditional theatre release on which AMC depends.

With government-imposed business shutdowns, companies have little choice but to restructure and find other ways to bring in revenue. Analysts suggest that "viewers may latch onto streaming their movies anyways, causing movie theaters to phase into the background. This makes us ask: are theaters going to become obsolete? What can theaters do to win us back?" (Maaike, 2020, para. 2). Movie theaters are discovering that there are new competitors as new technology opens up new markets.

**PESTLE Analysis**

AMC Theatres is facing numerous threats that have less to do with infrastructure challenges and more to do with external threats. These threats are not insignificant and potentially challenge the overall business model. As we understand it, this business model is to establish brick-and-mortar theatres primarily for the viewing of major studio film releases and accompanying concessions and promotions. We feel that a PESTLE framework would significantly aid us in analyzing external threats to this business model. The resulting assessment can be leveraged as a diagnostic tool (Palmer, Dunford, & Buchanan, 2017). Per the PESTLE framework, we will presently explore political (P), economic (E), social (S), technological (T), legal (L), and ecological (E) factors as they relate to AMC Theatres. Since a full PESTLE treatment would exceed this project's scope, we will primarily focus on issues that affect the current financial dilemma facing the organization. There are minor exceptions, including ecological factors, which, by nature, are not primary issues in the current crisis. For this point, we will broaden our scope.

**Political Factors (P)**

2020 has been marked by several layers of political factors that potentially impact AMC Theatre's profitability and organizational health. Before the COVID-19 worldwide pandemic, political factors shaped the movie industry. For instance, since AMC Theatres have global reach with an international market and foreign investors, global politics such as the USA and China's trade war have implications in the movie industry. For instance, Frater (2018) reports, "Some of the deals that brought Chinese money to Hollywood have already fallen by the wayside, a product of tighter credit terms and poor returns" (para. 7). China's Dalian Wanda is the largest single shareholder in AMC Theatres (Frater, 2020).

Since the United States is AMC Theatres' largest market, we will discuss the American political factors at greater length. The most notable of these factors is governmental action related to stimulus aid to at-risk segments of the American economy, the 2020 election season, and governmental disagreement regarding national COVID-19 mitigation policies.

In March 2020, the United States Senate passed a two trillion-dollar stimulus bill to assist businesses struggling from economic losses related to governmental policies to flatten the spread of COVID-19 in the country. At the time of disbursement, there was a great deal of optimism about the virus's tenure, and the time it would take for businesses to recover (Bui, 2020). However, the prolonged spread of the virus, fluctuating infection, hospitalization rates, and death rates have put an economic strain on a broad segment of enterprises, including movie theatres such as AMC Theatres. While we will note the specific economic factors in this paper's corresponding section, the governmental and political climate around these economic issues must be recognized as significant.

As noted earlier, AMC Theatres is reported to be facing the depletion of reserves by the early part of 2021. John Fithian, head of the National Association of Theatre Owners, has issued "issuing a dire warning on behalf of the cinemas who make up his trade organization" (Lang, 2020, para. 2). Meanwhile, the United States President and congressional Democrats have clashed regarding a new stimulus bill's potential to provide another wave of relief for businesses.

These realities are further complicated by factors related to the 2020 Presidential election. First, the election has led to political gridlock as each party entrenches its positions, potentially affecting its responsiveness to industry concerns. Also, the uncertainty surrounding the concession of election results and the reality of a "lame duck" period between the election and inauguration has caused concern that relief will not be imminent. The Save Our Stages Act was proposed to be included in the Revised Heroes Act to provide "badly needed aid to members of both the National Independent Venue Association and the National Independent Talent Organization" (Brooks, 2020 para. 1). At present, these relief bills remain unpassed and have been preempted by the disruptive political climate.

AMC Theatres found itself struggling to navigate the political controversies in its early responses to recommendations for wearing facemasks. CEO Adam Aron stated that AMC "did not want to be drawn into a political controversy" (Lyons, 2020, para. 3) and initially opted out of a mandatory facemask policy. Only after pressure from its customers did AMC change its policy to require customers to wear masks. This cross-section of political and societal factors underscores the complexity of the situation (Lyons, 2020).

**Economic Factors (E)**

Implicit in the political factors above are threatening economic factors related to the impact of COVID-19 on businesses. According to the global media and news tracker published by LexisNexis, in the sixty days ending November 1, the PESTLE risk factor talked about the most was *economic* (*COVID-19 and the Risk Landscape*). The New York Times (Irwin, 2020) reported the Q2 2020 gross domestic product diminished by 31.4%. This was followed by a rise of 33.1% in Q3. According to the NY Times, "the third-quarter number showed the sharpest improvement on record" (Irwin, 2020). However, the overall economic output was "3.5 percent below where it was in the last pre-pandemic quarter, equivalent to a severe recession but not a complete collapse in activity" (Irwin, 2020).

For the entertainment services industry, the economic picture has some other troubling undertones. Spending on goods increased $325 billion while the spending on services dropped to "an annual rate $660 billion lower than in late 2019" (Irwin, 2020, para. 9). Spending on restaurants and meals dropped 19.5%, and spending on recreation services decreased by 32.4% (Irwin). It should be no surprise, then, that Q3 showed a 91% drop in revenue for AMC Theatres. Even after reopening over 80% of its theatres, as of October, AMC still faces an 85% decline in attendance (Whitten, 2020).

The economic outlook remains uncertain for the foreseeable future. Other PESTLE factors contribute to this. For instance, according to Pew Research, there is a wide gap between democrats and republicans regarding the best path to economic recovery, particularly related to the mitigation of the spread of COVID-19. At the center of this disagreement is "The question over whether and how to open businesses," especially with a potential surge of cases in the fall of 2020 (Deane & Gramlich, 2020).

**Social Factors (S)**

 2020 has been a time of significant social upheaval. As we have mentioned, the global pandemic has provided the context for widespread societal anomalies. Quarantine measures have overtaken typical patterns of socialization. Whether these patterns reflect permanent shifts or temporary disruptions remains to be seen. For instance, Robson notes, "Fears of contagion lead us to become more conformist and less accepting of eccentricity. Our moral judgments become harsher, and our sexual attitudes become more conservative"(Robson, 2020, para. 2).According to the CDC, in late October 2020, approximately 33% of adults in the US experienced symptoms of anxiety or depression (*Mental Health - Household Pulse Survey - COVID-19* 2020).

 Among other societal issues potentially disrupting consumers' behavior is the social unrest accompanying race issues in the United States. By June 2020, 13 cities have declared a state of emergency (Reinicke, 2020). Reinicke notes several implications, including stock market reactions and declines in consumer confidence. Apart from these economic implications, the industry is examining its own culture and products to ensure it is not perceived as complicit in racial insensitivity or systemic issues contributing to racism and marginalization. Burke (2020) notes that two key issues are "The absence of Black representation in positions of power" and "Content that is hostile to people of African descent" (Burke, 2020, para. 3).

**Technological Factors (T)**

2020 represents a disruptive convergence of new technologies alongside factors that have rapidly sped up the acceptance of these technologies. Barnes (2019), before the global pandemic of 2020, was already predicting a "seismic shift" (para. 1) in Hollywood. But the writing was on the wall as major players in the entertainment industry were seen investing in the technology, infrastructure, partnerships, etc., to make them competitive in a streaming world. According to Barnes (2019), this shift will fundamentally transform the industry in ways that happen once a generation.

Fox Business reported, "A mid-May survey by sports and events analytics firm Performance Research found that 70 percent of Americans would rather watch new releases at home and only 13 percent would prefer the theater" (Best, 2020, para. 8). In response to ARK Research Team's (2020) *Bad Idea Report,* Young (2020) expanded warnings about brick-and-mortar business and even television to include warnings about innovations disrupting the movie theatre business. According to Young (2020), one factor is that the pricing models of movie theatres are losing out to the new offerings of streaming businesses. With an average movie price of $10 in the US, a family of four will have to shell out $40 to watch a movie that may or may not be the quality for which they were hoping. However, monthly billed streaming models with extensive show libraries are resonating with consumers.

The global pandemic amplifies this technological disruption. Consumers required to quarantine find their entertainment options limited to streaming content, forcing them to break through the early adopter's curve. Feature films slated for theatrical release have been pushed to streaming-only releases. For instance, amid pandemic related shutdowns in 2020, NBCUniversal decided to release it' family film offering, *Trolls World Tour*, straight to streaming. According to The Hollywood Reporter, the release "racked up an estimated $100 million in premium VOD rentals in its first three weeks in North America, more than enough to put the film on the road to profitability, according to the conglomerate" (McClintock, 2020, para. 3). AMC Theatres reacted by refusing to play any of the studio's films in their theatres. AMC CEO Adam Aron announced:

Incidentally, this policy is not aimed solely at Universal out of pique or to be punitive in any way, it also extends to any movie maker who unilaterally abandons current windowing practices absent good faith negotiations between us, so that they as distributor and we as exhibitor both benefit and neither are hurt from such changes. (McClintock, 2020, para. 8)

It remains to be seen how these disputes will sort out when we emerge from the COVID-19 related disruptions. Further, the verdict is still out regarding how sticky the reception of streaming technology will remain. According to Richwine (2019), a-list actress Hellen Mirren, commenting on the situation pre-COVID-19, said, "I love Netflix, but fuck Netflix!" She continued, "There's nothing like sitting in the cinema and the lights go down" (para. 11).

**Legal Factors (L)**

 A significant challenge facing entertainment venues (including movie theatres such as AMC Theatres) is complying with federal, state, and local guidelines regarding the ability of businesses to remain open during public health emergencies such as COVID-19 and, in particular, the number of people that can gather together. Ballotpedia.org curates a list of lawsuits relevant to COVID-19 (*Lawsuits about state actions and policies in response to the coronavirus pandemic, 2020*). At the center of many of these lawsuits are questions about government entities' ability, particularly states, to regulate businesses. For instance, the case of 300 West Sahara LLC v. Nevada challenges the governors reopening plan that "public and private gatherings to no more than 50 persons, regardless of facility size" (*Lawsuits about state actions and policies in response to the coronavirus pandemic, 2020,* "List of Relevant Lawsuits").

 The closing of theatres because of COVID-19 restrictions has led to at least one lawsuit over failure to pay rent. The AMC Theatres in Palm Springs Mile shopping center in Miami, Florida, is being sued by the center's owners for failing to pay fifty-two thousand dollars owed for a month's rent (Binder, 2020). Once again, these factors are interconnected with other factors, including political and economic.

**Ecological Factors (E)**

The ecological factors associated with AMC Theatres are generally shared with other retail chains that depend on brick-and-mortar locations. That is, weather changes can create isolated problems in specific locales. According to NOAA, 2020 was a record year for Atlantic Hurricanes (*2020 Atlantic Hurricane Season takes infamous top spot for busiest on record*). A cursory Google search will reveal scores of AMC Theatres that had to close due to hurricane threats in affected communities.

 Environmental regulation will remain a moving target as Presidential administrations implement their agendas. Under the Trump administration, many environmental protection measures were weakened (McCabe, 2020). However, President-elect Joe Biden published his commitment to the Green New Deal (*Plan for Climate Change and Environmental Justice: Joe Biden* 2020). The specific implications of policies remain to be seen but will potentially impact the narrative around businesses and the environment.

**Scenario Planning**

As stated above, you can see how this virus and the many other trickle-down effects have caused issues for businesses globally and AMC. Due to this, we believe that AMC needs to take part in, and should have taken part in it long ago, a process called "Scenario Planning." Scenario Planning is a process of taking information from your surroundings and just about everything you can think of and using that information to make decisions based on what you believe the future will hold for your company. Jeremie Mariton (2016), writing for SME, a Strategy management consulting company, said, "Scenario planning might not have such dire consequences in your organization, but if not done, you risk opening the door to increased costs, increased risks, and missed opportunities" (What is Scenario Planning?). With AMC not well prepared for the risks associated with COVID-19, they ended up shooting themselves in the foot. Scenario planning has four basic steps that companies or users, in general, must ponder for things to hopefully go smoothly and to come up with a plan for the company.

**Identify Driving Forces**

Driving forces are considered to be something that will have a direct effect on your company. For AMC, these forces include; readily available streaming services for new movies that come out causing a need to restructure, cost of reopening, extra funding needed for theaters to create a sanitation process, families staying home out of fear of the virus, and not knowing if there will be another spike of cases for the virus that could cause another shutdown either continuing the closing of the theaters or shutting them down again after spending all the money needed to reopen them. These are just a few of the driving forces that can be derived from articles we have read.

**Identify your Critical Uncertainties**

This step requires you to take the list above, dive deeper into the information about those problems, and choose which ones are considered critical to your companies' success/failure. We have chosen two of the above that we believe are most important, and those are; readily available streaming services for new movies that come out, causing a need to restructure, and the virus being unpredictable.

**Develop a Range of Plausible Scenarios**

For this section, we will take the two critical forces chosen above to create a matrix for possible outcomes of the future and help us discuss and get a better understanding of what will be going on in the future.

Reopening

|  |  |
| --- | --- |
| Vaccine | Increased cases |
|  |  |

Staying closed down

 AMC Theatres has prided themselves in their ability to "innovate with the movie-goer in mind" (About Us, para. 3). Our PESTLE analysis would lead us to believe that any path forward must include scenarios that leverage this willingness to innovate. For instance, regardless of the timeline of COVID-19 abatement, competitive technological disruptors will remain unrelenting. Streaming video, for example, is not going away. Is there a way the business model could change to leverage industry experience with home streaming? What will the impact of contract disputes as mentioned above be? Will this hurt the brand or give it the leverage it needs to compete with streaming services?

 With the imminent development of a COVID-19 vaccine, slow acceptance of large gatherings might continue to create cash flow challenges. One scenario is the passing of another stimulus package that can be leveraged for maintaining operations and current leases. If stimulus money is not available, are there any further austerity measures such as liquidating property, layoffs, etc., which might be undertaken? How successful are interventions such as reduced ticket pricing (Discounts) or private screenings and group rentals (Make an AMC Auditorium All Yours)?

**Discuss the Implications**

This is the 4th and final step of scenario planning and is key to this tool's success. After completing the matrix above, it is essential to discuss all possible outcomes of it and start to hone in what types of goals you want to achieve, possibly switching up your strategies for your company, and create a mission that will help weather whatever comes your way. When companies fail to complete this last step and lack communication, this is where you can fail your company.

**Conclusion**

2020 presented a wide swath of changes across a wide range of environmental arenas. Our PESTLE analysis documents how these challenges directly threaten key aspects of AMC Theatres business model. We believe that scenario planning will enable the organization to recognize these threats and begin to see available options for mitigation and perhaps even propel them into a new season of profitability. AMC has quite a long road ahead of them. Still, we believe that if AMC looks forward and plans a future path, if they intelligently face the challenge, they will get back on the path to profitability and weather the storm COVID-19 has brought.

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