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# Profitability Study of MPAA Rated Movies

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## Introduction

Concerned with the limited number of family oriented films currently produced each year and an increase in the number of films containing sex and violence, The Dove Foundation is interested in determining which films, by MPAA rating, produce the greatest profits as well as the highest rates of return on investment (ROI).

In 1998, the Foundation commissioned a study of all theatrical films rated by the MPAA that were released to 800 or more U.S. screens from January 1, 1988 through December 31, 1997. Kagan Media Appraisals, Inc. compiled the data as requested by The Dove Foundation. The "1999 Dove Profitability Study of MPAA Rated Movies" pointed out that, while the major motion picture studios produced 17 times more R-rated movies than G (1291 to 73 respectively), the average G-rated movie made eight times the profit as its R-rated counterpart (\$93 million vs. \$11 million, respectively).

Now that five years have passed since the initial study, Dove Foundation executives felt it was time to produce an updated report of the initial study. This study uses a slightly different database than the 1999 study. Since exhibitors have dramatically increased the number of multiplexes over recent years, the number of screens is more difficult to track than the number of theaters. Therefore, this report tracks the *200 most widely distributed films each year based on the number of theaters.*

The films used in this study cover a fifteen-year period from 1989 through 2003. In order to produce an accurate rate of return, all cost and revenue data were limited to the first 24 months from the date of each movie release. The data for the current study was compiled and provided by Kagan Media Appraisals, Inc. The first part of the analysis examined the data to identify how frequently each production company produced films in each rating during the study period. The second part of the analysis examined the profitability of films by each rating for the study period. Profitability is reported both in aggregate figures and per film.

## Ratings Categories by Studio

One function of this study is to identify changes that took place after The Dove Foundation report was released in January of 1999. There are significant differences in the number of G- and R-rated films released before and after the 1999 study.

Table 1 (page 16) covers the period of 2000–2004. It includes the quantity, percent of self, and percent of total films released by each of the twelve largest theatrical distribution companies broken down into MPAA ratings.

Buena Vista (Disney) produced the largest proportion of G (52.27%) and PG films (16.26%) released during the study period. It also ranked first with nearly one-half (47.8%) of its own films produced in the top two family-oriented ratings categories: G (25.6%) and PG (22.2%).

Miramax/Dimension (a Disney subsidiary) released the most R-rated films in this period with 61 titles or 11.4% of the total. Warner Bros. was close behind with 50 titles or 11.19%.

## Quantity vs. Profitability

Figure 1a illustrates variations in the annual average number of movies by MPAA rating before and after the release of Dove's initial Study on January 4, 1999. The average number of R-rated films dropped 11% from 105 to 93. This compares to G-rated movies which increased from an average of 7 to 10, up 43%. PG-13 increased from 50 to 75 films per year, up 50%. PG films dropped from an average of 36 to 21 or 42%.

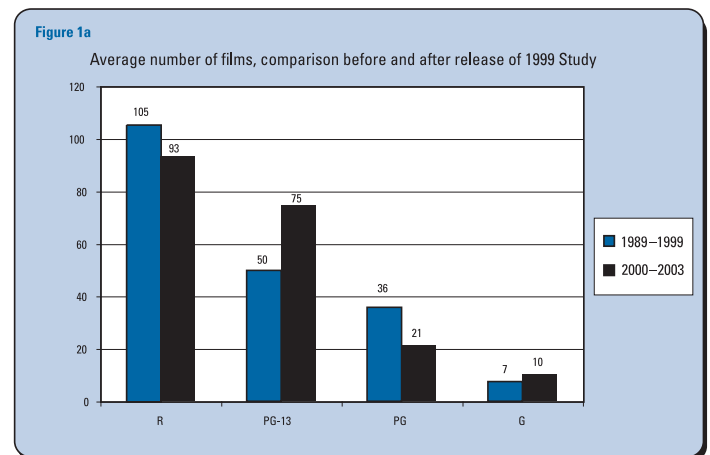


Figure 1b (page 17) demonstrates a consistent increase in average profits per film in all categories beginning 2000. The profits of an average R-rated film increased from \$3 million to \$18 million. Comparatively, the average G-rated film profits grew from \$74 million to \$92 million. The changes are probably due to the increase in ticket prices coupled with a decrease in certain manufacturing costs such as DVDs compared to VHS tapes.

## Rate of Return (ROI) per Film by Category

An important consideration when computing rate of return on investment (ROI) is the time value of money. Since the study includes only revenue generated within two years of each film's release date, the Discounted Cash Flow Analysis method was not used in this study. The average rate of return

Table 1

## 2000–2004 Productions by Studio

	Basis	NC-17	R	PG-13	PG	G	Total
<b>Columbia/ Tristar/ Screen Gems</b>	<b>Qty</b>	<b>0</b>	<b>40</b>	<b>53</b>	<b>8</b>	<b>1</b>	<b>102</b>
	% of self	0.0%	39.2%	52.0%	7.8%	1.0%	
	% of total	0.00%	8.95%	13.91%	6.50%	2.27%	
<b>Warner Bros</b>	<b>Qty</b>	<b>0</b>	<b>50</b>	<b>43</b>	<b>18</b>	<b>4</b>	<b>115</b>
	% of self	0.0%	43.5%	37.4%	15.7%	3.5%	
	% of total	0.00%	11.19%	11.29%	14.63%	9.09%	
<b>Buena Vista</b>	<b>Qty</b>	<b>0</b>	<b>12</b>	<b>35</b>	<b>20</b>	<b>23</b>	<b>90</b>
	% of self	0.0%	13.3%	38.9%	22.2%	25.6%	
	% of total	0.00%	2.68%	9.19%	16.26%	52.27%	
<b>Universal</b>	<b>Qty</b>	<b>0</b>	<b>19</b>	<b>41</b>	<b>8</b>	<b>0</b>	<b>68</b>
	% of self	0.0%	27.9%	60.3%	11.8%	0.0%	
	% of total	0.00%	4.25%	10.76%	6.50%	0.00%	
<b>Twentieth Century Fox</b>	<b>Qty</b>	<b>0</b>	<b>18</b>	<b>36</b>	<b>14</b>	<b>1</b>	<b>69</b>
	% of self	0.0%	26.1%	52.2%	20.3%	1.4%	
	% of total	0.00%	4.03%	9.45%	11.38%	2.27%	
<b>Paramount</b>	<b>Qty</b>	<b>0</b>	<b>27</b>	<b>34</b>	<b>9</b>	<b>2</b>	<b>72</b>
	% of self	0.0%	37.5%	47.2%	12.5%	2.8%	
	% of total	0.00%	0.79%	1.00%	0.26%	0.06%	
<b>Miramax/ Dimension</b>	<b>Qty</b>	<b>0</b>	<b>51</b>	<b>21</b>	<b>7</b>	<b>4</b>	<b>83</b>
	% of self	0.0%	61.4%	25.3%	8.4%	4.8%	
	% of total	0.00%	11.41%	5.51%	5.69%	9.09%	
<b>New Line/ Fine Line</b>	<b>Qty</b>	<b>1</b>	<b>39</b>	<b>21</b>	<b>4</b>	<b>1</b>	<b>66</b>
	% of self	1.5%	59.1%	31.8%	6.1%	1.5%	
	% of total	20.00%	8.72%	5.51%	3.25%	2.27%	
<b>MGM/ UA</b>	<b>Qty</b>	<b>0</b>	<b>16</b>	<b>22</b>	<b>9</b>	<b>0</b>	<b>47</b>
	% of self	0.0%	34.0%	46.8%	19.1%	0.0%	
	% of total	0.00%	3.58%	5.77%	7.32%	0.00%	
<b>Dreamworks SKG</b>	<b>Qty</b>	<b>0</b>	<b>11</b>	<b>16</b>	<b>5</b>	<b>2</b>	<b>34</b>
	% of self	0.0%	32.4%	47.1%	14.7%	5.9%	
	% of total	0.00%	2.46%	4.20%	4.07%	4.55%	
<b>Lions Gate/ Artisan</b>	<b>Qty</b>	<b>2</b>	<b>45</b>	<b>11</b>	<b>3</b>	<b>1</b>	<b>62</b>
	% of self	3.2%	72.6%	17.7%	4.8%	1.6%	
	% of total	40.00%	10.07%	2.89%	2.44%	2.27%	
<b>FOX Searchlight</b>	<b>Qty</b>	<b>1</b>	<b>23</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>31</b>
	% of self	3.2%	74.2%	16.1%	6.5%	0.0%	
	% of total	20.00%	5.15%	1.31%	1.63%	0.00%	
<b>Other</b>	<b>Qty</b>	<b>1</b>	<b>96</b>	<b>43</b>	<b>16</b>	<b>5</b>	<b>161</b>
	% of self	0.6%	59.6%	26.7%	9.9%	3.1%	
	% of total	20.00%	21.48%	11.29%	13.01%	11.36%	

per film was determined by dividing the average net profit per film in each category by the average cost (negative costs, print & advertising, worldwide video costs). The revenue was determined by adding the domestic and foreign box office (after exhibitor's cut), worldwide television revenue, and worldwide video revenue.

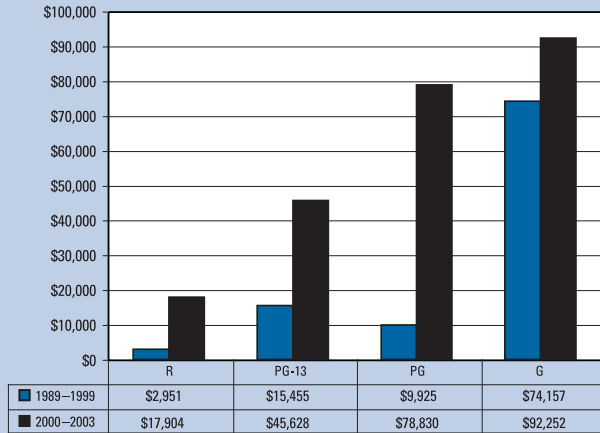
Figure 2a (page 17) shows the average rates of return for the films from 2000–2003. These are the years following The Dove Foundation's initial 1999 study. G-rated films averaged 94.5% ROI followed by PG (72.6%), PG-13 (43.6%) and R (28.7%). Figure 2b breaks down the average rates of return for each year.

### Worldwide Box Office, Television, and Home Video Revenues

Figure 3 (page 17) compares the average gross revenue per film and the relative roles played by worldwide box office, television, and home video sales. Two realities are clearly represented in this graph. Worldwide home video revenue surpasses worldwide box office revenue (after deducting the exhibitors' cut) in all MPAA categories. Movies with a G rating report the highest total revenue per film, the largest portion of which was from video. PG-13 worldwide home video sales were slightly higher than PG movies. R-rated per-film revenues trailed all other categories by a significant margin.

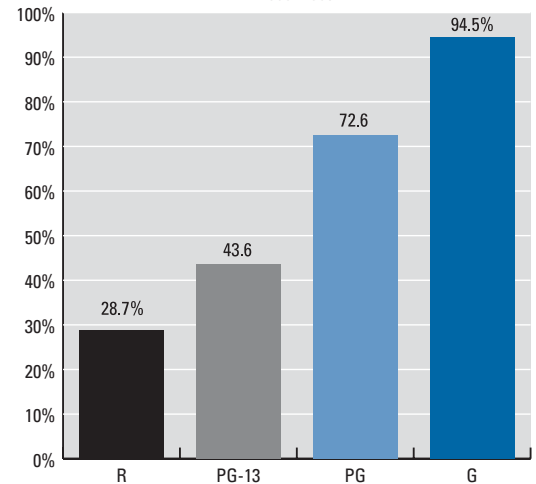
**Figure 1b**

Average profits per film, comparison before and after release of 1999 Study  
(Thousands of Dollars)



**Figure 2a**

Average Rate of Return (ROI)  
2000-2003



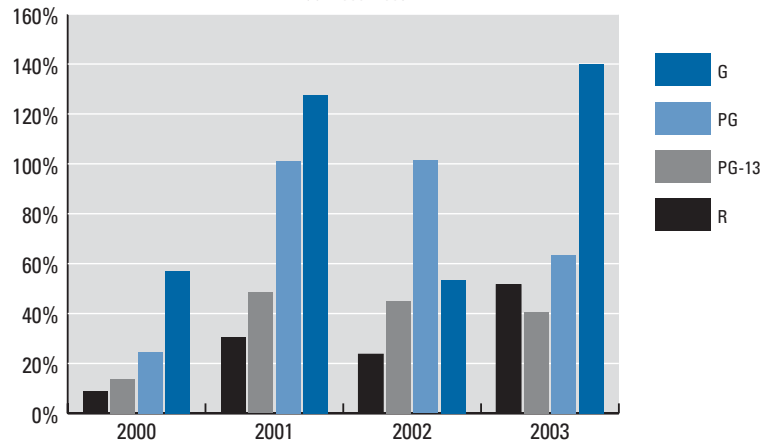
**Conclusion**

This study examined the profitability of the movies produced based upon their MPAA rating. The report tracks the 200 most widely distributed films each year based on number of theaters for a period of fifteen years from 1989-2003. The study found that the movie industry produced nearly 12 times more R-rated films than G-rated from 1989-2003 (1533 and 123 respectively), but the average G-rated film produced 11 times greater profit than its R-rated counterpart (\$78,982,000 and \$6,939,000 respectively).

G-rated films also produced an average rate of return on investment (ROI) three times greater than R-rated films (94.5% vs. 28.7%). The major source of revenue for the G-rated movies was from worldwide video revenue. This highlights the fact that movies that have a broader appeal to the American family have greater revenue and profitability through video sales. This is especially important in today's market place where admission trends at the theaters have declined for the past two years while DVD sales have dramatically increased in the past five years (MPA study 2004).

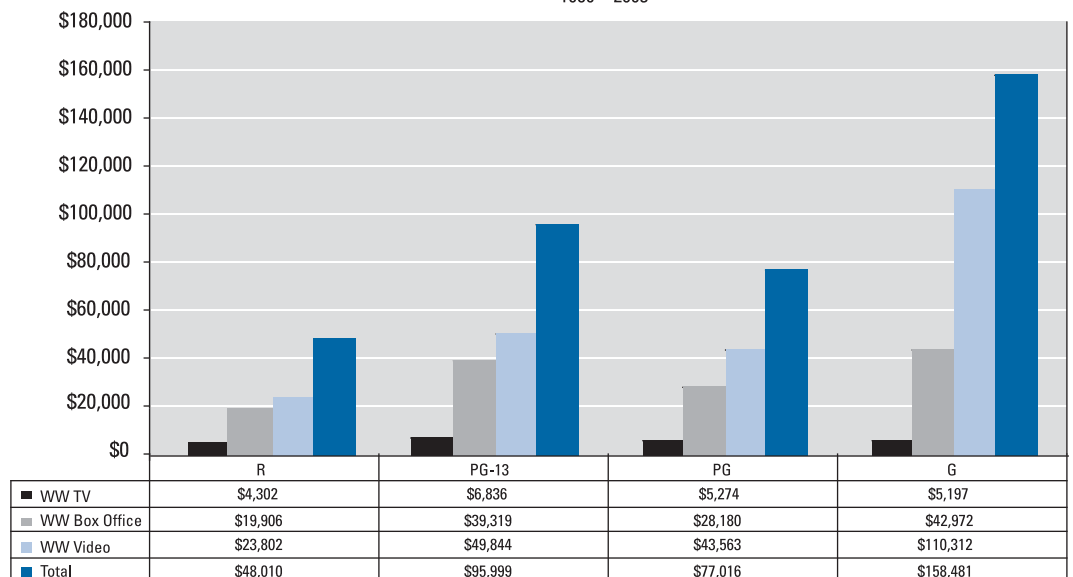
**Figure 2b**

Average Rate of Return (ROI)  
Annual 2000-2003



**Figure 3**

Per Film Average Revenue by Source  
(Box office, Television, Home Video)  
1989 - 2003



<sup>1</sup> This study was conducted for The Dove Foundation of which Dick Rolfe is founder and chairman. We would like to thank The Dove Foundation for its financial support towards purchasing the raw data for the study from Kagan Media Appraisals, Inc.