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U.S. theaters eye 3D growth

By Carl DiOrio

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Five years into the digital 3D revolution, the race to corner the market on theatrical systems is proving to be more of a marathon than a sprint.

"All of the systems are capable of delivering really high-quality 3D, and each of the business models offers slightly different characteristics," USC Entertainment Technology Center chief David Wertheimer says. "But it's getting very competitive, especially outside of the U.S."

From the start, Beverly Hills-based RealD has had a vice-like grip on the domestic 3D market. It only got tighter last year when the nation's two largest circuits announced big orders for Sony 4K projectors: Only RealD add-ons work with the high-res hardware.

In placing their 4K bets, Regal and AMC Entertainment are wagering that the Sony projectors' higher-res capabilities will provide a marketing advantage over exhibitors offering only 2K digital. But the orders also cement the circuits firmly in the RealD camp, with the theater chains' combined RealD footprint of almost 1,000 screens representing a third of the vendor's domestic total.

Regal topper Amy Miles allows only that "moviegoers have embraced the RealD 3D experience, and Regal is also an enthusiastic fan." But by comparison, 3D vendors Dolby, XpanD and Masterimage have a relatively limp-wristed hold on the market.

"We have a smaller market share in North America, but if you look elsewhere there are other markets where we are more dominant," Dolby marketing director Page Haun says. "We're pleased with our overall market share."

Certainly there is no lack of options for exhibitors wanting to compare and contrast 3D offerings from a range of vendors, and many smaller exhibitors have yet to lay down their 3D wagers.

Late to the 3D party domestically, XpanD -- whose liquid crystal glasses also work for 3D television -- still has big U.S. ambitions.

"We're going to take over the market," XpanD chief Maria Costeira vows.

XpanD already dominates Japanese 3D exhibition and rivals RealD in European market share. Its global installed base tops 2,600 screens.

Like Dolby 3D, XpanD offers extra-dimensional viewing without the need for pricey screen replacement with "silver screens," as required by RealD. But also like Dolby, XpanD requires reusable goggles, which cost more upfront than RealD's disposable eyewear approach.

Costeira says the Los Angeles-based XpanD's late entry to the U.S. competition was a strategic choice.

"We didn't commit to the U.S. market until the middle of this year because we were so busy with manufacturing for elsewhere," Costeira says. "Either we were going to go into the U.S. or conquer the rest of the world."

XpanD's handful of U.S. installations include an auditorium in Pacific Theatres' deluxe Arclight venue in Hollywood.

"It's definitely the high-end technology option, but that does not necessarily mean it's the most expensive option," Costeira says.

Pricing of XpanD glasses is on a sliding scale by volume, with each pair offering an estimated 2,000 hours of use. Costeira estimates that a 150-seat auditorium can be equipped for less than \$15,000. That's the entire cost to the exhibitor, with no need to add projector filters or file server software, as with RealD or Dolby.

Dolby's Haun said the San Francisco-based company is "very pleased" with its competitive posture, even though just 500 of its 2,800 global screens are located in the U.S. and Canada.

"In a little over two years, we've gone from no market share to about 30% market share worldwide," she says. "We're very strong in Europe."

Dolby's non-polarized glasses are free from any "ghosting" problem sometimes associated with the RealD system. Critics claim the latter system can also suffer from "hot spots" when 2D images are projected onto silver screens.

In contrasting experiments, RealD has been testing reusable eyewear, while Dolby might add disposables -- though the latter's throwaway glasses wouldn't require a silver screen. For now, Dolby touts its reusables as the greener alternative.

"Our glasses don't create millions of pounds of waste," Haun boasts. "They can be reused hundreds or even thousands of times."

Dolby doesn't guarantee any number of uses but gives exhibitors a one-year warranty.

Dolby's system boasts a lower light output than RealD's but Dolby offers a "large-screen solution" that amounts to linking two projectors in one booth to boost light output.

Worldwide Digital 3D screens, 2009

U.S./Canada

3,548

Europe/Middle East/
Africa

3,495

Asia Pacific

1,584

Latin America

362

Source: MPAA

The chief knock on RealD: Its exhibitors are mere leasees of its technology rather than owners. Contracts with circuits stipulate an upfront fee and ongoing revenue-sharing.

But even with the \$5,000-\$10,000 in separate screen conversion costs, RealD requires nothing like the \$25,000 upfront cost for Dolby installations.

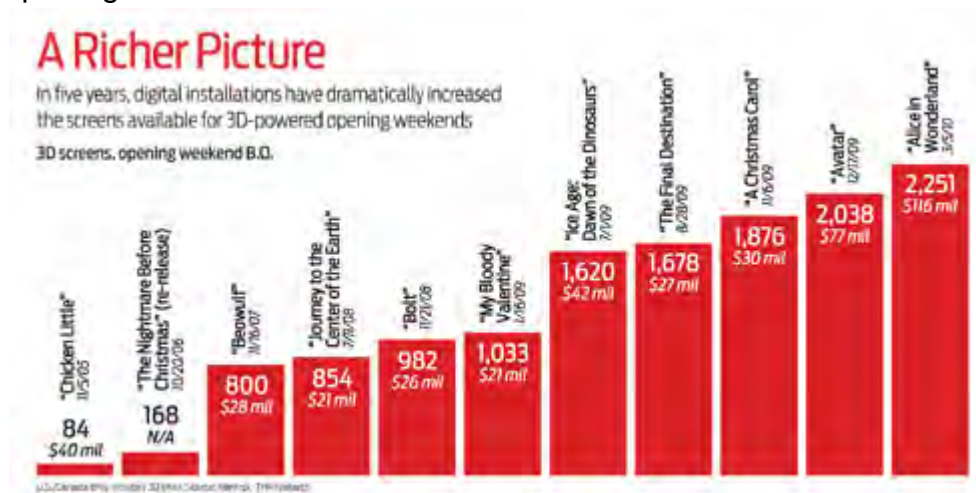
"In the U.S., RealD has been very aggressive by making it very affordable for exhibitors to sign on with them," USC's Wertheimer notes.

Another domestic wannabe, Burbank-based Masterimage, has fewer than 1,000 global installations, including less than 200 in the U.S. and Canada.

"RealD was first to market and beat most of its competitors by a couple of years, and this gave them an excellent start in creating an exhibition footprint," Masterimage exec vp marketing Peter Koplik acknowledges. "We think there is substantial opportunity for our system around the world, as well as in North America."

Masterimage offered only disposable eyewear until recently introducing a reusable product, prompted in part by an overseas appetite for that option. Like the RealD and Dolby systems, Masterimage technology includes filter attachments for projectors and 3D software for file servers.

And last -- but hardly least -- 3D vendor Imax has been operating as a specialty exhibitor for decades, long before its 21st century move into digital 3D. But it has quickly become known as the 3D system offering circuit partners the opportunity to charge the highest ticket upcharge.



Most 3D tickets sell for an estimated \$3-\$4 more than 2D tickets, with Imax's 3D upcharge averaging an impressive \$5.

Imax Filmed Entertainment president Greg Foster touts the company's "unparalleled premium experience" and stresses Imax's work

with studios and filmmakers to convert movies into its higher-res imagery.

Domestically, Imax operates 113 digital 3D sites and 91 older film 3D theaters, which will continue to operate until the specialty exhibitor develops a digital-3D system for giant screens. Internationally, the Toronto-based company has 42 digital installations and 48 film-based venues.

Eventually, Imax aims to double its domestic footprint and expand even more dramatically overseas.

Technicolor offers a more conventional 35mm film-3D system, which it touts as a low-cost alternative to digital 3D. The system requires a silver screen and projector adapters; ditto a film 3D system being marketed by L.A. business start-up Oculus 3D.

"If I'm the little guy who hasn't converted to digital yet, I'm a happy camper, because this means I can get into 3D," exhibition consultant Walt Ordway reasons. "Is it going to last 30 years? No."

All of the digital 3D systems, other than Imax, cobble together high-tech hardware from multiple sources. As with most things in Hollywood, choosing a brand of digital projector, file server or silver screen comes down to relationships and price.

"We use Christie projectors and Doremi servers," says Carmike CEO David Passman, "because at the time of the deal there was a symbiotic relationship between those two companies."

As for its 3D auditoriums, Carmike only uses the RealD system.

"We wanted efficiency and simplicity, and RealD provides both," Passman says. "With reusable or so-called 'active' glasses, they can be very expensive, and you also have an inventory issue that's fairly labor intensive."

Omaha-based Ballantyne Strong and U.K.-headquartered Harkness supply most of the industry's silver screens.

"It's a big revenue stream for us," Ballantyne chief John Wilmers says.

The public company has almost doubled its revenue from silver screens during the past year, with sales now representing 15% of its annual revenue.

"We have found that it's more efficient to have the exhibitor work right with the screen companies," says Michael Lewis, CEO of RealD. "As with projector companies, we are screen company-agnostic."

Much of the exhibition industry's digital-projection hardware has been underwritten by Hollywood studios, which are pushing the technology as a means of doing away with film print costs. But the digital hardware has taken longer than anticipated to roll out, as the global credit crunch kept integrators Digital Cinema Integration Partners and Cinedigm from obtaining vital front-end capital.

With financing concerns easing, digital installations have resumed in earnest, and exhibitors are busily adding to those projection systems the 3D bells and whistles.

As of Feb. 1, there were 3,378 3D installations in the U.S. and 281 in Canada, according to the National Association of Theatre Owners. A whopping 3,000 of RealD's 5,000-plus global installations figure in that domestic 3D footprint.

NATO estimates there could be as many as 7,000 domestic 3D screens in place by year's end. Will RealD continue to enjoy an 85% market share?

If so, it will be dramatic evidence of the value in being first to market with an emerging technology.

"We were the first company that introduced digital 3D with 'Chicken Little' in 2005," Lewis touts. "We were the guys that believed that if we built it content companies would show up."

Since "Avatar" showed up -- and other 3D Hollywood tentpoles started hitting multiplexes more regularly -- there's simply no looking back for exhibition.

The market demand is obvious.

"Our strategy is to equip at least one auditorium in all of our theaters with 3D," AMC senior vp strategic partnerships Frank Rashes says. "But some will have six 3D auditoriums -- it's all a function of demand."

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