AMC Entertainment - Problem Statement

Over the past few years AMC Entertainment Holdings Inc. has seen a dramatic decline in revenue compared to previous years. According to Forbes the company had an overall debt of $1.58 billion in December of 2017. At the time the article was written in December 2020 the debt had reached $5.4 billion (Forbes 2020). AMC Entertainment just celebrated its 100-year anniversary; however, it faces difficult times ahead. The increase of debt at such a rapid pace has created concern for the future of the company. Identifying causes, symptoms, stakeholders, and constraints will allow AMC Entertainment Holdings Inc. to understand more about their current situation.

Part 1: Causes vs Symptoms

Cause- COVID-19 Restrictions
Symptom- Theaters Shutting Down

During the pandemic, the CDC implemented COVID-19 restrictions that resulted in AMC Entertainment shutting down 100% of its theaters. These restrictions did not help the already growing debt of AMC Entertainment and the effect was something the company could not control. As a result, the company furloughed 600 of their headquarters staff, and laid off thousands of others. This left movie goers with no choice but to enjoy movies in their own home. The most common solution was to utilize streaming platforms in order to watch their shows or movies.

Cause- Increase in Streaming Platforms
Symptom- Decrease in Ticket Sales

Over the last couple years, streaming platforms have become increasingly more popular. People became more interested in streaming platforms, leading to streaming services acquiring $24.1 billion annually. With the rising popularity, movie theater attendance dropped rapidly. Being in the comfort of their own homes became more attractive to people instead of spending more money on tickets and concessions. There's been a boom in the streaming platform industry such as Netflix, Hulu, Disney Plus, HBO Max, Apple TV, Amazon Prime Video, etc. People began putting money into their streaming platforms, Netflix budgeting $17 billion on content yearly. As a result, this led to a major decrease in ticket sales and financial debt for AMC Entertainment.

Cause- Mass Threats
Symptom- Movie Theaters are Less Attractive to Moviegoers

When certain movies such as The Joker in 2019 were about to be released, various threats were made to theaters, the employees, and customers across the United States. A notice was sent out a week before The Joker release date, stating threats that were created from the dark web, gathered by FBI officials. This created a fear among its audience and made theaters less attractive nationwide, even leading to a temporary closure of a theater in Huntington Beach, California because of the threat. Due to theaters becoming less attractive to moviegoers, customers waited for movies to be released to streaming platforms or television.

Part 2: Stakeholders

The increased debt poses a threat to AMC Entertainment Holdings Inc. to continue as a company and the many different Stakeholders who are invested in the company. AMC is impacted by the debt because it poses the threat of bankruptcy of the corporation that originated in 1920. The company is also impacted by the debt because it dictates the budget for different sectors of the business such as labor, development, and marketing.

The stockholders in the company are impacted by the debt by the fluctuations in their stock price. The meme stock popularity driven by Reddit users has impacted those who previously owned AMC Stock and those who purchased during 2021 who now have shares in the stock.

The vendor partners are also impacted by this problem due to the fact that they have also lost revenue from the loss of business to movie theaters. AMC partners with the Coca-Cola Company and provides the Freestyle machines in their theaters. Due the recent drop in revenue for AMC Entertainment this has affected Coca-Cola's revenue as well.

A final stakeholder that is involved is movie corporations such as Universal, MGM Studios, 20th Century Fox, Blumhouse, and many more. The debt of AMC and loss of attendance to movies has impacted how much money that movies are grossing at the box office. The movie companies need to work to find a solution to this issue so that they can regain the same amounts of revenue that movies used to bring in.

Part 3: Identify Success Criteria

AMC will know they were successful in their solution when their debt reaches the level it was in 2017, $1.58 billion. This will show their ability to recover from the highest debt the company has ever reached. They were able to increase their debt in a three-year span, from December 2017 to December 2020. Because of this they should aim to see the debt drop in the same period of time, meaning their plan timeline should fall to December 2023.

AMC stock lost $1.9 billion, or $16.15 a share, throughout 2020. Stockholders will know that AMC was successful in their problem solution when their stock value recovers from this $1.9 billion loss, they experienced during this time period. Due to the volatility of meme stocks within the market there is uncertainty for how the future of AMC stocks will go. AMC will know that it is successful when they have regained losses in the market and have stockholders maintain ownership of their stocks for a long time.

Preferred Popcorn is the country's largest supplier of movie theater popcorn. They store and distribute kernels that provide roughly 80 million tubs of popcorn each year. In 2017, 30% of popcorn sales were sold in theaters which made for 100% of Preferred Popcorn's sales. With the condition of theaters, they suddenly did not have a market for their sales, dropping their annual sales to 20% of their usual profit. This company will know that AMC is successful in their problem solution when they are able to sell 100% of their product again.

Coca-Cola had a revenue plunge of 28% during the closing of theaters and other businesses in 2020. There is no direct number in their movie theater sales, as it falls in with sporting events and restaurants. As the major distributor of drinks in theaters, Coca-Cola will know that AMC was successful in their problem solution when they see an increase in their movie theater sales back to a number at or above their sales in December of 2017.

From 2017-2019 theaters had an exclusive 90-day window for premiering new films. This window vanished in 2020 leading to box office sales plummeting 80%. Major film companies have seen a historically low level of ticket sales leading them to premiere their new films on their own streaming services. Major film companies will know that AMC is successful in their problem solution when film premiere numbers are comparable to what they were at their peak, which happened in April of 2019.

Part 4: Identify Constraints

Constraints inhibiting AMC from making decisions include COVID-19 restrictions, lack of budget and funding, as well as contractual agreements in place. Due to COVID-19 restrictions AMC has

been recommending CDC guidelines such as mask wearing regardless of vaccination status. Each AMC can also follow state and local mandates in place making it difficult to reopen fully and appease all guests. Another constraint that is impacting AMC is lack of budget and funding. Since AMC is in debt, resources available are limited to combat any issues. Contractual agreements between movie corporations and AMC also have an impact on AMC's revenue. Universal and AMC have recently signed a contract limiting the amount of days movies need to remain in theater before being available digitally. Previously, movies needed to remain in the theater for 70-90 days. Now due to a new contract, Universal's movies only need to be in theaters 17 days (three weekends) before being available digitally (iTunes, Amazon, etc.). This new contract limits the amount of time AMC has to make profits off showings in person.

Part 5: Clarify Your Assumptions

In order to identify the problem for AMC Entertainment Holdings Inc. there are some assumptions that should be made. One assumption is that AMC intends to reopen all theatres that were closed due to COVID-19 and resume to the same operation they were operating in 2017 before the beginning of the debt. There also needs to be the assumption that AMC Entertainment Holdings Inc. does not intend to file for bankruptcy in the near future. The company must decide to find a way to liquidate assets to repay their debts instead of filing for bankruptcy. For there to be constructive assistance made, there also needs to be an understanding that movie corporations are not going to fully transition to digital releases in the future and implement sales goals that parallel those of the past. This is crucial to addressing the problem for AMC Entertainment in being able to fully understand the scope of their debt issues.

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