Internal Analysis of AMC Entertainment Holdings, Inc.

Name

Institutional Affiliation

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American Multi-Cinema Theatre Corporation, which is registered as AMC Entertainment Holdings, Inc. and trades in stock as NYSE: AMC, is a theatrical firm, which specializes in the screening of films. Edward Durwood and Barney Dubinsky, who were actors founded the parent corporation in 1932. They purchased the Regent theaters, which was later renamed to Durwood, and registered as Durwood Theatres. The firm began to establish their presence when Stanley H. Durwood, son of Edward Durwood took over the 10-theater chain. As an alumnus of Harvard University and a military navigator, he had garnered considerable experience in management science, which would be critical in his role as a company leader. He applied military management insights in the management of the company (AMC Entertainment Holdings, Inc, 2017). Under his management practices, the firm opened parkway twin theatres in Kansas City, which marked the beginning of the multiplex model in the theatre business. The model unveiled great operational cost efficiency and growth in profit margins. Under his leadership, the firm began the culture of observing people who showed up to watch films as ‘guests.'

Company Background

AMC Entertainment Holdings, Inc. is among the leading box office earners, with four of its theatres appearing among the top five. With more than 86 theatres in different locations globally, the firm has the largest market share in the American theatre industry. Additionally, it is the largest theatre chain globally after the acquisition of Odeon cinemas, Carmike Cinemas, and UCI cinemas (AMC Entertainment Holdings, Inc, 2017). The chain has the leading number of theatres in Europe and China, which has cemented the brand's position as the industry leader. The firm’s mission is to optimize the customers’ theatre experience, improve diversity in business, and to be the leaders in the entertainment industry. The firm intends to achieve this mission by consistently embracing innovation to develop or lead

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change in in the theater experience. Consequently, the firm has made collaborations with technology leaders in theatres such as IMAX and Dolby. The two firms render end to end highly immersive technology products by integrating software, equipment, and theatre architecture to provide the highest quality available in the market.

To remain at the helm of innovation in the entertainment industry, the vision of the firm is to embrace progressive thought and advance the 'guests' experience. This will be achieved through implementation of a three-phase to plan to enhance, engage and expand the consumer's experience. Further, the organization seeks to capitalize on the opportunities for revenue generation in the industry (AMC Entertainment Holdings, Inc, 2017). Such opportunities are realized with innovation in convenience, beverages and food offerings and comfort in the theatres. To ensure these visions materialize in the future, the organization has made partnerships with leading fast-food chains and established beverage firms such as Coca-Cola to offer cost-effective combos to the guests (Riley & Jiffray, 2018). Moreover, the firm intends to introduce reclining for comfort in the theaters.

Internal Environmental Analysis

AMC Entertainment Holdings, Inc. has numerous subsidiaries and operations as a corporation, which affects the collective efficiency and the performance of the organization. The stakeholders have a critical impact on organizational operations efficiency, strategic planning and the general direction of the firm concerning changes in the industry. The organizational structure, communication, culture, finance, and research and development are also critical in laying down a corporate level strategy. AMC executives and management are keen to address each of these factors independently and collectively to facilitate strategic decision making, which is conscious of the possible outcomes.

Stakeholders

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AMC's stakeholders include the organization's stakeholders, including the CEO, Adam Aron, and other corporate executives, the community, guests, and the company's employees. The stakeholders have been critical to the momentous success of the firm. AMC's guests, who are also the customers, and the company's industry leaders, have been crucial to establishing the firm's position in the market. AMC enjoys a large market share, which factors in as a great strength in guest numbers. The extensive network of guests contributes the primary revenue stream of the firm through ticket sales (Eliashberg, Elberse & Leenders, 2006). However, the firm faces a challenge in the organization of the large consumers within their theatres. The management is therefore thorough in the scheduling of the film screening to meet the large demand. Further, AMC is consistently expanding the locations, with theaters open in the United States and abroad to meet the demand of the local and foreign markets.

The employees are essential for the realization of operational efficiency across all AMC's theatres. The employees foresee the daily operations of the theatres, thus contribute to the setting of the ambiance and the tone of the environment. They are therefore critical to the development of a consumer's experience, contributing significantly to the attainment of the brand expectations of consumers. They are also essential in rendering services in the fast food stalls before getting into the theatres. However, the firm has a weakness since the consumers are obscure to the corporation. While the firm has established their presence globally, the workforces cannot identify themselves with the corporation's achievements.

The community has contributed to the development of a renowned corporate brand. Further, the firm's brand has grown globally with the aid of the community's subscription to the company's services for almost a century, which has contributed to the development of global dominance in the theatre entertainment. Communities have been interested in the innovations and development of the experience in theatre with AMC as the purveyors of the

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innovation and development of theatrical experiences. While the community has been central to the development of the theatre culture and the brand's market capital, they present a challenge when the firm needs to make changes to their policies. The existing policies and procedures have been established dominantly across a large community, which makes it equally difficult to change. This challenge presents a weakness whenever the firm needs to make unexpected adjustments due to unanticipated changes in the industry.

The corporation is also a stakeholder at AMC. The corporation has the leading asset capital in the industry as well as the leading quality of the theatrical experience. The corporate entity has a core strength in the ability to solicit for finance in the implementation of strategic measures in their development. Further, this enables the firm to realize their vision of expansion, engagement, and enhancement of the theater experience. Such financial capability has enabled the organization to invest in technological advancements to diverse digital formats such as IMAX, PLF, Dolby Cinema and premium setting in theatres. However, the firm faces a major challenge in handling issues arising in the course of running a business due to the large extent of the corporation. In the 2018 financial year, the box office has forecast a decline in the industry performance. This is expected to affect the firm directly is one of the leading contributors to box office earnings. While this is a unanimous issue in the industry, the firm is expected to suffer the most as well as keep up with other challenges the organization will be facing such as stiff competition, adverse currency fluctuations globally, and the adoption of non-theatre exclusive releases of films.

Organizational Structure

The organization operates within a hierarchical organizational structure. For decades, the organization has been practicing scientific approach in management, which has recently been revised to adopt more industry responsive management practices. Such changes have contributed to the development of a suitable organizational, operational efficiency. Moreover,

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the financial capability of the organization has enabled AMC Entertainment Holdings, Inc. to operate as an umbrella corporation with multiple subsidiaries in the industry. Such subsidiaries include advertising partnership with Nacional CineMedia LLC, leading fast-food lines, and technological innovators, who have contributed to making the firm the leading entertainment firm in the theatre industry. The diverse portfolio has increased the revenue streams of the organization, thus the profitability of the organization

Moreover, AMC has made acquisitions, which contributed to the organizational growth internationally. Acquisition of leading global theatre chains such as European based, Odeon and UCI, has contributed to the expansion of the brand name globally. The chain had 242 theatres and 2,236 screens across European states. Acquisition of American based Carmike Cinemas also contributed to establishing the footprint of AMC as the leading theatre chain globally. Key benefits to the organization have been realized with this acquisition, including an increase in the revenue generated from increased customers. Customization of the theatres to identify with AMC's initiatives will contribute to the brand market capital (Kehoe & Mateer, 2015). The expansion to diverse geographic locations has increased the organization's potential to expand and engage the guests to their premises and enhance the theatre experience among a diverse demographic.

AMC is in a prime position with the acquisition of leading cinema chains to leverage the growth in attendance to the cinema in international markets and to exploit opportunities emerging in the industry. The stakeholders have experienced the benefits associated with the acquisitions with the growth of earnings, despite the forecasted poor performance of the industry by the box office. Concerns about the impact of Brexit have been absolved with the current performance of the currency, working in favor of the acquisitions (Kehoe & Mateer, 2015). The low exchange rates of the pound have contributed to the increased returns of the entertainment giant. The integration of the acquisitions has been successful with the shared

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vision of rendering a world-class theatre experience for the customers. The integration of the acquired companies into the parent corporation will contribute to the management of challenges, necessitating the need to address the differences emanating from the management of the global branches.

While the integration of the corporations might be easy to realize due to the shared vision, education of the staff in operational levels has proved to be challenging. The employees have to be trained on how to create an environment that is synonymous with the AMC brand. As such, the firm has experienced challenges with the training programs as the employees find it hard to identify themselves with the new business model. Customers are informed of the films screening at any single time through the stubs, which are continually updated by the theatre employees.

Organizational Culture

AMC has a history of an innovation culture in the entertainment industry, which the corporation propagated since the innovation of multiplex theatre business model. Since then, AMC has been the industry leader, shedding light on the industry's direction with the adoption of technology on different business aspects to make it possible to render the best quality of entertainment to their guests (AMC Entertainment Holdings, Inc, 2017). The firm was the first to offer online ticketing to their theatres, which created efficiency for guests by limiting the time spent in acquiring tickets at the theatres or the selected joints. Further, the innovation was conscious of climate change. Traditional ticketing contributed to the demand in the paper industry, thus deforestation. Collectively, the industry cut a significant demand for paper considering there were more than 22 million tickets issued on the online platform. Moreover, the adaptation of this mode of ticketing by other theatres has contributed to climate change sensitivity in the industry.

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The firm has also been the trailblazer in the integration of innovative technology in the theatres to optimize the viewer's experience. To ensure the firm is in line with the leading technologies in entertainment, the firm has collaborated with IMAX and Dolby, who are the leading innovators in entertainment technology and engendering. IMAX is renowned for the integration of proprietary software, equipment and theatre architecture to deliver the highest quality available and immersive experiences to Guests. Dolby, on the other hand, is the leader in sound innovations by use of laser projection and object-oriented Dolby sound atoms technology. Further, the collaboration with Dolby cinemas has delivered the reclining seats, creating a more comfortable experience for the customers by engaging multiple sensory stimuli (Cochrane, 2012). Dolby cinemas have introduced the reclining chairs in AMC theatre, which have vibrating transducers in synchrony with the screen action. Such a culture of innovation and installations in AMC theatres has contributed to increasing the firm's dominance regarding quality services to its customers.

Business Consulting Group (BCG)

Table 1: BCG Matrix

Question Marks	**Stars**
• Technology • Patents and rights	• Exclusive releases • Fast foods
Dogs	**Cash cow**
• Theatre expansions • Acquired theatres	• Ticket sales • IMAX • Dolby cinema

Stars-business units: Fast food sales have been growing quickly with the admission of food in theatres. The last financial year recorded a 47% growth in sales, making it possible to meet the expectations of consumers.

Cashcow: AMC has the largest market share in ticket sales. Ticket sales grew last year by 57%, with the acquisition of Odeon and Nordic. The theater attendance is the key source of revenue, which makes it possible for the firm to meet their operational costs.

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Question mark*:* NCM advertising has been generating considerable revenue for the firm and serving as a marketing platform for the organization. Attention to if the venture is viable has proved convincing as NCM gains market share locally and regionally. However, the venture should be expanded, considering AMC has a limited product portfolio.

Dogs: The firm's investment in merchandise is yet to earn the firm a significant market share as well as revenue.

Communication

While the organization has been successful in the realization of their strategic moves to dominate the entertainment industry, the organization has challenges in managing their communications internally with the employees. Employees in the firm feel that there is an incongruence in the organizational goals with their interests, which limits the organization's success in the development of suitable organizational goals, vision, and mission. Consequently, employees avoid attending work frequently. Notably, the workforce has also seized communicating due to apathy emerging from the organization's indifference to the employee's complaints such as understaffing (Kehoe & Mateer, 2015).The organization communicates with the consumers directly through email addresses used in the ticketing platform, their website or by using social media accounts (Noonan, 2018). Direct interaction is also effective in informing loyal consumers of their loyalty awards and special offers. The use of the internet as a primary mode of communication has been successful in reaching the target market, who are between 18 and 24 years old.

In financial reporting, AMC firm uses the International Financial Reporting Standards (IFRS) in accordance with the provisions of the international accounting standards board. Consequently, variations may arise in the reported data contrary to the reports issued based on US GAAP standards. AMC releases periodic financial statements, which informs the stakeholders of the firm's performance. The firm has a reputation for timely delivery of

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reports and the organization's commitment to the management of the challenges the organization faces (Noonan, 2018). Further, the organization has been compliant with the law, rules, and regulations governing the organizational operations in the highly competitive industry.

Marketing

The organization's lead marketing avenue is advertising through National CineMedia (NCM), a joint venture with the leading competitor Regal Entertainment Group and the recently acquired Cinemark Holdings, Inc. The collectively established firm does pre-feature entertainment, which incorporates lobby promotions, and displays. The advertising initiative has been successful in engaging and reaching nation and regional consumers. NCM advertisements serve as the organizational marketing avenue as well as a revenue stream (AMC Entertainment Holdings, Inc, 2017). The firm's marketing is also run on the corporation's ticketing website, where the exclusive releases are advertised before they are screened. Other advertisement avenues of AMC include Open road films and Digital Cinema Distribution Coalition, LLC (DCDC), which firms were specializing in the distribution of films thus are effective in reaching regional markets.

Competitive Profile matrix (CPM)

AMC's competitive position is considered in the market as the highest followed by Regal Entertainment Group, Cinemark, and other medium-sized cinema chains. The firm has the highest market share as well as the most dominant brand in the market. However, the organizational operations workforce is lower in comparison to its competitors due to the inefficiency of communication and human resource management. The ability of the firm to reach a wider consumer market and earn customer loyalty is critical to its success, factoring in the highly competitive market (Eliashberg et al., 2006). However, the possible areas where the firm is performing poorly compared to its competitors is in the management of finance,

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which is signified by the organization incurring losses in the last financial year (Kehoe & Mateer, 2015). However, the organization has been successful in expanding their assets through acquisitions, which enables the organization to generate revenue from the operations. AMC is the leading cinema chain despite the competitive market and the numerous challenges in operational efficiency and diversification of products.

Finance and Accounting

AMC experienced a loss of 487milllion in the FY ended 31st December 2017. The loss flows indicate a decline in the sales in the theatre industry. While the trend has been unanimously experienced in the industry, AMC has suffered a huge impact on its finances. The significant impact is due to the strategic investments in expansion such as the acquisition of Cinemax and Odeon, which was funded through debt based on the profitability of the firm on the previous years and forecasts of growth on revenue.

Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Cash + Marketable Securities + Receivables}}{\text{Current Liabilities}}$$

= (318.3+238.7+289)/1410

=0.6

The firm's quick ratio indicates that the firm has a 60% capability of meeting its current liabilities. The low current ratio presents a challenge to the firm, considering the firm's reliance on the financing of strategic endeavors based on loans. This poses a challenge to the management as well as the need to develop strategic ways of improving the company's financial position.

Debt to Equity Ratio

Debt to Equity Ratio = Total Liabilities

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Total Equity

= 7,846/2,110

=3.71

The firm's debt to equity ratio is impressive, which is likely to guarantee the financiers of the firm's capability to meet their expenditures in servicing loans. The firm, however, may be required to pay substantial taxes on the earnings. This may have contributed to the poor performance on earnings. The acquisitions made by the firm were financed significantly (75%) by debt and (25%) through Class A shares of the corporation's equity.

Debt to Capital Ratio

$$\text{Debt to Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Debt + Shareholder's Equity}}$$

=4,360/ (4,360+2110)

= 0.67

The ratio explains how much debt is used to finance the company's assets relative to the total capital.

Asset Turnover Ratio

=Net Sales/average total assets

= (1,411.6)/ (9910.7+9805.9)/2

=0.14

The asset turnover ratio is illustrated, despite the firm's expansion of capital; the new ventures have not been effective in generating returns, which has been caused by the poor performance of the sales industry. The firm is making losses on money invested in expansion rather than generating revenue.

Long-Term Debt to total asset ratio

= long-term debt / total assets

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=4,220 /9,806

=0.430

While the firm is making losses internally, the long-term solvency of the AMC is not safe due to lower debt compared to assets, as illustrated AMC's Long-Term to total asset ratio.

Equity Multiplier

= Total Assets / Total Equity

= 9.806/2,112

=4.643

AMC's equity multiplier illustrates the earlier established financing of the organization's expansion.

Return on Equity

= Net Profit Margin x Asset Turnover x Equity Multiplier

=-9.59 x (1,417/9,858) x 4.643

=6.4

The money invested by the shareholders goes to finance the operations of the organization and are identifies to earn returns to the firm. However, the organization's expenses in servicing of debt and the current slack in the industry sales have led to poor financial performance.

Net Margin

AMC's net margins after the completion of the Acquisition in the FY ended in December illustrates the firm's financial capability, following poor revenue after a decline in sales of tickets with the industrial diversification of film releases.

= Net income/revenue

= (487)/5079.2

= -9.59%

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Inventory turnover ratio for the FY ended December 2018

=Cost of Goods Sold/ Average inventory

= 4198.9/ (29+34)/2

=4198.9/31.5

=133.30

The firm's turnover of inventory significantly lowers the charges incurred in the hold up of inventory. The high inventory is realized with the efficacy derived from the fast food joints as well as the sale of tickets.

Current Ratio

AMC's current ratio further asserts the organization's necessity to make changes in their revenue streams to increase their current assets to establish the fiscal stability.

=total current assets/ total current liabilities

= 872.4/1409.4

=0.619

The firm has a considerable debt to capital at 67%, which is caused by the organization's commitment to the management of the problems facing the society. Further, the organization has been emphatic on the expansion of their operations with the acquisition of leading cinema chains, which have made it possible to implement their strategic moves gradually. Further, the firm has maintained a manageable debt to capital balance. Besides the negative net income earned in the last financial year, the firm has been successful in the building and maintain investor's confidence, thus performing well in stocks trading in the first quarter of FY 2018.

Internal Factor Evaluation (IFE)

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
Industry leaders	0.12	2	0.24
High consumer satisfaction	0.09	3	0.27

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Innovations; adopting new technology	0.08	2	0.16
Partnerships and Acquisitions	0.10	1	0.1
Diversity in geographical locations	0.08	2	0.16
Strong Customer loyalty	0.10	2	0.2
Weaknesses			
Constrained financial resources	0.18	4	0.72
Low product diversity	0.07	2	0.14
High Employee turnover	0.18	3	0.54
	1.0		2.53

AMC has the core strength of their position as industry leaders. The firm enjoys a strong community of dealers, having built a strong culture in marketing the firm's products with initiatives such as NCM. The firm's innovative culture has maintained high consumer satisfaction by innovating new models and integration of technology to render consumers high-quality experience. The firm's research and development have been critical in establishing the operational efficiency of the organization and staying ahead of competitors in the implementation of new technologies. Collaborations with firms such as IMAX and Dolby Cinema have contributed to the strong consumer loyalty due to the organization's commitment to the development of world-class experience in their theatres (Eliashberg et al., 2006). The firm has also enjoyed a suitable credit line following the firm's ability to generate revenue, integrate new acquisitions successfully, and relatively obtaining successful returns on capital expenditure to generate new revenue streams. The diversity of the firm in geographical location and the workforce have contributed to the success of the firm in creating a reputable brand with geographic and demographic diversity.

However, the organization has critical internal weaknesses arising from the organization's internal operations. The assets ratios and liquidity ratio indicate the firm is currently constrained in the management of their financial resources, making it difficult for the organization to fund any opportunities that may arise or meet their current liabilities efficiently. The organization's product diversity is restricted to their theatre experience since other ventures were not as successful in the market. Further, AMC is experiencing a high

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employee turnover due to the established inconvenience in the management of their human resources.

External Factor Evaluation (EFE)

AMC experiences a low threat of new entrants due to the high capital requirement of establishing a new theatre chain, creating a brand, acquisition of equipment, and the high competition in the industry. Consequently, the firm has little or no concern of new entrants to the industry, considering their established brand. The bargaining power of suppliers, who are mainly distributors, can manipulate profit margins by hiking the cost of the products. Suppliers have a higher bargaining power due to the high number of theatres compared to film studios (Kehoe & Mateer, 2015). The bargaining power of buyers is high and is characterized by inelasticity in the prices of theatre tickets. Further, the switching costs are a low and high similarity in amenities. AMC experiences a high threat of substitute products due to less exclusive releases through theaters by film studios, the dominance of online streaming culture, and pirating of movies on online platforms.

Grand Strategy Matrix

Netflix • Largest Online Market Share • High Market Penetration • Horizontally Integrated • Financially Stable	Amc Entertainment • Strong Customer Loyalty • Largest Market Share • Forward Integration
Carmike Cinemas • Low Market Share • Financially Crippled • Highly Chances Of Retrenchment	Regal Entertainment • Fairly Stable Financials • Growing Market Share • Backward Integration

QSMP

Alternative 1: To overcome challenges such as high competition in the industry, which has contributed to the losses in net earnings, the firm should integrate their leading technologies established by IMAX and Dolby in all theatres. Such installations will attract more attendants from theatres that do not have copyrights to such technologies.

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Alternative 2: AMC may also diversify their product portfolio by leveraging their technology assets to form mergers with photography companies. This will increase the revenue streams and also capitalize on assets and make it possible for the organization to address the differences emanating from organizational services.

Alternative 3: The firm may also use the innovation culture to establish new forms of luxury in their theatres to create an edge that the competitors may not be able to assimilate since they do not share a similarity in innovation culture. Finally, the firm may review their communication and human resource policies and procedures to improve remuneration and motivation measures. Such measures will reduce the employee turnover, and create a conducive environment that leads to high productivity.

Key Factors	Alternative 1			Alternative 2			Alternative 3		
	Weighted	Attractive score	Total	Weighted	Attractive score	Total	Weighted	Attractive score	Total
Strengths									
Industry leaders	0.12	2	0.24	0.11	2	0.22	0.15	2	0.3
High consumer satisfaction	0.09	3	0.27	0.09	2	0.18	0.2	3	0.6
Partnerships and Acquisitions	0.10	1	0.1	0.05	1	0.05	0.01	1	0.01
Diversity in geographical locations	0.08	2	0.16	0.09	0.00	0	0.01	2	0.02
Strong Customer loyalty	0.10	2	0.2	0.10	4	0.40	0.12	2	0.24
Weaknesses									
Constrained financial resources	0.18	4	0.72	0.05	2	0.10	0.11	2	0.22
Low product diversity	0.07	2	0.14	0.07	2	0.14	0.02	2	0.04
High Employee turnover	0.18	3	0.54	0.07	1	0.07	0.15	2	0.30

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Opportunities									
Innovations; adopting new technology	0.08	2	0.16	0.15	1	0.15	0.01	3	0.03
Product diversification	0.22	2	0.44	0.12	3	0.36	0.05	1	0.05
Threat									
New entrants	0.09	2	0.18	0.10	2	0.20	0.12	2	0.24
Nonexclusive releases	0.02	1	0.02	0.11	2	0.22	0.05	2	0.10
Totals	**1**		**2.42**	**1**		**2.24**	**1**		**1.85**

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