

A DAY AT THE MOVIES

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CASE DESCRIPTION

The primary subject matter of this case concerns business law and statistical analysis. Secondary issues examine contract formation, terms of an agreement, breach of contract, misrepresentation and legal remedies, as well as ethical issues related to business conduct affecting consumers and statistical analysis involving hypothesis testing which may lead to alternate business decisions.

The case has a difficulty of level three, appropriate for junior level courses. The case is designed to be taught in three class hours, including a class presentation by student teams. The case is expected to require a minimum of three hours of outside preparation by student teams that present a report.

CASE SYNOPSIS

Draw your students into a scenario that they will identify with quickly. A busy college student rushes to get to the movie theater, on time, to see the latest big movie hit. The student unwittingly becomes part of a captive audience that must sit through twenty minutes of commercial advertisements before the movie actually begins. Instead of complaining about the cost of a movie ticket, the student is fuming because he had to sit through the commercials and wants his money back. When the manager refuses to return the price of the movie ticket, the student considers whether he has a good lawsuit against the theater on behalf of all moviegoers.

The theater receives a letter from the student expressing his dissatisfaction with the showing of the commercials and threatens a class action lawsuit. The theater learns that competitors have received similar complaints. The theater owners prepare to defend a potential lawsuit by forming a consortium.

Your students will embark on a search for answers to a variety of questions. In Case A, students are required to determine whether a contract exists, identify the terms of the agreement, determine whether a breach of contract occurred, and what remedies, if any, are available, and analyze whether the theater made an innocent misrepresentation or acted fraudulently. In addition,

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students explore the ethical issues that arise from the theater owner's conduct of showing commercials to a captive audience.

In Case B, the consortium decides to conduct a survey to consider potential legal losses. The results of the survey are used to test the hypotheses regarding the percentage of all moviegoers who are unhappy with the commercials. The student must recognize the statistical issue as one of testing hypotheses about a population proportion, must be able to formulate the null and alternative hypothesis, compute the appropriate test statistic, and draw conclusions about whether the consortium should settle or defend the lawsuit.

The case study was developed after the authors became aware of a consumer fraud lawsuit that was filed against a national movie theatre chain on behalf of all moviegoers who sat through unannounced advertisements. The authors recognized a series of additional legal issues that were not presented in the original litigation, which lead to a discussion of the ethical issues presented in the scenario, and to a discussion of how the national chain might solve the threaten litigation through statistical analysis of a consumer survey.

LET'S GO TO THE MOVIES

The days had been extremely hot. It had been hotter than normal. In addition, the moisture coming up from the gulf had increased the humidity to almost unbearable levels. It was under these circumstances that Tommy decided to go see a movie. The theater would at least be air conditioned and would provide some welcome relief from the weather. Tommy looked in the movie section of the newspaper to see what movies were being screened in his area. He saw that the highly anticipated movie "The Governator" was being shown at the nearby Royal 16 Theater complex in the Eastfield Mall. The newspaper advertisement indicated that the movie was scheduled to begin in 30 minutes, at 1:00 pm. Tommy got his wallet and car keys, jumped into his car, and sped off to the mall. Since he always had difficulty finding a seat in the dark, one thing Tommy did not want was to be late for the beginning of the movie. Once the lights were out, he could barely see where he was going.

Tommy made it to the Royal Theater in 15 minutes. While at the ticket window to purchase his ticket, Tommy asked the cashier when the movie was scheduled to begin. The cashier told him that the movie would begin in 15 minutes, at 1:00 pm, the time posted on the marquee. Tommy asked what was the cost of an admission ticket to see "The Governator." The clerk replied, "nine dollars." Tommy exclaimed, "Nine dollars, why so expensive? Don't you give any discount for an early movie?" The cashier replied that because this was a long awaited "blockbuster movie" the theater owner was not reducing the price for early afternoon showings. Tommy reluctantly paid the nine dollars and was given a ticket of admission that stated the movie would begin at 1 pm. The ticket contained no other relevant statements.

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Tommy was not a regular moviegoer. He had not been to the movies for several years because he was too busy. He was a business major at the local university and worked about 20 hours a week. Attending classes, studying and working left him very little time for entertainment.

Having already parted with nine hard earned dollars, Tommy reluctantly decided to stop at the refreshment counter. The line was long, but Tommy got in line anyway. After spending another nine dollars for a large tub of buttered popcorn, a large iced soda, and a super-sized candy bar, Tommy hurried off in the direction of the sixteen movie viewing rooms in search of the one showing "The Governator."

Tommy found the right Theater room at 12:58 p.m. He walked down the aisle, found a suitable row, and headed for a selected seat. Tommy softly exclaimed, "Pardon me, excuse me, pardon me," as he squeezed and climbed past other moviegoers to finally get to his seat. Tommy settled into his seat as best he could (with a little less popcorn and soda, but still clutching his candy bar). He let out a big sigh of relief. He was seated with 10 seconds to spare. The lights began to dim, and then Tommy uttered ". . . what the (expletive deleted) was this? A commercial!" Tommy was outraged. He had paid eighteen dollars to watch commercials? All that hurrying. All that worrying. All that anxiety to find his seat before the movie would begin. All that, just to see commercials!

As a matter of fact, twenty minutes of commercials were shown before the movie began. Tommy endured the commercials. After all the theater was air conditioned and comfortable. Finally the movie started. However, very early into the showing, it was clear to Tommy that this was the worst movie ever made. He decided to give the movie a chance to improve. Tommy watched the movie for another 30 minutes, but the movie did not get any better. Tommy stumbled and fumbled his way out of the viewing room and headed off to find the manager of the theater. Tommy was disgusted. Not only had he been forced to watch 20 minutes of commercials, the movie was, in his opinion, a bust. A waste of nine, hard earned dollars to see the movie. Tommy asked for his money back. The manager explained that it was the policy of the theater owner not to refund the admission fee.

THEATRE OFFERS NO SOLUTION - LET'S THREATEN TO SUE

Tommy left the theater, vowing not to let this episode pass without some resolution. He was sure that the Theater had violated his legal rights as well as the rights of other moviegoers, particularly by showing all of those commercials. He returned home, found his Business Law textbook, and began to consider various legal actions he could pursue. There had to be some recourse.

Tommy, remembering a few things from a Business Law course he had taken, wrote a letter to Mr. Mull T. Plex, the owner of the Royal Theater. In the letter, Tommy expressed his

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dissatisfaction with the showing of the commercials and indicated to Mr. Plex that he was going to pursue legal recourse including the possibility of filing a class action lawsuit.

REACTION TO THE THREATENED LAWSUIT - CONSORTIUM FORMATION

After reading Tommy's letter and the possibility of a class action lawsuit being filed, Mr. Plex was livid. Not knowing how to proceed, he decided to contact other Theater owners in the area to see if they had also been notified as being potential defendants in Tommy's threatened class action lawsuit. After learning that all of his competitors had been contacted, Mr. Plex's initial reaction was "Good! With my untarnished reputation, I'll prevail in the lawsuit, but my competitors will go under. Then I'll be the only show in town." However, after realizing that he too could go belly up, Mr. Plex decided that it would be better if he and his competitors stuck together and prepared to defend any lawsuit by forming a consortium. Pleased with his "esprit de corps" strategy, Mr. Plex presented his idea to his competitors. The response was overwhelmingly positive and the consortium was formed.

After much debate, the consortium agreed that it would be useful to know the percentage of all theater goers who are unhappy with the practice of showing advertisements before the featured film begins. They reason that if the percentage is small, then Tommy is a "voice in the wilderness" and there is no basis for a class action lawsuit. However, on the other hand, if the percentage is substantial, then perhaps Tommy's response is not an aberration, in which case the more prudent course of action would be to proceed cautiously in the hope of avoiding the cost of defending a lawsuit. The consortium, while suspecting that the percentage is relatively low, probably less than 10%, decides to apply the following decision rule: if the percentage is actually 10% or more, the consortium will seriously consider negotiating a settlement of any lawsuit filed by Tommy. However, if the percentage is less than 10%, they will vigorously defend any lawsuit filed by Tommy.

The consortium is not sure how to go about surveying its patrons. In addition, the consortium is not sure what to do with the results of the survey if in fact it is conducted. Also, the consortium is concerned about the causes of action that Tommy may include in his lawsuit.

Your law firm handles business law matters, with a specialty in statistical analysis. Mr. Plex has hired your firm. Mr. Plex has indicated to you that he has several concerns and would like your firm to provide him some answers.

CASE A QUESTIONS - LEGAL AND ETHICAL

1. Does a contract exist between Tommy and Royal Theater? If a contract is present, what are the terms of the agreement and did Royal breach the agreement? If the contract was breached, what damages, if any, may Tommy recover?
2. What liabilities, if any, does Royal Theater have for innocent misrepresentation or fraud? In answering this question, incorporate the elements of law and reasoning of the court's opinion in the case of Lee P. Cao et al v. Huan Nguyen et al., 607 N.W. 2d 528 (2000).
3. What ethical issues might be involved in showing the commercials to a captive audience of moviegoers who have paid to see a movie? In answering this question, please read an article entitled, "Only the Ethical Survive," at: <http://www.scu.edu/ethics/publications/iie/v10n2/ethical-surv.html>. Also, search the Internet for other sources that will help you develop your answer.

CASE B QUESTIONS - STATISTICAL

You have reviewed Royal Theater's potential legal liability and the ethical issues raised by the theater showing twenty minutes of commercials to a captive audience. Royal Theater seeks additional guidance. With respect to surveying moviegoers, Mr. Plex wants advice on how to conduct a survey and how to analyze the data once it is collected. After pondering the survey design issue, your firm advised Mr. Plex and the consortium to randomly sample 100 patrons.

Upon taking your advice, the sample was selected. The sample revealed that 6 out of the 100 patrons surveyed agreed with Tommy and resented the ads.

4. In light of this result, should the consortium consider settling or contesting Tommy's lawsuit if it is filed?
5. When would the consortium make a Type I error? A Type II error?
6. Would your answer to Question 4 change if 300 patrons were randomly surveyed and 18 out of the 300 patrons agreed with Tommy and resented the ads?? Explain.

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