

PERSPECTIVA
A Case Research Journal
Volume VII (2021)

Subscription-Based Business Models: Are They Suited for Indian Cinema?

Mr. Pardhasaradhi Madasu
Associate Professor
Siva Sivani Institute of Management, Hyderabad.

Abstract

Developed economies have already experimented with 'Subscription-Based Models,'¹ in the majority of the business sectors. The spread of the internet, mobile apps, and artificial intelligence (AI) usage have made the model more accessible and convenient to use. The first success stories of subscription-based models are Netflix in online movie distribution and Seasons in organic fruit and vegetable suppliers' market. Netflix and Seasons are the classic examples of the revolution in subscription-based business models.² Ever since the success of the subscription-based model of Netflix, the application of the concept has been deliberated in many other service industries, such as concerts, cab services³, healthcare⁴, and the cinema screening business. MoviePass⁵, a Netflix-Style subscription model has popularized the concept among the cinemagoers. Even though MoviePass closed down the business, the model has encouraged many other players in cinema industry to modify the model and implement it slightly different. As of now, few alternatives to MoviePass are available in the US cinema market.⁶ The learnings from the disappointment of MoviePass and the experiences of current providers of subscription-based in cinema industry would be useful for the management of cinema houses in emerging markets like India.⁷

Keywords: Business Models, Subscription Based Models, Indian Cinema, Value-Chain of Cinema Making

JEL Codes: M31, O31, O33

*Corresponding Author: Tel.: +917799207014
E-mail address: mpardhasaradhi@ssim.ac.in

©2021, SIBM Bengaluru

¹Also referred to as *Membership Based Models* or *Software-as-a-Service (SaaS) Model* in the IT sector.

²Hansen, M. S. (2014). *How to Build A Subscription Business - 29 Steps To Subscription Mastery* (1 ed.). bookboon.com.

³ As of mid of 2019; Uber is offering subscription-based services on a pilot basis in San Francisco and Chicago. Previously Uber launched *Ride Pass* on a monthly fee basis. However, the new pilot project of subscription-based services is combing all of the consumer offerings into one monthly subscription.

⁴One of the benefits in the subscription models is 'Certainty' in business operations and revenue projections. A survey conducted by the Physicians Foundation among 17,000 doctors revealed that 80 percent of the respondents either 'Overextended or At Capacity' making it impossible to see patients. In this situation, the subscription model could provide them with the flexibility to determine how many patients they can accept. The model would also reduce patient caseloads and prevent overwork. By using few riders on subscription passes, capacity utilization of the service provider could be optimized.

⁵ Hellos and Matheson Analytics founded MoviePass on June 30, 2011, for providing subscription-based movie ticketing services. During September 2019, MoviePass shut down its business.

⁶ The popular alternatives for MoviePass are AMC Stubs A-List, Regal Unlimited, Cinemark Movie Club, ArcLight Membership, and Alamo Season Pass. Subscription models of these alternatives are varied in their own way.

⁷New York based Start-up Jukely, a subscription model for Concerts even though based on the MoviePass model, has been successful. With some learnings from MoviePass's failure and Data Sciences usage such as Machine Learning Jukely could sustain in the market. Inc.com's article " - How These Startups Are Taking the Failing MoviePass Model and Making It Work" authored by Jemima McEvoy quotes that Bora Celik, founder of Jukely, has found a balance between the novel idea of the MoviePass model and the conservative economics.

Prologue

Business models tend to change over a period. The change could be due to many factors that influence the business, such as new opportunities or new competitors, or it may be due to new regulations. As the firms mature from the startup phase to a significant globally listed phase, the business models would change. The cinema industry is also undergoing a phase of change with respect to business models. The noticeable change is the move towards the ‘Subscription Models,’ and the cinema industry is learning to apply the subscription-based model in a big way. Cinema subscription models are popular in countries like the UK, Ireland, France, and Poland for a long time⁸. However, the subscription-based model in cinema is entering in a big way in US recently. Conceptually the UK/Europe's cinema subscription models differ from the US in a way that the UK pioneered the theatre-run subscription model. In contrast, in the US initially, MoviePass and California-based Sinemia popularized the third party run subscription model. Between exhibitor-driven subscription plans and third-party subscription plans, consumers have embraced the first choice. AMC’s Stubs A-List subscription plan is currently the popular option for US moviegoers with 860 thousand members by the end of June 2019.⁹ In this backdrop, other emerging markets where the Cinema industry is prominent such as India, observe the pros and cons of applying this model for their respective cinema business. Analysing the implications of subscription-based revenue models in cinema industry has become imperative to the academicians and business-managers alike.

The primary questions that the stakeholders of cinema industry love to answer could be: (a) How does a subscription-based revenue model fit into the service industry like cinema screening? (b) Would it be feasible for the Indian cinema industry to adopt the subscription-based model for its revenue-maximizing strategy? (c) To make the global concept applicable to Indian cinema ticketing services, what could be the learnings that could be borrowed from the existing models in the US and Europe? (d) What factors have to be considered for determining the subscription price and how to estimate the price for a subsection theoretically? (e) Should cinema houses offer subscription models on their own (in-house model) or partner with a third-party cinema subscription service provider? (f) How would low-budget movies get the benefit from the subscription-models? (g) Would the ancillary incomes of movie theatres be impacted by offering subscription-models?

Answering these questions require a good background of the existing subscription-based models. The budding managers are expected to assess the pros and cons of the existing subscription models. Not only existing cinema subscription models but also the subscription models in other service industries could give a clue on how to make this model work for Indian cinema.

Subscription-Based Models – An Overview

The subscription business model is not a new phenomenon at all. It existed for a long time; however, the noticeable change is that, recently the model is being adopted by industries, which were using traditional or conventional revenue models. The subscription-based model is suited for all those businesses, which offer access to content and repeat the service. The content could be educative, engaging, informative, or entertaining in nature.¹⁰

Businesses are moving away from the pay-per-usage model to the subscription model due to the benefits it offers. In the words of Tien Tzuo,¹¹ The subscription economy has arrived and

⁸ Cineworld (UK) offers Unlimited Cinema Pass from 2009, Odeon (UK) Offers Limitless Pass from 2016, and UCI (Germany) offers UCI Unlimited Card from 2015.

⁹ Loria, D. (2019, July 27). *Regal Launches 'Unlimited' Subscription Plan*. Retrieved from Boxoffice-PRO: www.boxofficepro.com

¹⁰ Johnson, J. (2019, February 4). *The 6 Types of Subscription Business Models: Which One is Right for You?* Retrieved from uscreen: <https://www.uscreen.tv/blog/subscription-business-models/>

¹¹ Tien Tzuo is the CEO of Zuora, an enterprise software company that provides services to launch and manage subscription-based services such as automated recurring billing, collection, quoting, and revenue recognition and subscription metrics.

is replacing the product economy.¹² Customers pay a recurring fee regularly (maybe annual, quarterly, or monthly) to repeatedly consume the product or service in a subscription-based model. This model is being used by industries such as music sales, cable or satellite television services, mobile network providers, software publishers, financial services firms, and health clubs. Covid-19 has shown that few revenue models have possibility of growth even in crisis periods. To quote an example, during lock-down of 2020 many of the OTT platforms have seen exceptional growth in their subscriptions as well as revenues. Even if few subscribers have opted out of the streaming service after the free period, they have experienced the service and there is a possibility of luring these ex-subscribers for future services¹³.

The popularity of the subscription-based model is due to its benefits to both business firms and customers. From the perspective of businesses, the subscription-based models offer an edge in higher predictable revenue and regular customer engagement, which could help in cross or up-selling. On the other hand, the customers also get a convenient and straightforward way of paying and consuming the services. In a traditional model once, the sale is made, the firm will not be in touch with the customer, so customer engagement is impossible. On the other hand, in a subscription model, customer engagement is possible because of regular interactions. Recurring revenues are earned from existing customers, and new customers could be roped in for new stream of revenues.¹⁴ Once the firm has a sufficient number of subscriptions, the firm can focus on providing value to them and be sure of recurring renewals.

As is usual, along with benefits, challenges also accompany any business model. The subscription business model's challenges could be described as firms' efforts to increase Recurring Monthly Revenues (RMR) or Annual Run Rate (ARR), resources to convert trials to paid usage, and reduce Churn Rate, track switches, and payment invoicing.¹⁵ Subscriber retention is a significant challenge; every renewal or billing event needs to be done flawlessly, which requires dedicated software solutions. Due to the numerous recurring transactions spread over a period, the firms adopting the subscription model also face the challenge in accounting and local taxes (such as GST) compliance.¹⁶

However, the growth of Artificial Intelligence (AI) and Machine Learning (ML) tools has found solutions for a few of these challenges.¹⁷ Using AI & ML Churn Rate could be predicted and reduced, renewal notification could be generated quickly, and customers amenable for cross-selling and up-selling could be segmented.¹⁸ Success of subscription-based models in various service sectors has promoted the cinema industry to adopt this model as their business strategy.

Variants of Subscription-Based Models

Based on the type of business and understanding of the customer, various firms have applied the subscription model differently. The popular ways in which the model is applied in reality

¹² Product economy refers to conventional models adopted by businesses. Tien Tzu quotes that product economy refers to a situation where companies designed, built, sold, and shipped material things under an asset transfer model.

¹³Four out of five Indians have subscribed to streaming platforms during the lockdown. OTT platforms have witnessed a tremendous growth in subscriptions. As per the survey of Velocity MR Titled 'Surviving COVID-19 and beyond: A Consumer Perspective – Part 2' Amazon Prime and Netflix have seen a subscription growth of 67% and 65% respectively (BrandWagon, 2020).

¹⁴ The primary focuses of subscription-based models are customer retention and engagement rather than customer acquisition. In his article titled "Subscription Business Model – Customer Retention Essentials" published on chargebee.com, Krish Subramanian opines that in the traditional product one-time sale model, the primary focus is on the lifetime value of the product itself. On the other hand, in the subscription-based model, the primary focus is on the customer's lifetime value as they repeatedly use and pay for the service.

¹⁵Solomon, J. (n.d.). *Why are Subscription Services Considered Key to Monetize Customer Relationships?* Retrieved from Chargebee Blog: www.chargebee.com

¹⁶Kearns, S. (2015, August 11). *Subscription-Based Business Models*. Retrieved from Avalara: www.avalara.com

¹⁷Brady, D. (2017, October 17). *Using Machine Learning to Optimize Subscription Billing*. Retrieved from Recurly-Blog: www.recurly.com

¹⁸Eun, G. (2019, June 19). *Four Ways AI Can Help Your Subscription Business Thrive*. Retrieved from APTTUS: www.apttus.com

are Freemium Mode, Entry Paid Services with Free Trails, Multiple Edition Model, and Pay-As-You-Go Model. Broadly, options available under the subscription model could be categorized under three approaches a) Prepaid Subscription Model, b) Term-Based Contract Subscription¹⁹ and c) Usage-Based Billing.²⁰ Over a period, the subscription-based models have emerged from a vanilla model to very exotic model. In the cinema industry, the new entrants are tweaking the MoviePass model by using high-end technologies. One of the strategic decisions for the firms is to choose between these various models and customize the model for their existing business. The cinema industry is also experimenting with various subscription models.

Cinema Theatres Moving Towards Subscription Models

For a long time, watching cinema in theatre is one of the primary entertainment sources for individuals or families. Over some time, the way people were watching movies has changed. First, it was television that has influenced the movie-going habit, later it was the videos on rental, and later in the phase, Netflix, like video streaming, has to a certain extent impacted the cinema theatres. Netflix, like platforms, has become popular because the streaming platforms provide the convenience of watching the content instantly on any device anywhere without the hassle of intervening commercials. No doubt, it can be stated that ‘Netflix Effect’ is affecting cinema theatres along with the TV industry.²¹ Due to this, cinema theatre chains have the challenge of filling the empty chairs.

Many other reasons are attributable to the lower patronage to the movie theatre, such as cinema admissions becoming costly, factors such as traffic and parking problems are few such influencing factors on the watching movies in a theatre. One of the reasons for the movie tickets being on the higher side is the magnitude of capital investments cinema houses make to provide wholesome entertainment to the visitors. Today cinema theatres chains are providing an all-in-one solution for patrons' entertainment. Services such as full-service restaurant-quality food and drinks are being served to the patrons enjoying the movie in a luxurious reclining seat.²² In a way, the luxury-quotient of the cinema houses is increasing exponentially.

To face this not-so-favourable situation, cinema chains worldwide are finding ways and means to make the audience come back to the theatres. In markets such as Europe, UK, and US theatres have to fight back with streaming platforms such as Netflix's influence on moviegoers by offering special discounts and other promotional tools. Apart from experimenting with promotional strategies, the cinema chains are also tweaking with their business models. In this context, the subscription-based model is being deliberated as a viable solution.

This phenomenon is restricted to cinema houses in developed economies, but this could be seen in emerging economies such as India. Multiplex with multiple screens is a well-known concept to Indian moviegoers. From the 1990s, India has seen mushroom growth of multiplexes in almost all cities and well-known towns. Today popular cinema chains such as PVR Cinema, INOX, Cinapolis, and Carnival Cinemas operate along with local multiplexes such as Cinemax, Gold Cinema, and Miraj Cinema. Among these players, as of September 2018, PVR and INOX together own 45% of the market share and control over 10% of the movie screens in India.²³ From best-in-class movie watching technologies and comfy ambiance

¹⁹ Under the prepaid subscription model, payment is made either on a monthly, quarterly, or annual basis, and there is no long-term commitment (similar to Netflix). In contrast, under a long-term contract subscription model, the consumer is committed to a specific term, such as the year or multiple years, but they are billed every month. The long-term model could be suited to well-known and reputed business firms. The long-term plans may also be massive on the budgets of retail consumers.

²⁰Gagliardi, J. (2016, August 10). *Which Subscription-Based Payment Model is Right for Your Business?* Retrieved from MultiChannelMerchant: www.multichannelmerchant.com

²¹Morgan, B. (2019, February 19). *What is the Netflix Effect?* Retrieved from Forbes: www.forbes.com

²²Feldman, D. (2019, July 29). *How Netflix is Changing the Future of Movie Theatres.* Retrieved from Forbes: www.forbes.com

²³Televisory. (2019, January 23). *Indian Movie Theatre Industry.* Retrieved from www.televisory.com

to menus crafted by celebrity chefs from India and abroad, multiplex chains are going all out to give cinema connoisseurs an exceptionally great experience.²⁴

Another noticeable trend in the Indian cinema market is that popular cinema chains are entering the Tier-I and Tier-II cities on their own, and in smaller towns, they are using the concept of inorganic growth. Famous cinema houses are acquiring stakes in cinema chains which are locally reputed.²⁵ On the other side, cinema houses in smaller towns are struggling to stay afloat. They are either closing the shutters or handing over the cinema houses to bigger cinema chains for renovation and expansion. In many of the instances, the cinema houses are struggling to break-even. India's total estimated count of screens has declined from 10,635 (2009) to 9,530 (2017). Contrary to these, multiscreen cinemas have rapidly increased. The primary reason for single-screen shutting down is the 'Cost of Operations' such as high distributor shares and low-occupancy rates.²⁶

In this backdrop, the cinema industry is expected to move towards the subscription-based business model. Few cinema houses have started to collaborate with technology-based companies to implement the model. In the Indian scenario, SPI Cinemas (a theatre chain) in Chennai with its technology partner Paytm pioneered an in-house subscription-based movie pass model. This was a hit with cine-goers, and this success could be taken as an indication that the model could be applied in India.

Benefit to All Stakeholders in the Cinema Industry

The subscription model, if adequately priced and implemented, would pull the audience to the theatres. In this way, movies that did not have an audience on a pay-per-usage basis would get an audience to watch. Even without subscription-based entry, audiences would anyhow visit the theatres to see big-budget movies such as 'Avengers Endgame.' However, the audience could use these passes more to watch smaller budget movies.²⁷ Apart from this, even big-budget movies or premium large format movies like IMAX, 3D, and Dolby Screens also would get more audience if the subscriber bears upcharge. Other players in the business, such as food courts, would also benefit from the audience's repeat visits using the subscription pass. If the subscribers bring in a good number of non-subscribers along with them to watch the movies, then the ancillary incomes of the cinemas are expected to increase.

Present Subscription-Models in Cinema Industry

Subscription-based services in the cinema industry could be bucketed into two buckets a) Exhibitor Oriented Subscription and b) Third-Party Oriented Subscriptions. European cinema houses have entered the subscription-based models from more than a decade earlier, and they were exhibitor provided subscription plans. On the contrary, the third-party subscription models were introduced into the US cinema market by MoviePass. The demise of MoviePass has shown that third-party plans are unsustainable, and the current plans being offered in the US cinema industry are exhibitor provided subscription plans.²⁸ One of the reasons that could be attributed to the let-down of the MoviePass model is that it is a third-party subscription provider has to tie up with numerous cinema theatre chains and has to pay the 'Full Price' of each ticket to the cinema theatre (or reimburse the member through debit card) where the subscriber has watched the movie. MoviePass being an unlimited model, was not able to

²⁴Shashidhar, A. (2019, October 20). *Dress Circle*. Retrieved from Business Today: www.businesstoday.in

²⁵During August 2018, PVR Cinema acquires a 71.6% stake in SPI Cinema, which operates 76 screens across 17 properties in 10 cities under various brand names. PVR has adopted this inorganic growth strategy to have a presence in South India. In 2016, PVR acquired a stake in DT Cinemas of DLF with 32 screens. Inorganic growth has become common in the cinema business.

²⁶Televisory. (2019, January 23). *Indian Movie Theatre Industry*. Retrieved from www.televisory.com

²⁷Rubin, R. (2019, July 18). *As MoviePass Fades, Theatres Fall in Love With Subscription Services*. Retrieved from Variety: www.variety.com

²⁸ The new subscription-based plan in the cinema industry launched in the US is also an exhibitor-based plan by Regal, the second-largest movie theatre chain.

honour all the reimbursements to the theatres' members. MoviePass has spent \$162.90 for ten cinema admissions at one point in time, whereas it has collected only \$9.95 from the member, thereby losing \$152.95 in cash.²⁹ In the case of exhibitor-oriented subscription passes, the offer is valid to only a particular cinema; hence, cash outflows would be restricted and seem to be sustainable.³⁰

Way Ahead?

Changing the business environment certainly paves the way for changing business and revenue models. The exponential growth of technology and mobile apps certainly makes it easier to understand the customer's needs and preferences. The Cinema industry is evolving all over the world, and India is not an exception. New models such as subscription-based or algorithm-based pricing models are the new norm for businesses, including cinema. However, the global popularity of subscription-based cinema watching may or may not be suitable to the Indian context. The concept has to be localized to the Indian context. There could be initial friction between the exhibitors, distributors, and producers of the movies. Whether the audiences are allowed on the subscription-based pass or not, the pay-offs between exhibitors/cinema houses and distributors/producers would not change.

The recent developments in movie production and exhibition are favourable for cinema houses adopting a subscription model. On the positive side, in place of local one or two-screen cinema theatres, cinema houses with multiplexes are becoming popular, suited for the subscription model. Big budget multi-lingual movies are being made. This helps the audience watch their favourite movie in the language they prefer, which is good for cinema houses to pull the audience regularly.

On the other side, deciding on the subscription price would be one of the cinema houses' challenges because of the audience's diverse nature. The technology could be used to decode the movie watching and spending patterns of the audience because of online booking platforms and online payment gateways. The data could be captured and aggregated for the audience who use online platforms. The challenge would be concerning rural areas where online movie booking may not be a big hit yet.

To make the model hit in India, data relating to factors such as the pattern of cinema spending and cinema watching, preferences of location and time of watching the movies, seat occupancy of the theatres, the popularity of the upcoming movies, popular events such as ICC world cup should be captured and modelled. Once this kind of unstructured data is available, then the AI & ML tools could be applied to work out the subscription model's finer details. To make the model successful, significant stakeholders in the value-chain of cinema making and exhibition such as exhibitors, distributors, and production houses should understand and cooperate with each other.³¹ It has to be seen how the Indian cinema industry would adopt the subscription-based revenue models?

²⁹Cole, J. (2018, January 11). *MoviePass Brings to the Theaters What Netflix Brought to Streaming with Profound Implications for Movie Business*. Retrieved from Center for the Digital Future: www.digitalcenter.org

³⁰ SPI Cinemas, along with Paytm, has offered a similar facility to the subscribers. The scheme applied to SPI Cinema in Chennai only, and booking has to be made through Paytm. It was a Cashback offer, which was not valid on Director's Cut, Gold Class Cinemas and IMAX screens or 3D movies. The Offer was valid until 15th April 2018.

³¹In the online article, Rubin (2019) quotes the example of AMC's Stubs A-List Plan, which offers a subscription pass for \$20 - \$24 per month allows the subscriber to watch up to three movies per week. Theoretically, the subscriber could watch 13 films a month at a flat rate. In the case of this high-frequency movie, watching happens, the cinema house has to figure out how they are going to pay to the studios for each movie ticket they sell.