

Can MoviePass save theaters? The CEO crunched the numbers and says yes

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Vegging out on the couch watching movies streamed from services like Netflix, Amazon or Hulu is today's great American pastime. But one startup is going against the grain to get people out of their homes and into the theaters.

Can MoviePass' amazing deal save traditional theaters?

In August, New York-based MoviePass slashed its prices and launched a program allowing subscribers to watch one movie a day in its partnered theaters for less than \$10 a month. The response was instantaneous: On the first day, heavy traffic crashed the website. By the second day, more than 150,000 people had signed up.

But not everyone thinks the Netflix-like subscription model can work for [movie theaters](#). U.S. box office attendance has declined over the past seven years, and with Amazon, Netflix and Disney all fighting for on-demand supremacy, movie theaters face even greater competition for content and viewers.

"It's a nonsensical business," said research analyst Michael Pachter at Wedbush Securities. "The only way they can make money is if consumers pay for it and then not use it."

The average U.S. box office ticket price in the first quarter of 2017 was \$8.84, so if a subscriber used a pass twice in the same month, MoviePass would be in the red.

Even MoviePass' partners expressed doubts about the company's plan. Its largest partner, AMC Theaters, publicly rebuked the new low-cost subscription as "unsustainable" and said it will consider legal action to stop it.

"In AMC's view, that price level is unsustainable and only sets up consumers for ultimate disappointment down the road if or when the product can no longer be fulfilled," AMC said in a press release.

But MoviePass CEO Mitch Lowe, a former Netflix executive, says his business plan works and that he has the research to back him.

Before its unveiling, MoviePass ran through market research tests to find the sweet price point at which movie-goers would subscribe and be encouraged to go to the theaters.

At \$9.95 a month, Lowe discovered 80 percent of subjects became "very interested" in subscribing and using the pass. So far, the studies match reality: In the first two days after the plan was announced, more than 150,000 people subscribed, surpassing the goal MoviePass hoped to meet in 15 months. Millennials made up 75 percent of new subscribers.

While MoviePass wants more people to head to the theaters, it is banking on movie aficionados remaining a minority and that most subscribers will use the pass less than once a month on average.

"It's like an all-you-can-eat buffet," said Lowe. "The average user goes once a month or slightly less. Most people may not go for a few months after seeing several movies in one month."

Krithic Annalamai, a sales representative who lives in California's Bay Area, may be Lowe's prime target demographic. A regular Netflix watcher who goes to the theaters once every two to three months,

Annalamai said the deal was too good to pass up.

"I'm eager to check it out," Annalamai said. "Why not give this a try? I might cancel it in a few months. But if the experience was good, then I think I can see myself paying like \$15 a month."

Due to the high volume of new subscribers, MoviePass has struggled to keep up its customer service.

Some customers, like Reece Webb, have experienced a "complete lack of customer support" since signing up. Webb already has filed a fraud dispute with American Express and a complaint with the Better Business Bureau to get his money back from MoviePass.

"I want MoviePass to work. I truly hope they get their act together," said Webb, a senior solutions architect in San Francisco. "The real test will be how they respond to all of these issues. An apology would be nice, too."

While the buffet model may work to MoviePass' advantage in the short term, the bigger question is its long-term plan, said Mike Goodman, director of digital media strategies at Strategy Analytics.

"Longevity is key to this model," said Goodman. "Now the question becomes: Is Moviepass a business in its current shape or a placeholder for something different? If we are going to down the path of the placeholder, what becomes the next interesting thing they can do?"

Unlike Netflix or HBO, Lowe has no plans to produce original content for subscribers. Lowe wants to invest in and partner with independent movie studios and theaters, and hopes to one day share revenues from [theater](#) concessions and help sell merchandise, like movie soundtracks, on the MoviePass app.

"People think we want to cannibalize the studios and theaters," said Lowe. "We are going to put our money where our mouth is and invest tens of millions of dollars with filmmakers. We want (them) to make more money and create a better movie-going experience for customers."

But Lowe and MoviePass may have their eyes set on something beyond the theater. MoviePass hopes to use the data from its subscriber base to help studios make better movies and help restaurants and stores around theaters to better cater to movie-goers before and after showtimes.

On the day MoviePass announced its \$9.95 plan, Helios and Matheson, a New York City-based data analytics firm, bought a majority stake in the company at about \$5 million.

While it is an "interesting theory," MoviePass' business model is too uncertain for the long term, said UCLA School of Theater, Film and Television lecturer Tom Nunan. He worried that it will not be able to retain its new subscriber base beyond the next few months.

"I'm rooting for MoviePass," said Nunan. "There's something broken with the theater-going experience. (MoviePass) can really disrupt their business model. But if I was on the board, I would advise, let's walk before we run. They are moving too quickly."

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