

## **MOVIEPASSED OUT: LESSONS GLEANED FROM CORPORATE FAILURE**

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### **ABSTRACT**

It is often said that “Those who fail to learn from history are condemned to repeat it” (Churchill, 1948). For this reason, the practice of revisiting and dissecting past corporate failures can prove highly instructional. In fact, conducting such post-mortems might sometimes reveal not just past mistakes that should be avoided but also theoretically brilliant ideas that failed because they were either poorly-executed, insufficiently supported, or simply ahead of their time. This article presents a teaching case study of the theatrical film subscription service MoviePass’s rise and fall and, in so doing, attempts to provide an interesting and provocative narrative for examination of a company that failed spectacularly. In its wake, MoviePass left a legacy of unrealized potential and innovative ideas that eluded MoviePass’s leadership but that have percolated into other companies’ offerings. This article aims to engender an appreciation for the value of analytically discussing failure and to promote an understanding of how engaging in such an exercise can help decision makers – here, within the context of the pandemic-ravaged movie industry, an examined market generalizable to countless other areas sorely affected throughout 2020 and beyond. This illustrative case study simultaneously helps to fill a gap in management literature by examining corporate failure through a strategic lens, thereby providing an effective instructional tool for management educators and facilitating a prime opportunity for discussion of one of the industries hit hardest by the COVID-19 pandemic.

*Keywords:* corporate failure, MoviePass, COVID-19, case study

### **INTRODUCTION**

Cinema has considerably evolved, from the pre-World War I Silent Years, to the introduction of talkies and colorized film reels, through the Golden Era, and eventually to the modern movie-watching experience that we enjoy today (Sklar & Cook, 2020). With these shifts in the film industry have come notable changes to the business models that companies employ to attract and serve customers, generate revenue, and maintain sustainable operations. Such evolution is certainly not limited to the movie sector. In particular, entrepreneurial innovators of the 21st-century, frequently spurred on by the opportunities that advances in internet technology present, have successfully reimaged many traditional business models, tearing down the old guard and replacing it with radical new concepts. Uber and Lyft have disrupted taxi service, Bird scooters have afforded new freedom in personal transportation, and Airbnb has upended the lodging industry. Not every effort at breaking the established mold is successful, however, especially upon first attempt. Still, there exists much value in analyzing even the most disastrous of miscalculations, in dissecting what ideas were perhaps sound, which were flawed, and how the findings can benefit future actors. This manuscript presents the case of a company that attempted to shatter the dominant paradigm only to ultimately fall well short of the firm’s ambitious goals.

This illustrative case study seeks to stimulate discussion about all that can be gleaned and learned from such a failure.

Ironically, failure often plays a key role in the innovation process. To best determine what works, one must first rule out what does not work; this process of elimination typically entails at least a few failures along the way (Coelho & McClure, 2005). Attempting to accomplish something that no one else has ever achieved carries with it a certain level of inherent risk, so the innovator must accept the fact that the first iteration of a plan may not necessarily live up to expectations (Coelho & McClure, 2005). Frequently, multiple attempts must be made to iron out the initial flaws; thus, successful entrepreneurs tend to view missteps as extremely valuable learning experiences that can be leveraged to improve successive efforts (Coelho & McClure, 2005). As a character on the HBO comedy series *Silicon Valley* once humorously, and so astutely, proclaimed in an effort to smooth over one of his company's failures, “What those in dying business sectors call failure, we in tech know to be pre-greatness” (Aniobi & Berg, 2015). Although this supposed maxim, within the show’s context, was deployed in service of putting a positive spin on a catastrophe, the sentiment bears a kernel of truth. There is, in fact, very often a thin line between failure and success, with perceived missteps’ many times actually serving as constructive stepping stones along the path to victory (Coelho & McClure, 2005).

### **RATIONALE FOR THE RESEARCH**

Although managers may be encouraged to not fear failure – especially small mistakes – and to treat errors as learning opportunities, individuals do not always take the necessary steps to analyze failure in a manner that could prove constructive (Cannon & Edmondson, 2005). Corporate failure, defined as a significant negative organizational incongruity between desired outcomes and actual results, can prove edifying but only when the causes and factors surrounding the failure are sufficiently and thoughtfully scrutinized (Cannon & Edmondson, 2005). Companies can benefit not only from examination of their own failures but also from vicarious assessment of other entities’ missteps (Bledow, Carette, Kuehnel, & Pittig, 2017). Some businesses are less risk-averse than are others, and the wagers that these organizations place can shape an industry and the players within it, regardless of how these bets pan out. While some companies are content to focus on capturing market share through incremental innovation, other firms strive for the radical reinvention of previously-established business models. An industry may persist largely unchanged for years simply because the existing paradigm goes unchallenged; then, in an instant, a single actor can upend the prevailing mindset by daring to innovate and rethink the framework that had, up until that point, been firmly entrenched. Whether the risk-taker succeeds or fails, these daring moves can help observers better understand market conditions and environmental factors so that they can strategize more effectively.

An entity that takes a first leap of faith stands to gain a first-mover advantage, capturing resources, capabilities, and customer demand before others even have a chance (Lieberman & Montgomery, 1998; Sofka & Schmidt, 2004). These ambitious actors, often dubbed prospectors, take on a great deal of risk in return for the promise of great reward (Miles & Snow, 1978). Sometimes, first-moving prospectors’ aspirations yield highly fruitful results; other times, the prospectors’ grand designs fail to take shape, leaving the door open to early followers and late movers (Lieberman & Montgomery, 1998). Entities that adopt a more cautious “wait-and-see” approach, frequently

referred to as analyzers, can benefit from the hard lessons that unsuccessful prospectors are forced to learn (Miles & Snow, 1978; Sofka & Schmidt, 2004). These analyzers, like generals surveying a battlefield as the first wave of troops fall prey to hidden traps, have the luxury of monitoring prospectors in order to ascertain the struggles that these rivals face. The analyzers can then use this information to follow in the first-mover's footsteps and dodge the metaphorical minefields encountered by prospectors.

Even when a prospector's goals do not come to fruition, lessons can still be learned (Pretorius, 2008). Too often failures are quickly swept under the proverbial rug, never to be spoken of again. Such a mindset seemingly prevails in the strategic management literature, evidenced by a paucity of research that should be examining failure as a means by which to glean valuable knowledge from what can be perceived as mistakes (Coelho & McClure, 2005; Pretorius, 2008). In fact, research supports the theory that, in both business and academia, examination of others' failures can prove even more instructive than can studying success stories (Bledow et al., 2017). As previously affirmed, these mistakes often serve as stepping stones on the journey to eventual success (Coelho & McClure, 2005). Furthermore, strategists should learn from the past but make a concerted effort to focus squarely on the future. What worked in the past may not necessarily work in the future; conversely, what did not work in the past may one day be worth revisiting. As a case in point, the example of Microsoft's failed WebTV platform is herein presented.

In 1996, Microsoft launched WebTV with the objective of delivering web-based content to users' televisions (Hill, 2020). At that time, the concept struggled to gain traction (Smith, 2016). Years later, however, internet speeds caught up to Microsoft's original vision, television set resolutions increased to enable greater clarity, and developers began designing custom-made web-based applications tailored specifically to televisions. The advent of these developments finally afforded Microsoft the ability to effectively integrate the software base that it had developed for WebTV into its Xbox line of videogame and entertainment systems – by 2012, a full web browser had even been added (Warren, 2012) – albeit after competitors had already started to emulate the idea (Breen, 2007; Dumas, 2008). The firm's 1996 brainchild had simply arrived ahead of its time, its value at last realized by both Microsoft's own repurposing of the technology and other firms' eagerness to infiltrate the internet-on-TV realm. One provider of content particularly well-suited to the television screen was a growing DVD-by-mail rental firm called Netflix. In 2007, the company began to diversify its offerings by streaming select movies and television shows via the internet (Anderson, 2007; Netflix, n.d.). Approximately one decade after Microsoft's first-mover attempts had fizzled, Netflix's efforts resulted in the culmination of fusing internet-based content with television. Today, Netflix streaming, the majority of which is viewed on televisions (Iqbal, 2020), accounts for more than twelve percent of downstream internet traffic (Cullen, 2019). Clearly, what some might initially dismiss as an ill-conceived flop can, over time, blossom into a fantastic and lucrative opportunity.

Netflix co-founder Mitch Lowe, intrigued by the prospect of a company's attempting to apply the Netflix model to theaters, fervently believed that the budding entrepreneurial venture MoviePass could decidedly disrupt the theater-going movie model in much the same way that Netflix had disrupted the home movie-viewing template (Gottlieb, 2017). Some media outlets even referred to MoviePass as "Netflix for cinemas" (Bramescio, 2018). Lowe was so impressed by the upstart that he decided to join the company. Unfortunately, the ambitious and innovative approaches that

MoviePass implemented during Lowe's 2016 to 2020 tenure as CEO of MoviePass led to the firm's demise. Although MoviePass suffered a calamitous collapse, scrutinizing the situation by means of an in-depth case study can reveal fascinating strategic insights.

## CASE STUDY

The following case study presents a specific example of corporate failure in an effort to illustrate how a series of strategic management decisions can result in consequences that, although disastrous for the firm in question, serve to provide a cautionary tale and elucidation for management scholars and practitioners. Equipped with the understanding of corporate failure gained through investigation of the case presented, students may then begin to generalize about how the lessons gleaned apply in other instances. Illustrative teaching case studies are often effectively employed within university programs to enhance student learning and engagement through the linking of theoretical concepts with real-world events (McFarlane, 2015). While the introduction of case study exercises into the curriculum may necessitate additional research and preparation on the part of the professor, the value added for the students proves extremely worthwhile (McFarlane, 2015). This case study stimulates critical thinking and analysis as it traces the life cycle of MoviePass, from the company's humble origins to its tragic demise.

### Development

Entrepreneurs Stacy Spikes and Hamet Watt believed that they could fundamentally change the way that people thought about going to the movies. In Spikes and Watt's vision for the future of theatrical experiences, moviegoers would have the option to pay a flat monthly fee to attend an unlimited number of theatrical movie screenings. The public had already shown an interest in this type of all-you-can-watch service, as Netflix and other at-home streaming video providers had grown exponentially by offering veritable buffets of content to users paying monthly subscription fees (Arango & Carr, 2010; Callahan, 2009). Those who had signed up for such offerings could then concentrate on deciding the entertainment that could potentially be worthy of their time rather than their having to deliberate over which would prove worthy of their money. Viewers could take a chance on an unknown property without fear of regret that they had "flushed their money down the drain." In this way, the barriers to trying something new lowered, and this novel approach afforded subscribers the opportunity to expand their viewing horizons. Should patrons be dissatisfied with or disappointed in their initial programming selection, qualms were few. Subscribers could easily switch to a different option without having incurred any real cost other than the time invested in assessing that their first choice was not to their liking.

Spikes and Watt hoped that a service presenting customers with similarly low barriers to taking a chance on theatrically-released content would encourage people to attend more movies in cinemas, a result that most film distributors would view quite favorably (Kay, 2019). In addition, MoviePass's co-founders envisioned a future in which movie studios could "drive ancillary revenue through DVD, digital download and merchandise offers, and draw audiences to special screenings," with Spikes's promising "Studios and distributors will receive an unparalleled marketing opportunity, with the application's ability to target movie lovers based on their movie viewing habits" (Block, 2011). Indeed, the pitch caught the attention of those within the film industry who recognized the threat that the rise of at-home streaming options – particularly Netflix

– posed to the theater industry. In 2011, with theatrical movie ticket sales in deep decline – the worst sales in more than fifteen years (Tuttle, 2011; Verrier & Fritz, 2011) – conditions seemed ripe for MoviePass to test its innovative business model.

### **Pre-Production**

MoviePass ran its first beta in June 2011, limiting its trial run to San Francisco Bay area residents (Chow, 2018). The company functioned as an intermediary, a ticket broker of sorts, purchasing large quantities of tickets and then distributing these tickets to paying subscribers in exchange for monthly dues (Block, 2011). For \$50 a month, customers were entitled to attend one movie every single day of the month (Marshall, 2019). If someone attended 30 movies, that person would essentially have received, based on 2011's national average ticket price of \$7.93, an approximate value of \$238 for an upfront price of just \$50 (NATO, n.d.). A planned \$30 option would grant users up to four tickets a month (a far more modest value of \$31.72), although both tiers required additional payment for special screenings, such as those shown in premium IMAX auditoriums or enhanced with 3D technology (Watercutter, 2011). MoviePass customers could easily use their smartphones to select the movie that they wished to see and then, upon reaching the venue, present their phones to ticket takers as proof of purchase (Dickey, 2011). Formidable demand for the service evidenced itself in the form of 19,000 individuals' quickly signing on for the private beta test (Chow, 2018). Spikes and Watt seemed to have a blockbuster-in-the-making on their hands. Almost immediately, however, their strategy hit a major snag.

In stark contrast to the enthusiasm expressed by some studio executives and movie distributors, theater owners such as AMC Theatres, one of North America's largest exhibitors, stood firmly opposed to the concept (Block, 2011). Despite being already engaged in relationships with MovieTickets.com (a web site owned by AOL, one of MoviePass's biggest investors) and Fandango.com, both of which employed more traditional à la carte models of selling movie tickets via the internet, AMC had entered into no such arrangement with MoviePass (Block, 2011; Dickey, 2011). Allegedly never having been approached by the MoviePass executives or having even been made aware of the service, AMC stated via a spokesperson "“We were surprised to see the press release and subsequent press coverage of MoviePass earlier this week as it included several of our San Francisco locations . . . It was news to us to see that we were participants and we will be communicating to those theatres they are not to accept MoviePass”" (Block, 2011; Dickey, 2011). The prospect of increased movie attendance, and the resultant spike in concession sales that the upsurge could instigate, was apparently not enough for many theater chains to cosign the idea. Lack of endorsement from cinema owners stopped MoviePass's beta test in its tracks. This type of standoff would present a significant impediment to MoviePass's proliferation and expansion efforts throughout the service's existence.

Reeling from the closed beta test failure, the MoviePass strategic leaders regrouped and fervently brainstormed to devise ways to address the issues that their first foray made abundantly apparent. The team came up with the idea of introducing a voucher system that would require subscribers to print out vouchers that they could then redeem at the theater box office (Marshall, 2019). Both customers and theaters complained that the voucher approach was in dire need of streamlining. Patrons felt constrained by the requirement of printing out vouchers before leaving home, and theaters did not appreciate the protracted redemption process (Marshall, 2019). In response,

MoviePass developed a rechargeable debit card system that allowed subscribers, through a smartphone app, to select a movie show time and, once having done so, have the ticket price deposited to the card (Marshall, 2019). Although this plan also faced heavy opposition from AMC and other cinemas, MoviePass moved forward, in October 2012, with a nationwide invite-only beta test of the new reloadable debit card method. During the beta test, MoviePass offered early adopters up to one movie a day in exchange for a subscription fee priced between \$29 and \$34 a month (pricing varied based on geographical region, as verified by phone GPS) with a one-year commitment (Fingas, 2012; Marshall, 2019; Zweig, 2012). The ire that MoviePass drew from exhibitors, AMC chief among them, definitely complicated the company's plans; however, it would not be long before theaters began to relent their steadfast anti-MoviePass positions.

As movie ticket sales continued to trend downward while business models employing subscription-based access to media (e.g. Netflix and music service Spotify) thrived, AMC finally abandoned its resistance in its battle against MoviePass. In the waning days of 2014, AMC announced its plan to launch, in association with MoviePass, a \$30 to \$45 version of the service bearing the slightly-adjusted, AMC-specific moniker MoviePass Premium (Lang, 2014). After battling MoviePass for three-and-a-half years, AMC was not necessarily thrilled to enter into a strategic alliance with its former nemesis, but the theater chain was shaken by sustained periods of lackluster movie attendance amid unsettling market trends toward more democratized accessibility evidenced in other media sectors. An AMC executive confessed, “It frankly wouldn't be smart to ignore the success of subscription in other areas of media,” evidence of the firm's feeling pressure to take into consideration less-conventional business models (France, 2014). Whether the result of AMC's acting out of optimism in adopting a new approach or out of a sense of survival-oriented desperation, MoviePass had finally gained a solid foothold. Unfortunately, it did not take long for the budding relationship to sour, as internal changes within MoviePass created a chain of catastrophic calamities.

## **Production**

Mitch Lowe, former Netflix executive and Redbox (a DVD rental kiosk service) president, served as an advisor to the fledgling MoviePass venture until 2016. At this point, the company had solidified its core offering, and Lowe became MoviePass's Chief Executive Officer, an appointment that marked a definitive turning point for MoviePass (Marshall, 2019). Under Lowe's leadership, the company began its pattern of constantly tinkering, floating a wide variety of new plans including a two-movies-per-month tier priced between \$15 and \$21, a three-movies-per-month tier for \$22 to \$31, and a four-movies-per-month tier for \$40 to \$50 (Hardawar, 2016; Marshall, 2019). As the service evolved from its beta form, the organization, under Lowe's direction, tested \$50 unlimited (standard 2D movies only) services in select markets, \$50 six-movies-per-month (2D and 3D) offerings in others, \$99 unlimited options that included access to 3D and IMAX screenings in certain cities, and multiple other permutations in focused segments of its user population (Hardawar, 2016; Sciretta, 2016). The scattershot pricing and constantly-shifting deals created a certain degree of market confusion and irritation, and continual adjustment of limitations. Certain theater chains only sometimes accepted MoviePass, others did not accept it at all; users could not secure tickets for a movie within 24 hours of their last ticket purchase, but then this restriction was lifted; reserved seating options were often not available; and some subscribers were suddenly, due to scammers' misusing the service, forced to snap photos of their

physical tickets and send the pictures to MoviePass as verification (Fink, 2017; Sciretta, 2016). MoviePass's erratic policies lessened the attractiveness of the service, but MoviePass boasted a customer base that had grown to 20,000 subscribers strong (Marshall, 2019). These impressive numbers led Studio Movie Grill, a cinema chain with a modest national reach – at the time, 24 U.S. locations in contrast to AMC's 661 U.S. locations (and another 244 international theaters) – to make an investment in MoviePass (Bond, 2016; Marshall, 2019; Szalai, 2016). The December 2016 announcement of Studio Movie Grill's new strategic partnership with MoviePass brought with it not only promise for the future but also an intriguing limited-time promotional offer.

By late 2016, MoviePass had, for the most part, established a monthly price point of roughly \$50 for its unlimited tier (up to one 2D movie per day, no 24-hour waiting periods, show times selected on phone to generate deposit on debit card, and price dependent on location) (Bond, 2016; Fink, 2017). While a \$50 price point might prove very steep for the nearly-ninety percent of North American moviegoers who see an average of fewer than one film per month in theaters, it would, in theory, still prove economically sound for most individuals who go to the movies more than five times a month (MPA, 2020). With such a narrow target market, however, the MoviePass model would likely prove unviable because the business's blueprint was, in part, contingent upon accumulating large quantities of customer data that could be sold to movie studios, distributors, and other interested parties (Sherry, 2019). Thus, with the announcement of the Studio Movie Grill alliance came a bold attempt at rapidly expanding MoviePass's user base – offering the unlimited service tier to Studio Movie Grill patrons for a special monthly rate of just under \$9.95 (Bond, 2016; Robinson-Jacobs, 2017). The promotional price was offered only to a limited segment of consumers – those within the proximity of the Studio Movie Grill multiplexes – and was never promised to remain in effect indefinitely. Nevertheless, this \$9.95 promotional offer opened a Pandora's Box that would eventually serve as a primary contributor to MoviePass's downfall and ultimate failure.

Soon after introducing this promotional offer exclusive to Studio Movie Grill patrons, MoviePass entered into serious negotiations with data analytics firm Helios and Matheson, a round of negotiations that culminated in Helios and Matheson's August 2017 purchase of a majority stake in MoviePass (Marshall, 2019). At this point, MoviePass then pivoted its strategy to more fully focus on accumulating customer data. To that end, the company drew inspiration from its Studio Movie Grill promotional offer and made the fateful decision to lower the price of its unlimited service from approximately \$50 (varied by market) to a flat nationwide monthly rate of just \$9.95 (Chow, 2018). Given that the price of a movie ticket in 2017 averaged \$8.97, customers would almost break even after seeing just one film (NATO, n.d.). A subscriber who fully maximized the service by attending thirty movies in one month would receive a value of \$269.10, meaning that that person would have saved \$259.15 with a MoviePass subscription. Of course, this calculation depends on an individual's going to the movies every single day of the month, an improbable scenario given that, statistically, the majority of moviegoers were unlikely to visit theaters more than once a month (MPA, 2020). Still, film fanatics stood to come out ahead after seeing only two movies, with the savings' mounting with each additional viewing. Monetarily, the \$9.95 price point proved most compelling, prompting people to sign up in such prodigious droves that these potential subscribers, in their zeal, actually crashed both MoviePass's app and web site (Chow, 2018).

The company's strategy, however, no longer hinged as intently on subscription fees as it once had. Instead, in conjunction with its majority shareholder Helios and Matheson, MoviePass predominantly concerned itself – at least in the short term – with collecting and selling customer data (Sherry, 2019). MoviePass's strategic leaders believed that the revenue generated from its valuable data would result in sustained growth and allow the company to undertake new opportunities down the line that would include lowering operating costs by negotiating discounted bulk ticket rates and establishing its own film production subsidiary (Sherry, 2019). MoviePass had essentially placed a huge bet on the future. If its gamble stood any chance of paying off, the company would need to "hit the jackpot" by having everything fall near perfectly into place. However, almost immediately, the firm's high-risk plans "went bust."

As soon as MoviePass slashed its subscription price to \$9.95, AMC terminated the partnership it had (somewhat reluctantly) established with MoviePass, issuing a statement that read in part "AMC believes that holding out to consumers that first run movies can be watched in theatres at great quantities for a monthly price of \$9.95 isn't doing moviegoers any favors. 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 Entertainment Holdings, Inc., 2017). MoviePass's business model was banking on most customers' paying monthly subscription dues but not taking full advantage of the service. Ideally, subscribers would attend only a few movies, if any, each month, while MoviePass would generate supplemental revenue by continuing to harvest the data of both active and less-engaged users alike. At \$50 a month, the strategy perhaps might have been feasible if enough users signed up; but, at \$9.95 a month, AMC believed the profit equation to be entirely untenable.

AMC was not alone in its rationale; even MoviePass cofounder Stacy Spikes did not view \$9.95 as a price point that could be maintained. The idea for the bargain rate came about, hot on the heels of the Studio Movie Grill limited-time offer, as a means to reach 100,000 subscribers in as short a period of time as possible (Guerrasio, 2019). Helios and Matheson actually included this as a contract provision when it purchased its majority stake in MoviePass (Guerrasio, 2019). The \$9.95 price point was never meant to remain in place indefinitely; it was intended solely as a limited-time promotional offer designed to spur precipitous growth and help the firm more quickly achieve critical mass. The longer-term plan was that once the 100,000 subscriber target was reached, which materialized less than 48 hours after the offer went live, the price would revert to a more sustainable level (Guerrasio, 2019). In building the company, Spikes knew from experience that such a rock-bottom price could not remain in place, and he implored the executive team to discontinue the offer, especially once the goal was so rapidly – in fact almost immediately – achieved (Guerrasio, 2019). Recently-appointed MoviePass CEO Mitch Lowe, as well as new owners Helios and Matheson, did not share Spikes's stance that the deal should be halted (Guerrasio, 2019). Spikes clashed with these corporate decision makers until he was unceremoniously fired five months later, via an impersonal January 9, 2018 email, a curt missive from the company that Spikes had created and for which he had untiringly spent the last decade of his life cultivating (Guerrasio, 2019).

Dropping the price to \$9.95, and keeping it there long after acquiring 100,000 customers, did lead to exponential growth, but this spike in subscriptions also meant that MoviePass was bleeding capital. Demand outpaced the company's capabilities. As MoviePass reached its 400,000-

subscriber milestone in August 2017, the company found itself unable to proficiently supply customers with the debit cards necessary for them to utilize the service, and customer service became overwhelmed with complaints, disgruntled patrons, etc. (Marshall, 2019). Despite the company's losing an average of \$35 on each customer (given that a single movie ticket equated to approximately the same price of an entire month of the MoviePass service), MoviePass persisted in its pursuit of swift augmentation. Incredibly, the number of customers ballooned to one million in December of 2017, hit two million in February 2018, and reached nearly three million by April 2018 (Chow, 2018; Marshall, 2019; Rodriguez, 2018; Statt, 2019b). During the course of this rapid expansion, the firm actually went so far as to institute two additional temporary price drops – one in February to \$96 for one year (\$7.95 per month) and another in March to the staggeringly low price of \$6.95 a month (Clark, 2018; Helios and Matheson Analytics Inc., 2018; Marshall, 2019). The strategy to expeditiously attract huge numbers of customers proved a resounding success, but whether this represented a sound approach is another matter entirely.

## Wrap

While MoviePass touted its impressive subscription numbers, the firm faced immense internal challenges as a result of these very same membership figures. On August 14, 2018, parent firm Helios and Matheson, which now owned 92 percent of MoviePass and involved itself in little outside of MoviePass, reported a second-quarter loss of \$126.6 million (Rodriguez, 2018). By offering millions of people, every month, goods worth up to \$269.10 for only \$9.95, MoviePass was bound to incur a steady stream of substantial monthly deficits. MoviePass's leadership and the firm's Helios and Matheson owners, however, wagered that it was worth continually sustaining mammoth losses as a means by which to build an impressive customer base. They anticipated that an assemblage of such magnitude would become so valuable and sought after that MoviePass's subscriber data would one day afford the company formidable bargaining power. The accrued bargaining power could provide the leverage necessary in negotiations with theaters for bulk ticket purchase discounts, profit-sharing plans for moviegoers' concession stand purchases (which reportedly drastically increased because of MoviePass), and other cost-saving / revenue-generating opportunities (Gessner, 2020; Statt, 2019b). From there, it was anticipated that additional advances could be made through integrating MoviePass capabilities with other services. For example, the firm could more fully capitalize on its trove of identifiable user data and direct connection to customers by incorporating tie-ins with restaurants and ride-sharing apps (Statt, 2019b). These grand plans, however, all hinged on MoviePass's ability to a) acquire a critical mass of subscribers from whom b) the company could harvest valuable data that would prove sufficiently enticing that c) studios, distributors, theaters, and other interested entities would want to partner with MoviePass, all while d) staving off bankruptcy long enough to achieve goals a, b, and c.

Unfortunately for MoviePass, outside parties were not as eager to enter into partnerships as MoviePass had hoped, and the organization was losing money at a prodigious rate. Prominent theater chains such as AMC Theatres had not only refused to do business with MoviePass but were actively opposed to the MoviePass business model (AMC Entertainment Holdings, Inc., 2017). Movie studios feared the danger of their content's being devalued, and customers were growing irritated with the toxic combination of the company's constant experimentation, ever-fluctuating offerings, poor communication, and abysmal customer service (Lang, 2018; Notopoulos, 2018).

Leadership knew, even prior to the public release of the exceedingly disquieting August 2018 earnings report, that the firm stood in urgent need of a course correction.

Desperate to stem the losses, MoviePass began engaging in what many believe qualified as anti-consumer, underhanded business tactics (e.g. Berger & Huddleston, 2018; Coldewey, 2018; D'Alessandro, 2018; Keck, 2019; Nordine, 2018; Wilkinson, 2018). First, MoviePass started restricting both the films and the show times for which subscribers could reserve tickets, often “blacking out” the most popular movies and times (D'Alessandro, 2018; Nordine, 2018). Alarming, in some cases, frequent MoviePass users’ passwords were even intentionally changed (allegedly) by the firm so that these customers could not log in and procure tickets for extremely in-demand titles that were projected to enjoy blockbuster openings (Keck, 2019). Subsequently, CEO Mitch Lowe’s words raised grave privacy concerns when he boasted, during his keynote speech at the Entertainment Finance Forum, about the company’s ability to track users, creepily divulging “‘We get an enormous amount of information.’ ‘We watch how you drive from home to the movies. We watch where you go afterwards’” (Coldewey, 2018). MoviePass claimed to purportedly be only in the exploration phase of exploiting this data, but the veracity of Lowe’s assertion remains impossible to definitively ascertain (Coldewey, 2018). Next, the firm resolutely did away with the unlimited tier only to bring it back two weeks later (Plaugic, 2018), this time introducing Uber-style surge pricing – charging extra to procure in-demand tickets (i.e. opening weekends, box office blockbusters, etc.) – for all month-to-month subscribers (Hernandez, 2018). Soon after, the app began experiencing suspicious outages that the company first tried to blame on technical issues but later admitted were artificially created as a result of its having insufficient funds to pay for customers’ tickets (Berger & Huddleston, 2018). Operations only managed to resume once Helios and Matheson borrowed five million dollars in the form of an emergency loan (Berger & Huddleston, 2018). Clearly, MoviePass was in dire straits.

On the day that it had filed its second-quarter earnings report (August 14, 2018), MoviePass yet again scrapped its unlimited plan, imposing a three-movie-per-month limit on its \$9.95 subscription (Rodriguez, 2018). Shockingly, customers who had previously cancelled their MoviePass subscriptions but still had the MoviePass app installed on their phones were greeted with the news of MoviePass’s new restrictions in an unavoidable message seemingly designed to dupe these former subscribers into accidentally renewing their subscriptions (Wilkinson, 2018). (The page was intentionally styled to resemble a standard terms of service update with users prompted to click a big, prominently-displayed ambiguously-worded “I Accept” button that would then reactivate their lapsed memberships.) Both customer trust and investor faith plummeted to the point that MoviePass’s shareholders sued Helios and Matheson, alleging that the company’s CEO and CFO defrauded stockholders by withholding and fabricating information in an effort to artificially inflate the share price; simultaneously, MoviePass’s disillusioned users began organizing a class action lawsuit on the basis of deceptive trade practices (Berger, 2018; Garun, 2018; Lee, 2018; Maddaus, 2019). By this point, Helios and Matheson – and, by extension, MoviePass – faced myriad threats. Plagued by abysmal drops in customer satisfaction and by the prospect of being delisted from the NASDAQ stock exchange as a result of repeatedly flooding the market with shares, thus causing the stock price to plummet, the entire operation teetered on the brink of disaster (Lee, 2018).

It was only a matter of time before MoviePass met its ultimate demise. As MoviePass continued toward its tragic fate, in a desperate bid for survival, management unscrupulously continued to take advantage of consumers. The company reinstated lapsed subscribers by automatically enrolling former users, without their consent, into a (once again!) newly-revived version of the unlimited plan that again bore onerous restrictions (Statt, 2018). These unsuspecting former members would find their credit cards charged monthly unless, once aware, they explicitly opted out of the service (Statt, 2018). MoviePass had alienated so many of its customers through what many classified as deceptive practices and anti-consumer actions that former subscribers filed class-action lawsuits (Cooper, 2018; Crucchiola & Squires, 2019; Hughes, 2019a; Maddaus, 2019). In one case, the plaintiffs “allege that MoviePass Inc., its corporate parent Helios and Matheson Analytics Inc., and their officers conspired to breach its contracts with consumers and commit fraud through email in violation of the Racketeer Influenced and Corrupt Organizations Act” (Cooper, 2018). On the same day that MoviePass took out pricey ad space on Time Square billboards, a New York couple sued the company for allegedly engaging in a “deceptive and unfair bait-and-switch scheme,” because MoviePass’s numerous blackouts and restrictions resulted in their two \$105.35 subscriptions’ providing them with tickets to attend only three movies in a span of ten months (Crucchiola & Squires, 2019; Hughes, 2019a; Maddaus, 2019).

After destroying the stock price by oversaturating the market with shares, Helios and Matheson was delisted from the NASDAQ stock exchange on February 13, 2019 (Ellingson, 2019). The following month marked the impending termination of the MoviePass service, with the company’s making a last ditch effort to, yet again, reinstate its unlimited service plan (this time with more plainly-stated but quite stringent restrictions) under the moniker MoviePass Uncapped (Porter, 2019a). Just over three months later, MoviePass effectively took its final bow with management’s sudden removal of MoviePass’s online presence during one of the biggest U.S. box office times, Fourth of July weekend (Hayden, 2019; Hughes, 2019b; Porter, 2019b). The company’s cover story that the platform’s operations had to be temporarily suspended for a few weeks to effect the implementation of mobile app upgrades – and that this maintenance period just happened to coincide with July 4<sup>th</sup> weekend – did not hold up to scrutiny. Mitch Lowe’s claim “There’s never a good time to have to do this” (Hayden, 2019; Hughes, 2019b; Porter, 2019b) did not ring true to those following the company’s saga, as they saw through the ploy of painting the conspicuous timing as merely inconvenient; indeed, service was not restored to subscribers until late August – even then, some members could not log in – and MoviePass closed forever mere days later on September 13, 2019 (Spangler, 2019; Statt, 2019a). To make matters even worse, shortly before announcing the shuttering of all MoviePass operations, the company shared news that it had left thousands of its customers’ personal “credit card numbers, expiration dates, billing addresses, and names” completely exposed in an unprotected online database (Statt, 2019a). The final chapter of the MoviePass story was written on January 28, 2020, when MoviePass’s parent company Helios and Matheson filed for bankruptcy (Spangler, 2020).

## **Post-Production**

Despite its making a big splash, especially with its \$9.95 unlimited plan, MoviePass failed to truly disrupt the film industry as some had predicted it would. Little did anyone know that a bonafide disruption to the movie business – in particular to theaters – would occur in March of 2020. The global lockdown resulting from the COVID-19 pandemic effected massive disorder for almost

every industry and forced movie theaters around the world to close while nations attempted to lessen the devastating impact of the novel coronavirus (Rubin, 2020). In the wake of the disastrous outbreak, film distributors, theatrical exhibitors, and countless other movie industry participants were forced to rethink strategies that had remained in place for decades. Conventional approaches were discarded in favor of forward-thinking innovations, as previously risk-averse companies experimented with new, untested methods, sometimes, in the process, raising the ire of industry partners.

For example, Universal Pictures’s decision to forego a theatrical release of *Trolls World Tour* in favor of distributing directly to consumers via at-home digital on-demand platforms was met with AMC Theatres’s banning all future Universal releases from its establishments (Pallotta, 2020). When the reality of how much life had changed as a result of the coronavirus sank in, the two companies reached an agreement that lifted the ban; the new contract also significantly shortened the window during which AMC’s theaters would have exclusive access to Universal films prior to the movies’ video-on-demand (VOD) releases (Lang & Rubin, 2020). Agreements such as this continued to send shockwaves through the industry, as movie studios such as Disney shifted major releases away from theaters and toward streaming services and other direct-to-consumer distribution mechanisms (Solsman, 2020). Powerhouse studio Warner Bros. made the unprecedented decision to release its entire slate of 2021 films concurrently in theaters and on the WarnerMedia streaming platform HBO Max, thereby totally disrupting the industry’s “business as usual” (Warner Bros., 2020). With all of the industry’s players’ working to find a new normal, perhaps there exist opportunities for MoviePass-like services to thrive in a marketplace struggling to rethink and rebuild, prospects that the discussion questions appended to this case explore.

**Distribution**

Oftentimes, innovators introduce ideas that, at first, may seem outlandish but later take hold within the mainstream either through these visionaries’ own dogged efforts or as a result of subsequent entities’ emulating the concept but putting their own spins on the initial design. At the height of MoviePass’s notoriety, both theatrical exhibitors and direct MoviePass competitors began to entertain notions of how to offer moviegoers subscription services that would make fiscal and strategic sense for both the company offering the plan and the consumers enrolling in the program.

Table 1. Proliferation of the MoviePass Concept

Title of Service	Initial Wide Release	Price and Plan	Notable Benefits/Restrictions
Sinema	2014 (Turkey) 2018 (US, Canada, UK, Australia) (shuttered early 2019)	\$29.99/mo. for 30 movies/mo. \$8.99/mo. for 3 movies/mo. \$4.99/mo. for 1 movie/mo. + multiple additional fees	Unused tickets able to be rolled over to following month Usable at multiple locations
Cinemark Movie Club	December 2017	\$8.99/mo. for 1 movie/mo.	Discounts on concessions Usable only at Cinemark locations
AMC Stubs A-List	June 2018	\$19.95-\$23.95/mo. for 3 movies/wk. (pricing varies by geographic location) (requires initial 3-month commitment)	Discounts on concessions Priority ticket lane access Usable only at AMC locations
Regal Unlimited	July 2019	\$18/mo. for unlimited movies at 200+ locations \$21/mo. for unlimited movies at 400+ locations \$23.50/mo. for unlimited movies at all locations + \$0.50/movie (requires initial 1-year commitment)	Discounts on concessions Usable only at Regal locations

Alamo Season Pass	March 2020 (almost immediately suspended due to pandemic)	\$14.99/mo. for one movie per day/mo.	Usable only at Alamo Drafthouse locations
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Some of the ideas that MoviePass attempted to bring to life have found their way into other companies' business models (see Table 1). An ambitious company called Sinemia tried to compete directly with MoviePass by offering its own theater-neutral subscription-based service but failed in the process almost as spectacularly as did MoviePass. In an attempt to improve upon the third-party models, exhibitors began fashioning their own proprietary takes on the concept first introduced by MoviePass. Cinemark created Movie Club, AMC launched Stubs A-List, Regal introduced Regal Unlimited, and Alamo Drafthouse began offering Alamo Season Pass. While MoviePass ultimately failed in its effort to transform the movie theater industry, the company's legacy lives on in the services that MoviePass's innovative approach inspired. As is often the case, one venture's failure does not necessarily mean the end of the story; other actors can iterate on the initial unsuccessful attempt and, with some serious tweaking, spin straw into gold.

### **CASE STUDY QUESTIONS FOR STUDENT DISCUSSION AND ANALYSIS**

Ideas usually do not entirely disappear; they often lie dormant until such time that the environment changes and market forces become conducive to revisiting the concept. MoviePass fell far short of achieving its lofty ambitions, thereby embodying the very definition of corporate failure. However, in assessing MoviePass's fundamental missteps and subsequently devising strategies to circumvent such pitfalls, theater chains have experienced far greater success with their personalized spins on the MoviePass model than MoviePass ever did. Clear examples of learning from MoviePass's failure include Regal's offering of multiple pricing tiers to accommodate diverse customer segments while still retaining profitability and its application of ticket surcharges aimed at deterring excessive usage. By the end of 2019, the services that rose from the ashes of MoviePass's failure were gaining steady followings and began to thrive; few could have predicted the cataclysm to come.

The outbreak of the novel coronavirus that caused the COVID-19 global pandemic beginning in early 2020 fundamentally changed the landscape for countless industries. The theatrical film industry relies on patrons to venture out and sit shoulder-to-shoulder in an enclosed space for over two hours on chairs previously occupied by other attendees, all while munching snacks and sipping cola – activities difficult to perform while wearing facemasks designed to attenuate disease transmission. Suffice it to say, a wide-spread and highly-transmissible pathogen represents an incomparable existential threat to cinemas. It has been said that necessity is the mother of invention; perhaps this new age will require innovation in the form of a strategic approach once thought unfeasible but now suddenly within the realm of possibility. Keep this notion in mind as you respond to the following:

1. Can you think of any innovations (other than MoviePass) that were deemed ahead of their time and failed because the market was unprepared? How did subsequent products/services later incorporate these innovations successfully?
2. Explain the importance of studying corporate failures. What are the main lessons that a student of strategic management should take away from this case study?

3. What can be learned from MoviePass's continual mismanagement and mistreatment of its clientele? Identify what actions MoviePass took that would classify as anti-consumer. Comment on the ethicality of the company's decisions.
4. Why did MoviePass ultimately fail? What could MoviePass have done differently at certain stages that may have altered its fate? Is it possible to point to one specific strategic decision that led to MoviePass's downfall? Explain.
5. In the wake of MoviePass's slide into bankruptcy, several companies experienced success in providing similar subscription-based services. What factors allowed these other firms to succeed where MoviePass failed?
6. How has the movie industry changed since MoviePass ceased operation? Since that time, has the external environment become more or less conducive to a MoviePass-style service?
7. If a new entrant wished to introduce a service that offered subscribers the ability to watch movies in theaters for a flat rate, what type of strategies would you recommend that the company adopt, and what service offerings would you recommend that the company provide? What type of strategies and service offerings should the firm avoid?
8. Could a service similar to that of MoviePass succeed in today's environment? Why or why not? In particular, could such a service – or at least certain elements of such a service – survive or even thrive in a post-COVID world?
9. How can entities involved in the movie industry learn from the adjustments that companies were forced to make during the COVID-19 pandemic? In your response, consider how online video streaming services presented movie studios with new opportunities. Specifically, what can be learned from the way that companies pivoted as a result of a changed global environment, with Universal's shortening theatrical windows, Disney's launching Disney Premiere Access on its Disney+ streaming service, and Warner Bros.'s releasing its entire slate of 2021 films day-and-date on the HBO Max streaming service as well as in theaters?
10. What approaches, in general, might yield the best results in a movie industry that has been altered – perhaps irrevocably – by a pandemic that continues to threaten the very concept of going to the movies? Do you believe that theaters can survive in the long term? Why or why not? What strategic alterations must be made in order to afford theaters the best chance of a bright future? What role do you believe MoviePass-style subscription services will play in this altered future?

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