The Rise and Fall of MoviePass: Balancing Customer Acquisition and Profitability| Case 4

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Q1. Critique of MoviePass's Customer Acquisition and Retention Strategies:

Acquisition Strategies:

Strengths:
- **Exclusivity and partnerships:** Partnering with studios for early access and collaborating with local theaters created a sense of value, urgency and exclusivity.
- **Referral programs:** Leveraging existing customers as brand ambassadors could spread awareness organically.
- **Influencer marketing:** Reaching target audiences through trusted voices could be effective.

Weaknesses:
- **Unsustainable pricing:** Low subscription fees led to financial strain and ultimately contributed to the downfall.
- **Limited target audience:** The model may not have appealed to all moviegoers, especially those with infrequent attendance.
- **Focus on quantity over quality:** Acquiring many users at a low price might not result in loyal, long-term customers.

Retention Strategies:

Strengths:
- **Personalization:** Tailoring recommendations and creating a "personal movie consultant" experience could increase engagement.
- **Exclusive events:** Offering unique benefits beyond just movie tickets fostered a sense of community and value.

Weaknesses:
- **Limited content:** Relying solely on movie recommendations might not be enough to retain customers with diverse interests.
- **Reliance on novelty:** The initial impact of exclusive events might fade over time, requiring constant innovation.
- **Lack of address on price concerns:** Ignoring the issue of unsustainable pricing could still lead to churn.

Analysis:

- **Prioritization:** Balancing acquisition and retention is crucial. Initially, acquisition is important to build a user base, but long-term success hinges on effective retention.
- **Diminishing returns:** Similar trends in both strategies highlight the need for continuous improvement and innovation to maintain effectiveness.

Mitigating the risk:

Sustainable pricing model: Finding a price point that covers costs while offering value to customers is essential.

- Tiered Subscription: Offer multiple subscription tiers with varying price points and benefits. A lower tier might offer limited monthly tickets at a lower price, while a higher tier might offer unlimited tickets, exclusive events, and other perks. This caters to diverse needs and budgets while increasing potential revenue.
- Dynamic Pricing: Implement a system where ticket prices fluctuate based on factors like movie popularity, day of the week, and showtime. This could offer discounts for less popular options while ensuring profitability for high-demand movies.
- Hybrid Model: Combine a subscription fee with per-ticket charges. The subscription could offer a base discount on tickets, while individual charges incentivize responsible usage and generate additional revenue.

Data-driven approach: Utilize data to personalize recommendations, events, and offerings to individual user preferences.

- Analyze past viewing history, genres preferred, ratings, and watchlists to suggest tailored movie choices.
- Leverage machine learning to recommend similar movies to previously enjoyed ones or suggest upcoming releases based on individual preferences.
- Use data to identify emerging trends or niche interests within the user base and curate special events or partnerships catering to those specific groups.

Expand content: Consider partnerships with streaming services or offering additional entertainment options to cater to diverse interests.

- **Bundle Subscriptions:** Partner with streaming services like Netflix, Hulu, or Disney+ to offer combined subscriptions at a discounted rate, appealing to both moviegoers and streamers.
- **Exclusive Content Access:** Negotiate with streaming platforms to offer MoviePass subscribers early access to select TV shows or movies before their full release.

Conclusion:

While MoviePass's strategies had elements of strength, their unsustainability and overreliance on novelty ultimately led to downfall. Balancing acquisition and retention with a focus on value, personalization, and loyalty is crucial for long-term success. Continuous innovation and data-driven optimization are essential to mitigate diminishing returns and ensure a thriving customer base.

Q2. Calculation of Optimal Expenditures and Goals.

a) Calculate the optimal customer acquisition expenditure and the corresponding acquisition rate goals, considering both the accounting team and CMO estimates. What factors should influence the allocation of budget towards customer acquisition?

Exhibit 1: Current and Proposed Marketing Expenditures

Input from Management Team*	Accounting Team	CMO's Plan
Current acquisition rate (%)	15	35
Ceiling acquisition rate (%)	35	80
Current acquisition expenditure/prospect ($)	2	5
Current retention rate (%)	30	30
Ceiling retention rate (%)	55	80
Current retention expenditure/customer ($)	4	12

* Assume discount rate of 10% and margin on transaction of $50/client

- **Current Acquisition Rate (%):** This represents the percentage of prospective customers who become subscribers. The management team currently achieves a 15% acquisition rate, while the CMO aims to increase this to 35%.
- **Ceiling Acquisition Rate (%):** This is the maximum potential acquisition rate estimated. The management team sets this at 35%, and the CMO believes it can be pushed to 80%.
- **Current Acquisition Expenditure/Prospect ($):** The current spending to acquire each new prospect is $2 as per the management team, with the CMO proposing an increase to $5, likely to fuel more aggressive marketing campaigns.
- **Current Retention Rate (%):** The current percentage of customers who continue their subscriptions is 30%. Both the management team and the CMO agree on this figure.
- **Ceiling Retention Rate (%):** This is the highest estimated retention rate that could be achieved. The management team's target is 55%, whereas the CMO's target is higher at 80%.
- **Current Retention Expenditure/Customer ($):** This indicates how much is currently being spent to retain each customer. The management team spends $4, while the CMO suggests increasing this investment to $12 per customer.
- **Assume Discount Rate of 10%:** This suggests that future cash flows from customers are being discounted at a rate of 10% to account for the time value of money.
- **Margin on Transaction of $50/Client:** This indicates that the company expects to make a margin of $50 for each client transaction.

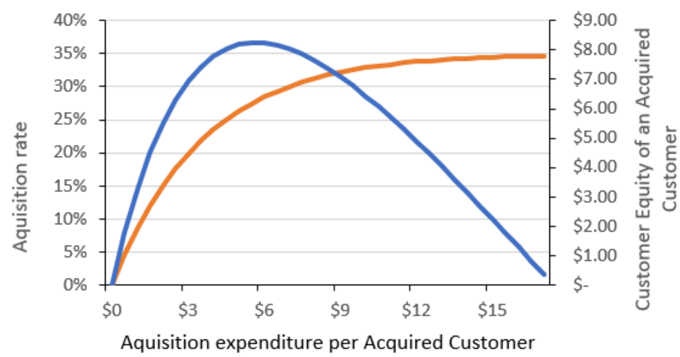
Acquisition: Accounting Estimates

Current acquisition rate	a_0 =	0.15	
Ceiling acquisition rate	a* =	0.35	
Current expenditure per prospect	A =	2	
Implies: k_1	k_1 =	0.2798	=ln(1-C3/C4)/C5
Margin on a transaction	m =	50	

$$a = a^*[1 - e^{(-k_1 A)}]$$

CE = $a * m - A$

A	a	Net Cont.
$ -	0.0%	$ -
$ 0.50	4.6%	$ 1.78
$ 1.00	8.5%	$ 3.27
$ 1.50	12.0%	$ 4.50
$ 2.00	15.0%	$ 5.50
$ 2.50	17.6%	$ 6.31
$ 3.00	19.9%	$ 6.94
$ 3.50	21.9%	$ 7.43
$ 4.00	23.6%	$ 7.79
$ 4.50	25.1%	$ 8.03
$ 5.00	26.4%	$ 8.18
$ 5.50	27.5%	$ 8.24
$ 6.00	28.5%	$ 8.23



- The **blue curve** represents the acquisition rate, which increases with the acquisition expenditure per prospect. The rate of increase slows down as the expenditure continues to rise, indicating a saturation point beyond which additional spending yields minimal increases in the acquisition rate.
- The **red curve** shows the customer value in the first year against the acquisition expenditure per prospect. Initially, as spending increases, the customer value rises. However, the curve peaks and then declines sharply, suggesting that there is a point beyond which additional acquisition spending actually decreases the customer value in the first year, likely due to oversaturation or ineffective marketing.

Key Data Points for MoviePass

- **Current Acquisition Rate (a0):** The current rate at which new customers are acquired is 15%.
- **Ceiling Acquisition Rate (a*):** The target maximum rate that MoviePass aims to achieve is 35%.
- **Current Expenditure per Prospect (A):** MoviePass currently spends $2 on acquisition strategies per prospect.
- **Implies k1:** This is a constant (0.2798) derived from the acquisition model that MoviePass uses, which factors into calculating the acquisition rate.

- **Margin on a Transaction (m):** MoviePass earns a margin of $50 on each transaction.
- The formula **a = a* [1 - e^(-k1*A)]** represents the acquisition rate as a function of the expenditure per prospect.
- The formula **CE = a * m - A** represents the customer equity, which is the product of the acquisition rate and margin per transaction minus the acquisition cost.

  Using the provided formulas, we can calculate the acquisition rate for various levels of expenditure. We can also determine customer equity (CE) to find the point where MoviePass maximizes its return on acquisition spending. The graph suggests that the optimal point of expenditure is before the red curve starts to decline, which is where the customer value is maximized for the given acquisition rate.

  Based on the graph, we can infer that the optimal acquisition expenditure per prospect is $5.5 where the customer value in the first year is at its peak of 8.24 and the corresponding acquisition rate goal is 27.5%.This would align with an acquisition rate that is significantly higher than the current 15% but still within a realistic range toward the ceiling of 35%.

Factors that Influence Allocation of Budget:

- **Cost-Benefit Analysis:** Invest up to the point where the customer value is maximized, which appears to be at $5.5 per prospect.
- **Diminishing Returns:** Recognize that beyond the optimal expenditure point, the increase in acquisition rate does not justify the additional spending.
- **Market Saturation:** Evaluate the market saturation point to avoid overspending on acquisition when most potential customers are already reached.

  In conclusion, MoviePass should allocate its customer acquisition budget to maximize customer value and acquisition rate efficiently. The accounting data suggests that an optimal expenditure lies around $5.5 per prospect, balancing the initial cost with the potential revenue generated from new customers.

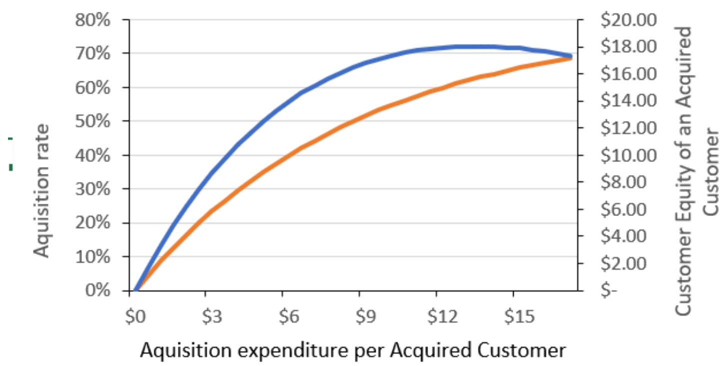
Acquisition: CMO Estimates

Current acquisition rate	a_0 =	0.35	
Ceiling acquisition rate	a^* =	0.85	
Current expenditure per prospect	A =	5	
Implies: k_1	k_1 =	0.1061	=ln(1-C3/C4)/C5
Margin on a transaction	m =	50	

$$a = a^*[1 - e^{(-k_1 A)}]$$

$$\text{CE} = a * m - A$$

A	a	Net Cont.
$ 9.00	51.6%	$ 16.80
$ 9.50	53.2%	$ 17.09
$ 10.00	54.7%	$ 17.34
$ 10.50	56.1%	$ 17.55
$ 11.00	57.4%	$ 17.72
$ 11.50	58.7%	$ 17.85
$ 12.00	59.9%	$ 17.95
$ 12.50	61.0%	$ 18.01
$ 13.00	62.1%	$ 18.04
$ 13.50	63.1%	$ 18.04
$ 14.00	64.0%	$ 18.01
$ 14.50	64.9%	$ 17.96
$ 15.00	65.8%	$ 17.88



- The **blue curve** plots the acquisition rate against the acquisition expenditure per prospect. It shows a growth trend that starts to plateau, indicating that the CMO's strategy yields increasing acquisition rates with higher investment, up to a point.
- The **red curve** represents the customer value in the first year against the acquisition expenditure. This curve initially rises with expenditure, reaching a peak, and then begins to decline, suggesting that there is an optimal expenditure level after which the cost of acquisition begins to negatively impact customer value.

Key Data Points for MoviePass

- **Current Acquisition Rate (a0):** The base rate at which new customers are currently being acquired is 35%.
- ***Ceiling Acquisition Rate (a):**** The aspirational goal for the acquisition rate, set by the CMO, is 85%.
- **Current Expenditure per Prospect (A):** The CMO's plan involves spending $5 on marketing and other acquisition strategies per prospective customer.
- **Implies k1:** This is a calculated constant (0.1061) that represents the effectiveness of the acquisition expenditure.
- **Margin on a Transaction (m):** The profit margin for MoviePass on each transaction is $50.

The formula **a = a* [1 - e^(-k1*A)]** calculates the expected acquisition rate based on the expenditure per prospect, and **CE = a * m - A** gives the customer equity, which is the profit from the acquired customers after subtracting the acquisition cost.

Based on the graph, the optimal acquisition expenditure per prospect is at the peak of the red curve, where customer value in the first year is highest at 18.88 before it starts to decrease. This point seems to be at $13.5 and the corresponding acquisition rate goal is 63.1%, which aligns with a high acquisition rate without reducing the customer value due to overspending.

Factors that Influence Allocation of Budget:

- **Maximizing Customer Value:** The optimal expenditure is where the customer value in the first year is highest. This appears to be just over $13.5 per prospect, as indicated by the peak of the red curve.
- **Cost-Effectiveness:** Investment should lead to the highest possible acquisition rate without exceeding the point of diminishing returns, where additional spending does not significantly increase the acquisition rate or customer value.
- **Market and Financial Constraints:** The chosen strategy should be sustainable and aligned with MoviePass's financial capabilities and overall market conditions.

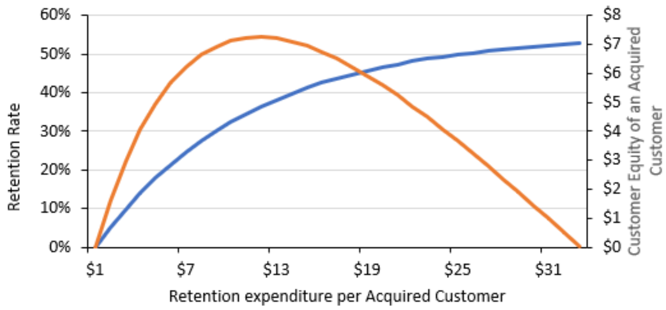
Thus, based on the CMO's estimates and the provided graph, MoviePass should invest $13.5 per prospect in acquisition to maximize the customer value in the first year and to achieve a high acquisition rate, staying within the cost-effective range.

b) Calculate the optimal customer retention expenditure and the corresponding retention rate goals, again considering both the accounting team and CMO estimates. Discuss the factors that should guide the budget allocation towards customer retention.

Retention: Accounting Estimates

Current retention rate	r_0 =	0.3
Ceiling retention rate	r* =	0.55
Current expenditure per prospect	R =	4
Implies: k2	k2 =	0.1971
Margin on a transaction	m =	50

$$r = r^* \times \left[1 - e^{(-k_2 \times R)}\right]$$



R	r	CE for an a
$ -	0.0%	$ -
$ 0.50	5.2%	$ 1.62
$ 1.00	9.8%	$ 2.96
$ 1.50	14.1%	$ 4.07
$ 2.00	17.9%	$ 4.95
$ 2.50	21.4%	$ 5.67
$ 3.00	24.6%	$ 6.22
$ 3.50	27.4%	$ 6.63
$ 4.00	30.0%	$ 6.93
$ 4.50	32.3%	$ 7.12
$ 5.00	34.5%	$ 7.22
$ 5.50	36.4%	$ 7.24
$ 6.00	38.1%	$ 7.20
$ 6.50	39.7%	$ 7.09
$ 7.00	41.2%	$ 6.94

- The **blue line** likely illustrates how the retention rate increases with higher investment in retention strategies. It starts to flatten, showing a plateau effect which indicates that beyond a certain expenditure level, the increase in retention rate is minimal.
- The **red line** seems to show the customer value in the first year. It also increases with higher retention expenditure but starts to decline after a point, suggesting that there is a limit to how much customer value can be enhanced by spending more, beyond which the additional expenditure does not bring a proportional return.

Key Data Points for MoviePass

- MoviePass's **current retention rate** is 30%.
- The **goal for the retention rate** is a ceiling of 55% according to the accounting team's conservative estimates, and 80% as per the CMO's more aggressive plan.
- The **current retention expenditure** is $4 per customer for the accounting team's budget, while the CMO recommends spending $12 per customer.
- At a $5.5 retention expenditure per customer, the retention rate could be approximately 36.4%.

To calculate the optimal customer retention expenditure for MoviePass, we look for the point where the red line is at its peak before it declines, which would indicate the highest customer value achieved for the investment.Simultaneously, we would seek where the blue line's growth rate starts to diminish significantly, which would mark the point of diminishing returns on the retention rate.

Considering these aspects, MoviePass's optimal retention expenditure seems to be at the $5.5 mark and the corresponding retention rate goal is 36.4%, balancing customer value and retention rate effectively without incurring unnecessary costs.

Factors that Influence Allocation of Budget:

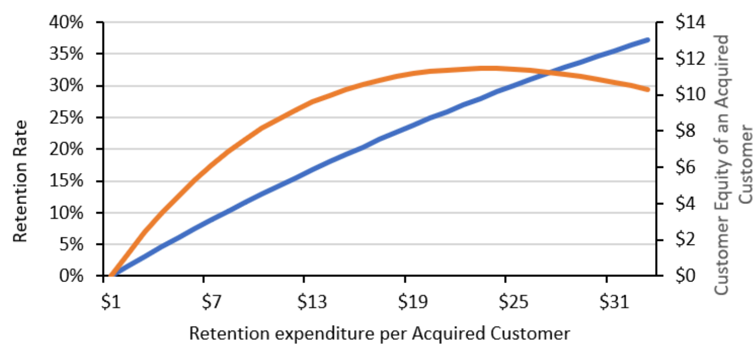
- The law of diminishing returns, as shown by the plateauing retention rate on the graph.
- The alignment between retention spending and an increase in customer lifetime value.
- External factors such as market saturation, competitive retention strategies, and overall market conditions.
- Strategic alignment with the company's goals, ensuring that spending contributes to long-term growth and profitability.

Therefore, MoviePass should allocate its customer retention budget towards achieving a balance between the cost of retention activities and the added value they bring, aiming for the highest customer value while avoiding excessive spending that yields little additional return. The graph suggests that the optimal expenditure lies around $5.5 per customer, aligning with the CMO's recommendation and achieving a retention rate close to the management team's target.

Retention: CMO Estimates:

R		r		CE for an ac
$	7.00	19.2%	$	10.30
$	7.50	20.4%	$	10.58
$	8.00	21.5%	$	10.82
$	8.50	22.7%	$	11.01
$	9.00	23.8%	$	11.17
$	9.50	24.9%	$	11.29
$	10.00	25.9%	$	11.38
$	10.50	27.0%	$	11.43
$	11.00	28.0%	$	11.45
$	11.50	29.0%	$	11.45
$	12.00	30.0%	$	11.41
$	12.50	31.0%	$	11.35
$	13.00	31.9%	$	11.27

Current retention rate	r_0 =	0.3
Ceiling retention rate	r* =	0.8
Current expenditure per prospect	R =	12
Implies: k2	k2 =	0.0392
Margin on a transaction	m =	50



- The **blue curve** represents the retention rate. As the retention expenditure per prospect increases from $1 to around $19, the retention rate increases, suggesting that investing more in retention strategies up to this point is effective. Beyond this, the curve flattens out, indicating diminishing returns on additional investment.
- The **red curve** represents the customer value in the first year against the retention expenditure per prospect. This curve peaks at around $11.5, suggesting that the customer value increases with retention expenditure up to this point. Beyond this, the curve starts to decline, indicating that spending more than the same may not be justifiable as the customer value in the first year decreases.

Key Data Points for MoviePass

- **Current Retention Rate (r0)**: The existing rate at which customers continue their subscription is 30%.
- **Ceiling Retention Rate (r*):** The maximum retention rate that MoviePass aims to achieve is 80%.
- **Current Expenditure per Prospect (R):** MoviePass currently spends $12 on retention strategies per existing customer.
- **Implies k2:** This is a constant (0.0392) derived from the retention model that MoviePass uses, which factors into calculating the retention rate.
- **Margin on a Transaction (m):** MoviePass earns a margin of $50 on each transaction.

Given the data, MoviePass's optimal retention strategy should involve spending where both retention rate and customer value are maximized. The graph suggests that this optimal point of expenditure is around $11.5 per prospect. After prospect the corresponding retention rate goal is 29% and achieve the highest customer value in the first year, without incurring additional costs that don't contribute to revenue.

Factors that Influence Allocation of Budget:

- **Cost-Benefit Analysis:** Invest up to the point where the retention rate and customer value are maximized, which appears to be at $11.5 per prospect.
- **Diminishing Returns:** Recognize that beyond the optimal expenditure point, the increase in retention rate and customer value does not justify additional spending.
- **Strategic Goals:** Align retention expenditure with strategic objectives, ensuring that spending contributes to overall company profitability and sustainability.

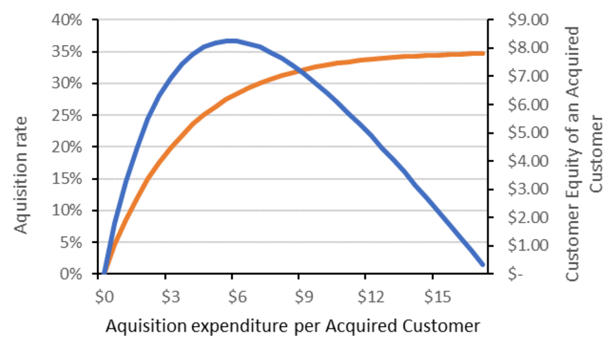
Based on the provided data, MoviePass should allocate its customer retention budget to maximize customer value without exceeding the expenditure that leads to diminishing returns, which is around $11.5 per prospect in this case.

Q.3 Evaluate the three strategic options of focusing primarily on acquisition, primarily on retention, or adopting a hybrid approach. Include graphical plots and results from Excel Solver to support your analysis. Which strategy offers the most sustainable path to growth for MoviePass, and why?

Evaluation of Strategic Options

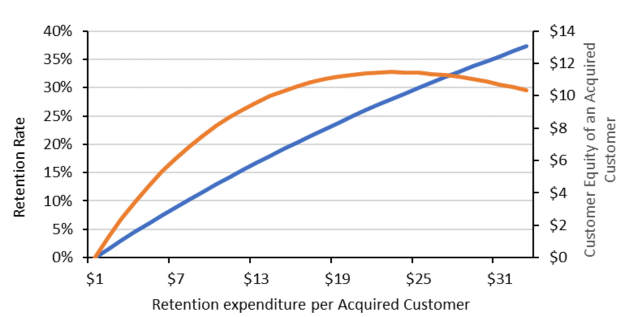
1. Acquisition Focus

- Pros: Rapid initial growth, potential for market dominance.
- Cons: Diminishing returns on investment over time, high customer churn, and the need for continuous investment to maintain growth.
- Analysis : This strategy can lead to quick market potential and brand recognition. The diminishing returns over time may pose a challenge to sustain profitability over the long run. Heavy reliance on continuous investment might strain financial stability as well.



2. Retention Focus

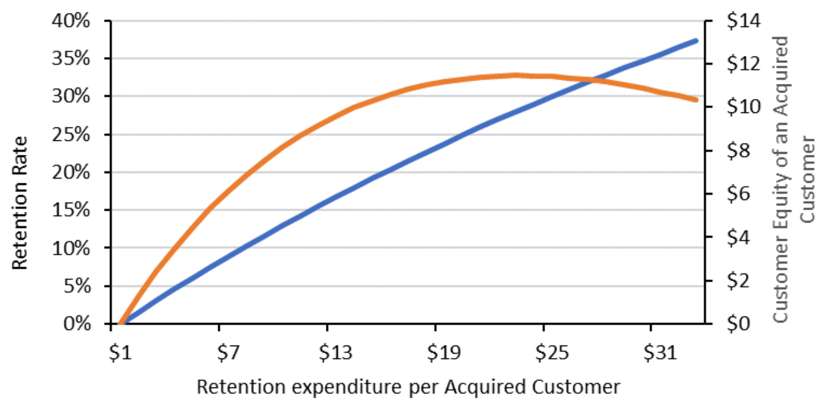
- Pros: Maximizes the value of the existing customer base, fosters long-term brand loyalty, and can lead to sustainable profitability.
- Cons: Limited initial growth, potential challenges in reaching new customers, and the need for continuous innovation to prevent diminishing returns.
- Analysis: The focus on customers loyalty can lead to a stable and sustainable revenue stream. Potential long-term profitability could outweigh limited initial growth. Innovation is crucial to maintaining customer interests and prevent stagnation



3. Hybrid Approach

- Pros: Balances the advantages of both acquisition and retention strategies, maximizing customer equity and ensuring long-term profitability.
- Cons: Requires careful allocation of resources and a deep understanding of the interplay between acquisition and retention efforts.
- Analysis: This option provides a middle ground, addressing both the rapid growth and long-term stability.

We need to allocate resources in an effective manner to maximize both acquisition and retention. Managing the interdependencies between acquisition and retention initiates properly is critical to success.



After analyzing all the 3 approaches the Hybrid approach seems to be the most viable and sustainable path for MoviePass to achieve long-term growth. This strategy combines the strengths of both acquisition and retention efforts, maximizing customer equity and ensuring profitability over a long run.

The hybrid approach can be divided in 3 phases:

The Initial Acquisition Focus:

The first six months would target customer acquisition aggressively. The strategy acknowledges the immediate need for rapid growth and leveraging various acquisition channels, such as partnerships with movie studios and robust digital marketing.

Although the investment during this acquisition phase is high, it is a strategic move to secure a significant market share and lay the foundation for future growth.

Transition to Retention Focus:

With a subsequent shift towards retention towards the later part of the year, it is crucial to maximize the value of the customer base acquired by fostering brand loyalty.

The strategy acknowledges the need for continuous innovation during the retention phase to prevent diminishing returns. This includes revamped loyalty programs and exclusive member events, etc.

Optimization in the subsequent Year:
The third phase of the hybrid strategy involves fine-tuning and optimizing both acquisition and retention strategies simultaneously, based on insights gained over the years.
During this phase it's important to avoid over-relying on any one technique to ensure a balanced growth and learn from past mistakes.

ACCOUNTING

Customer Equity

$$CE = a * m - A + a * \left(m - \frac{R}{r}\right) * \left[\frac{r'}{(1-r')}\right]$$

			Optimal			
		Base	Acquisition	Retention	Both	
Current acquisition rate	a	0.15	0.3002346	0.26360812	0.300253709	
Current retention rate	r	0.3	0.4733864	0.479384216	0.479384017	
Margin on a transaction	m	50	50	50	50	
Current acquisiiton exp. per prospect	A	2	6.9712598	5	6.972631209	
Current retention exp. per acquired customer	R	4	10	10.41357312	10.41355877	
Discount rate	d	0.1	0.1	0.1	0.1	
Computer value r'=r/(1+d)	r'	0.273	0.430	0.436	0.436	where r' = r / (1 + d)
CUSTOMER EQUITY	CE	7.56	14.59	13.94	14.60	Data -> Solver (Use GRG Non-linear Solver) Maximize CE (Cell E32) by changing cells (E27, E28, or both)
Increase			**92.9%**	**84.3%**	**93.0%**	

CMO

Customer Equity

$$CE = a * m - A + a * \left(m - \frac{R}{r}\right) * \left[\frac{r'}{(1-r')}\right]$$

			Optimal			
		Base	Acquisition	Retention	Both	
Current acquisition rate	a	0.35	0.6739525	0.35	0.674835848	
Current retention rate	r	0.3	0.2592581	0.325380415	0.32538034	
Margin on a transaction	m	50	50	50	50	
Current acquisiiton exp. per prospect	A	5	14.836024	5	14.88342168	
Current retention exp. per acquired customer	R	12	10	13.33006176	13.33005776	
Discount rate	d	0.1	0.1	0.1	0.1	
Computer value r'=r/(1+d) Plot Area		0.273	0.236	0.296	0.296	where r' = r / (1 + d)
CUSTOMER EQUITY	CE	13.81	21.24	13.83	21.42	Data -> Solver (Use GRG Non-linear Solver) Maximize CE (Cell E32) by changing cells (E27, E28, or both)
Increase			**53.7%**	**0.1%**	**55.1%**	

In conclusion MoviePass can achieve sustained development in a highly dynamic industry by utilizing the Hybrid approach, which offers a comprehensive and effective strategy for navigating the intricacies of client acquisition and retention.MoviePass is positioned for long-term success and stability through a careful balancing act between its ambitious initial expansion and its subsequent concentrated retention initiatives.