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CINÉPOLIS S.A. de C.V. and KLIC: Rising to the streaming challenge

[Francisco Gil-White](https://iveypubs.my.salesforce.com/003A000001nNTT8) wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In late 2017, Pablo Sánchez was hired as vice-president of strategy at KLIC to create a plan for the streaming platform going forward. KLIC was developed by Cinépolis de México S.A. de C.V. (Cinépolis), a private Mexican company owned by Organización Ramirez S.A.. So far, KLIC operated only in Mexico.

At Cinépolis, the core business had traditionally been cinema theatres, but the KLIC project was important now because streaming was becoming a bigger and bigger business, and Cinépolis suspected that interesting synergies might be found between its theatre business and the new streaming unit. Cinépolis, a large multinational, might in principle capitalize on its presence around the world to push KLIC internationally.

The challenge for Sánchez was to learn from KLIC’s performance in Mexico so far to create a strategy for the product that would make it a success going forward—and perhaps internationally.

A BRIEF HISTORY OF CINÉPOLIS

Though Mexicans loved movies (they were the world’s fourth most avid moviegoers), investing in Mexican movie theatres had not always been an obvious business proposition. At one time, the price of admittance was included in the *canasta básica* (basic basket) of government price-controlled goods. A single union, covering the entire movie theatre industry, kept labour costs high, and the government competed in the space with its own subsidized theatres. But that business ecology changed in 1994 when Mexico, Canada, and the United States signed the North American Free Trade Agreement (NAFTA); price controls on the box office were lifted, and the government exited the movie theatre business.

Organización Ramírez—founded by Enrique Ramírez Miguel with Cine Salamanca in the Mexican city of Morelia—meant to seize the new opportunity. In 1994, it took the name Cinépolis and began investing heavily in the multiplex model, where several screens shared a common roof and a box office. But NAFTA brought foreign competitors. Enrique had an answer to this: his twenty-something grandson, Alejandro Ramírez. Enrique sent his grandson newspaper clippings about the arrival of U.S. theatre-chain competitors, and a note: “Alex, we need you.” Alejandro left his studies at the University of Oxford to become the director of General Operations at Cinépolis in 1996; later, in 2004, he became chief executive officer.[[1]](#footnote-1)

Under Alejandro’s growth-obsessed management, Cinépolis came to own more than half of all movie theatres in Mexico, capturing almost 70 per cent of the country’s film-going market. Without price controls, time at the movies was affordable to only about one-fourth of Mexicans (contributing to movie piracy), but this was still 33 million people. Mexicans went to the movies almost religiously, making the Mexican market surprisingly lucrative—so lucrative, in fact, that Mexican filmgoers had helped turn Cinépolis into the fourth-largest theatre chain in the world, ranked by number of theatres. But other metrics existed: ranked by ticket sales, Cinépolis took the number two slot, and ranked by average theatre occupancy, Cinépolis had become the world champion.[[2]](#footnote-2)

The company’s success had spilled over beyond its home base. In addition to theatres in about 100 cities inside Mexico, the theatre giant was now in well over 100 cities *outside* of Mexico, spread over 13 countries in the Hispanic world (Latin America and Spain), as well as in the two biggest cinema markets in the world: India and the United States. In 2017, Cinépolis had 5,170 screens to its name, for a staggering total of 1,090,942 seats, spread across many cities and towns (see Exhibit 1).[[3]](#footnote-3)

THE CINÉPOLIS RECIPE FOR GROWTH

From 1996, under Alejandro’s management, Cinépolis had tinkered constantly, reinvesting more than 80 per cent of its profits. To make additional investments, the company in recent years had taken on debt for the first time (of an undisclosed amount). The company’s mantra was *growth*, and Cinépolis *had* grown. Dominant in the Mexican market, it had only one strong competitor there: Cadena Mexicana de Exhibición S.A. de C.V. (Cinemex) (see Exhibit 2).

A Talent for Innovation

Some of Cinépolis’ investment went to the construction or purchase of new theatres, increasingly outside of Mexico, and a significant portion also went to generating technology, experience, and service innovations, which became a big part of the company’s vocation and culture.

On the experience and service front, Cinépolis amazed those who thought there was not much of anything new you could do with movie theatres. In 1997, the company began building theatres with seating organized on a “stadium” incline so that nobody’s view would ever be blocked by those in front. In 1999, it introduced the more expensive VIP concept: theatres with large, fully reclining seats with leg rests that almost became beds and could be “merged” two by two, allowing couples to cuddle (customers would get a blanket, too), plus catered dinner service. In 2014, it came up with Cinépolis Junior, theatres exclusively for parents who went to the movies with small children. These theatres had “puff” seating and contained slides and other amusements where children could expend their energy before the show and during intermission (to give them a break from paying so much attention).

On the technology front, Cinépolis spent heavily both to transition its theatres to the latest digital formats, building new, more modern theatres, and to refurbish existing ones. In 2004, it began building giant-screen IMAX theatres, and it built more of these than anybody in Mexico. Because IMAX theatres were enormously large and costly, in 2010 Cinépolis introduced a mid-range alternative: a large, 170-square-metre screen for its new Macro XE (Extreme Digital Experience) theatres. And in 2011, it began implementing in some theatres 4DX, a Korean technology that enhanced the movie experience by giving viewers jolts in their seats and other physical surprises.[[4]](#footnote-4)

Innovative Cinépolis theatres utterly transformed the movie-going experience in Mexico and proved attractive to the country’s relatively affluent moviegoers. If imitation was the best form of flattery, then Cinépolis was lavishly flattered as competitors rushed to copy its innovations.

Improved experience, better technology, and outstanding service were important reasons why Cinépolis was enjoying better average occupancy than any movie theatre company in the world, but another was *analysis*, which also got its share of investment. Cinépolis had turned its decision-making process for choosing theatre locations into a science, studying carefully, for example, how many people who could afford the movies would be within a 15-minute drive of a newly proposed theatre, as well as how many ticket sales a new theatre would cannibalize from other Cinépolis theatres. Its algorithms were so good that Cinépolis now had all of the choicest, best-performing locations in Mexico City.

The Box Office

Analysts were forced to guess at the financials of Cinépolis because the theatre chain—privately owned—did not divulge them. In a 2014 article, *Forbes* did some guessing. According to Cinépolis, 119.4 million tickets had been sold in Mexico in 2011, and the industry average price was about Mex$48[[5]](#footnote-5) per ticket, giving a total of Mex$5.7 billion for the year. But the average ticket price at Cinépolis’ VIP theatres was higher than the industry average. Cinépolis claimed to capture 64.5 per cent of total box-office returns. “In that case,” said *Forbes*, “its box-office returns might be worth 6,202 million pesos.”

Cinépolis claimed that 214.6 million tickets had been sold in 2017 in Mexico. Extrapolating from *Forbes*’2014 analysis, that would mean revenues of Mex$18.9 billion for Mexico alone. However, in 2017, overseas revenues had become significant (see below), whereas in 2014, these represented just 10 per cent of the total.

Food

And then there was food—the revenue stream with the biggest margin. Cinépolis had innovated there, too, not only with its catered service but also with gourmet popcorn in a variety of both familiar and exotic flavours.

According to Cinépolis, its candy and food store was keeping 70 cents for every peso spent at the theatre. Adding this income to the box office, “company revenues might be as high as Mex$10.5 billion pesos,” the *Forbes* article stated.[[6]](#footnote-6) Per Mexican ticket, then, the average revenue was Mex$88.

Overseas Revenue

*Forbes* was guessing at Cinépolis’ financials based on the company’s Mexicanrevenues only. That was fine in 2014, when Mexican revenues were 90 per cent of the total, but by that year Cinépolis was already aggressively looking to make a much larger footprint in other countries, as the Mexican market did not offer too many opportunities for further growth in theatres.

Just one year later, Cinépolis-owned theatres had increased by 75 per cent in India—an important step towards Cinépolis’ target increase of more than 350 per cent by 2017.[[7]](#footnote-7) Cinépolis was also pushing to grow in Spain, the United States, and Latin America. By 2017, according to Cinépolis, a third of all of its tickets were already sold overseas.

Social Media Presence

Mexican movie theatre companies seemed to have a special talent for social media. By 2017, of all the major movie theatre companies in the world, Cinépolis and its rival Cinemex had the most followers in their main social media spaces—Twitter, Facebook, and Google+. But Cinépolis was in a class all its own, with a combined total of 20,492,170 followers, almost twice the total of Cinemex (see Exhibit 3).

KLIC

Despite all of its success with movie theatres, Cinépolis recognized that new winds were blowing and thus decided in 2011 to capitalize on its name, its relationship with content makers, and its presence in theatres to get into the over-the-top (OTT) content game as well. Its bid to capture a share of the OTT market was KLIC, a platform where consumers could rent, buy, or live-stream content. Though the platform was a small part of Cinépolis, the company intended for KLIC to grow.

OVER THE TOP: THE WORLD BEYOND THE THEATrE

Interpreted broadly, OTT content referred to audio, video, and other media transmitted via the Internet as a standalone product—that is, without an operator of multiple cable or direct-broadcast satellite television (TV) systems. Netflix Inc. (Netflix)—a company with a tradition of disruptive innovation—had become the world leader in OTT service.

The Netflix Revolution

Netflix disrupted the traditional video rental model that had turned Blockbuster Entertainment Inc. (Blockbuster) into the dominant giant. In a defensive move, Blockbuster tried to buy the new challenger, but Netflix refused the bid and eventually drove the older company into bankruptcy.

Netflix’s first idea was to ship DVDs to customers by post, saving on bricks-and-mortar costs. But the initial model was pay-per-rent, the same as Blockbuster’s, with similar due dates. A year later came a second, key innovation: the monthly subscription concept. For a monthly fee, a customer could watch any number of DVDs, with no due dates, late fees, shipping and handling fees, or per-title rental fees. This, together with Netflix’s very large catalogue (35,000 different films by 2005), resulted in a crushing preference for Netflix by consumers. By 2003, Netflix had turned a profit.

In 2007, Netflix went “over the top”—it invaded the Internet-based video-on-demand space. Competitor Hulu and other platforms were already there, but Netflix had scale. Its giant catalogue made its streaming service attractive, and its subscription model was an obvious match for the new technology.

Netflix was disruptive, again. It began changing the habits of TV and film consumers (see Exhibit 4), as well as content producers, and endangered other established businesses:

ComScore reports that 51 million households now receive their television programming through what the industry calls Over-The-Top television. They watch an average of 49 hours of streaming content per month. About a third of these households have dropped cable and satellite programming completely. Looking ahead, the streaming services are expected to continue growing rapidly while the cable and satellite numbers decline. Netflix is the biggest driver of this transition. Fully 74 percent of households that stream video watch Netflix. The content giant accounts for 40 percent of all OTT viewing and nobody else is even close.[[8]](#footnote-8)

Despite a great deal of competition (others moved into this space, including Amazon Video, HBO Now, and Crackle, while original inhabitants such as Hulu hung on), some were expecting that U.S. consumers of Netflix’s streaming service could grow “to over 78 million by 2024.” This guess was based on “the secular trends within the pay-TV industry, as consumers increasingly cut the cord in favour of streaming platforms,” and thanks to the improved image of the Netflix brand after it began producing its own attractive, original content.[[9]](#footnote-9)

Spreading abroad, Netflix meant to conquer the world. It arrived in Latin America in 2011, and, despite the relatively low penetration of high-speed broadband in the region, did well there. It had no competitors. That, however, would soon change.

The Mexican OTT Market

In 2012, Claro, a communications services company owned by America Móvil, in turn controlled by Grupo Carso S.A.B. de C.V. (Carso), the Mexican conglomerate headed by Carlos Slim Helú (at one time considered the wealthiest man in the world), launched Claro Video as a direct Netflix competitor. Because Carso also owned Teléfonos de México S.A.B. de C.V. (Telmex) and Teléfonos del Noroeste S.A. de C.V. (Telnor), and because Telmex/Telnor served 60 per cent of the Internet broadband market in Mexico, with a strong position all over Latin America, Carso could get many Latin Americans to try Claro Video by offering the service as a free bundle to Telmex/Telnor broadband customers.

Carso businesses were often entangled; Claro Video could be legitimately viewed as a Telmex/Telnor strategy to protect its dominant broadband position rather than as a standalone product. But there was no question that Claro Video was a contender, and it had followed the Netflix strategy of producing its own original content (e.g., *La Hermandad*) in order to lure viewers. In 2017, with Netflix holding onto 63.6 per cent of the Mexican market, Claro had managed to carve a 25 per cent stake.[[10]](#footnote-10)

The other main competitor in the Latin American market was Televisa S.A. de C.V. (Televisa), the largest TV conglomerate in Latin America, with a presence in the United States through its 25 per cent stake in Univisión and a long tradition of content production that had weaved itself into the cultural memory of all Latin Americans. Televisa had been licensing its content to Netflix but pulled it in 2016 and launched its own OTT platform—Blim. A surge of memes on social media criticized Blim as destined to flop, a late starter that was too expensive and did not understand millennials. But the mocking game worked as free marketing that put the new service’s name out for all to see, and as Blim rushed out of the gates, it briefly pulled ahead of Claro Video before settling into third place, with 7 per cent of the market in 2017.[[11]](#footnote-11)

CINÉPOLIS enters THE over-the-top FRAY

As Netflix landed in Mexico in 2011, Cinépolis decided that it wanted a piece of the OTT market and hired Elizabeth Hopkins to lead the effort. Soon after its product, KLIC, was launched in early 2014, a *Forbes* article was headlined “The Cinépolis KLIC Strategy to Defeat Netflix.”

Cinépolis expected an edge in synergies between its bricks-and-mortar theatre business and the new Internet venture. Perhaps the product could be launched in the company’s overseas markets, too. “We want to fine-tune the business here [in Mexico] first before launching in other countries,” Hopkins told *Forbes*.But she qualified this by saying, “The possibility of expanding to other countries is definitely on our radar.”[[12]](#footnote-12)

The Mexican Experience

KLIC’s original ambitions were large. The initial plan was to offer trailers, movies, TV series, and other digital content (documentaries, musicals, sports fare, and film shorts). At a later stage it would add books, magazines, and video games, as well as wallpapers, screensavers, images, and apps. It was even thought that, in the long term, KLIC might become an Internet hub and a social network. For its first phase, however, KLIC was launched with a humble dual model: a catalogue of TV series, movies, and other digital content, available on an unlimited basis for a monthly subscription fee, plus a separate catalogue of movies that had recently been in theatres, available for rent as pay-per-view.

Cinépolis soon learned that even with this modest debut it had taken on more than it could handle. For one, the content that attracted viewers was so expensive that OTT companies on this model had to wait until they acquired a large user base before they could begin to see profits. This required capital outlays that Cinépolis found difficult to sustain, and the user base was not growing as needed, due to a psychological and cultural obstacle: Netflix had socialized Mexican users into the view that once they had paid a monthly fee, all content on a platform should be available without limits, so the dual model (subscription plus pay-per-view) felt to them like double charging.

It was hard to communicate to users that some content, such as recently released movies or live-streaming events, was licensed differently from the rights owners who, because of the temporarily high demand for such content, insisted on a pay-per-view model. Netflix had avoided such confusion by deciding not to show recently released movies or live-streaming events, producing a content catalogue that could be available to consumers, in its entirety, on a subscription model.

Faced with such problems, Cinépolis decided relatively quickly that it was best to concentrate more on what it did best: release new movies. Under Marco García de la Cruz, who replaced Elizabeth Hopkins in January 2015 as KLIC director, the service was rebranded as the place for customers to see recently released films they had missed at the theatre (the overwhelming majority of its listings included what Cinépolis had recently shown on its theatre screens). It added live-streaming events to lure customers to the service: for instance, through an agreement with Chivas TV—which broadcast the games of Chivas, one of the biggest and most popular soccer franchises in Mexico—it made Chivas games available, live, on KLIC. It tacked on a curated catalogue of older movies, available for a lower price, to provide more variety. As a sweetener, there were interviews and “behind-the-scenes” content for serious movie buffs. Other than the last item, which was offered at no cost, everything on the new KLIC was pay-per-view. The subscription model was dropped.

Integrating KLIC, the Cinépolis life cycle model became as follows: First, the movie was shown in theatres and had a 90-day exclusivity window from the premiere. Following this, the movie went to KLIC, where it was usually *sold* for a couple of weeks first (electronic sell-through [EST]), and then a rental option was added (TV on demand [TVOD]). Matters would remain thus for three months, after which the movie would be dropped from TVOD and remain as EST.

This was now an entirely different model than that of Netflix, Claro Video, and Blim. These other competitors needed huge investments in original content because, with a subscription model, they were forced to hook users to content available nowhere else, and the model was designed with a long horizon to keep users returning—hence the need to produce original TV series (which, according to many, had consequences even for art, in terms of narrative strategy and style). But such investments were so large that a very large user base was necessary for profitability. In 2017, Netflix was still experiencing negative free cash flow due to the huge investments it was making in content creation, financed through debt. It expected to recoup this because “the [Netflix-owned] content library can be monetized and amortized over a number of years, which should lead to an improvement in profitability over the long run”; however, without a doubt, this was a very capital-intensive strategy.[[13]](#footnote-13)

By contrast, KLIC’s capital outlays looked relatively modest. Although it did incur fixed costs to keep its platform running, pay-per-view content paid royalties to the content owner—there was no upfront cost. Because of this, KLIC could reach profitability with comparatively few users. According to Cinépolis data, it already had about one million “registered users,” of which about 150,000 were “active” users transacting something on KLIC every month. These numbers were nothing compared to those that Netflix boasted, but with the right mix and frequency of transactions, KLIC expected to be profitable by reaching just 300,000 active users (see Exhibit 5).

Furthermore, KLIC was no longer competing with Netflix. Rather than being a substitute, it had become a complement. The Cinépolis numbers bore this out; nine out of 10 KLIC users also had Netflix. The new KLIC, however, *was* competing with iTunes. Why would those interested in recent movies not get them from iTunes? After all, KLIC was charging similar prices. Cinépolis executives explained that in Mexico, the penetration of Apple TV hardware relative to other boxes was quite low. And broadband access to a web page was much more common, anyway. KLIC could therefore charge similar prices for its content and still expect a fair number of Mexicans to get recent movies through its service—if only Cinépolis could get them to try it. And *that* was the challenge.

Growing KLIC

Capturing 300,000 active users to achieve profitability may not have sounded like an impossible goal, but it was double the number of users KLIC had. And even if KLIC could reach 300,000, Cinépolis was aggressive about growth. The company wanted KLIC to thrive and conquer, not merely to break even.

It was important for Cinépolis to find a way to lure more people to KLIC, to turn registered users into active users, and to generate more transactions per active user. Naturally, Cinépolis was taking advantage of the millions of people who came to its theatres, where they would see advertisements for KLIC. Cinépolis also had a loyalty program where theatregoers could gain points redeemable on KLIC. But other opportunities for synergy—or better strategies for existing synergies—between the two businesses likely existed. The challenge ahead was to find a way to exploit these and fine-tune the model.

Sánchez was not sure that KLIC was ready for international expansion. What could Cinépolis do to improve KLIC’s performance in Mexico? How should KLIC improve its data gathering on its current users (see Exhibit 6)? Once the model was fine-tuned, where should it expand first, and how? Sánchez needed to better understand the market, in Mexico and abroad, and he needed quantitative key performance indicators that would allow him to assess any strategy he chose to recommend. Sánchez had his work cut out for him as he prepared a strategy.

Exhibit 1: Cinépolis theatre presence around the world

Cinépolis has expanded aggressively around the world. On the American continent, in addition to its presence in over 70 Mexican cities and towns, Cinépolis is present in cities and towns in other regions, including 11 in Central America, 19 in the Andes region, 30 in Brazil, 8 in Argentina, and 13 in the United States. It is also present in 19 cities and towns in Spain and in almost 30 cities and towns in India.

|  |  |
| --- | --- |
| **Region** | **Number of cities and towns  with Cinépolis theatres** |
| Mexico | > 70 |
| Central America | 11 |
| Andes | 19 |
| Brazil | 33 |
| Argentina | 8 |
| United States | 13 |
| Spain | 19 |
| India | 28 |

Source: Company documents.

Exhibit 2: Cinépolis and Cinemex market share in Mexico (%)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  | | --- | --- | | **Mexico (country)** | | | Cinépolis | 67 | | Cinemex | 29.1 | | Others | 3.2 | | |  |  | | --- | --- | | **Mexico City** | | | Cinépolis | 58.9 | | Cinemex | 39.3 | | Others | 1.8 | | |  |  | | --- | --- | | **Monterrey** | | | Cinépolis | 62.9 | | Cinemex | 35.1 | | Others | 2.0 | | |  |  | | --- | --- | | **Guadalajara** | | | Cinépolis | 86.4 | | Cinemex | 13.6 | | Others | 0.0 | |

Source: Company documents.

Exhibit 3: cinÉpolis social media presence (number of followers)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cinépolis** | **Cinemex** | **AMC** | **Regal Entertainment** | **Cineplex** |
| 20,492,170 | 12,357,975 | 5,738,660 | 3,025,271 | 840,183 |

Note: Includes combined totals of Twitter, Facebook, and Google+ followers.

Source: Company documents.

Exhibit 4: netflix viewing habits—tv series versus movies

Netflix’s innovation to make all the chapters in a TV series’ season available at once has had a large cultural impact and has resulted in “binging”—consumers watching an entire TV series in a very short period of time. This, in itself, is an interesting development. But Netflix is always analyzing the consumer data it has to further refine its understanding of viewing habits. This data has answered the following questions: How do Netflix users combine watching TV series and movies? What is the mix of the two? Which is more important? When do they watch one versus the other?

Typical Netflix users are heavy TV series consumers. They will watch a movie only in the short break between finishing a TV series—which they likely binged on—and starting a new one. The psychology of this seems to be that they need a break from the heavy commitment—or downright addiction!—that a TV series implies. So before they plunge into a TV series again, they take it easy with a movie (or a documentary, or a stand-up comedy show). Movies on Netflix work as a kind of “intermission” between strong commitments to TV series.

Source: Dana Feldman, “Over 30M Netflix Members Have New Binge-Watching Routines Pairing TV And Movies,” *Forbes*,December 7, 2016, accessed January 2019, [www.forbes.com/sites/danafeldman/2016/12/07/over-30m-netflix-members-have-new-binge-watching-routines-pairing-tv-movies/#6d4889395411](https://www.forbes.com/sites/danafeldman/2016/12/07/over-30m-netflix-members-have-new-binge-watching-routines-pairing-tv-movies/#6d4889395411).

Exhibit 5: mix of KLIC services and their profitability

KLIC offers the following three pay-per-view services:

1. **TV on Demand (TVOD)**: This is basically a rental. The user has 30 days to start watching a movie, and once they have started playing it, they have 48 hours to finish viewing it. During these 48 hours, the user can watch it as many times as they want. To view it, the user has two options: (1) streaming, which means watching it while connected to the Internet, or (2) downloading it to their mobile device and watching it online.
2. **Electronic Sell-Through (EST)**: The user acquires the right to reproduce the movie for an indefinite period of time, as many times as they want. This applies also to TV series (for which the rental option does not exist). It is tempting to say that the user *bought* the content, but in fact the user has these rights only so long as KLIC continues to have a contract with the content owner. Thus it is more like a very long rental.
3. **Live Streaming**: This refers to online streaming media simultaneously recorded and broadcast in real time to the viewer. It refers to live events that are watched over the Internet.

|  |  |  |  |
| --- | --- | --- | --- |
| **Service** | **Gross Average Price (MXN)** | **Net Contribution Margin (MXN)** | **Mix of Transactions Needed for Profitability** |
| TVOD | $43.80 | $9.43 | 82% |
| EST | $150.00 | $12.93 | 15% |
| LIVE | $175.00 | $22.00 | 2% |

According to KLIC data, with the above mix of transactions, KLIC achieves profitability at 300,000 active users.

Source: Company documents.

Exhibit 6: KLIC user data

KLIC defines the following user categories:

**Circumstantial**—Flexible with respect to the world of cinema. Not too picky about content or quality. Because they are so flexible, they adapt to almost any circumstance for watching movies. They do not look for anything in particular, and watch whatever is offered. A consequence of this flexibility is that they can obtain movies through almost any medium.

**Nesting**—These are usually couples with children in school. They do not go to the movies frequently because it is expensive and because having children typically means they must see children’s movies. They prefer affordable entertainment opportunities at home that involve the entire family. Watching movies together at home is fun and generates a good family dynamic. They use several platforms because they want to have a bigger menu from which to choose.

**Graduate**—Has seen a great repertoire of movies. Quite picky about everything having to do with the world of cinema: quality, content, comfort. Loves loyalty programs. Will not watch just any movie but looks for desired content (thematically). Loves additional and special content about movies and is not easily influenced by what open TV offers because it is a very simple and basic experience. Has multiple platforms for viewing movies because this is the way to get all the specific content this user wants.

**Trainee**—Loves the movies but is not a “film buff.” Is still building a repertoire and is relatively flexible with content. Likes loyalty programs. This user is adaptable to open TV and pay-per-view because they are still building a repertoire. Satisfied with a digital platform and can potentially “mature” to become a graduate.

**Self-indulgent** (*Auto complaciente*)—Enjoys movies as a way to relax but has no special passion for cinema. Likes to watch movies at home without worrying about a particular theme or genre. Also likes going to the movies but does not do this regularly; this user is just as happy to watch movies at home. In terms of viewing, tends to be selfish, viewing what they like when they feel like it, rather than coordinating with family.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Frequency with which I rent movies in Cinépolis KLIC (assisted, only one answer)** | **Circumstantial** | **Nesting** | **Graduate** | **Trainee** | **Self-indulgent** |
| Every day | 0.13% | 0.03% | 0.08% | 0.10% | 0% |
| 3 or 4 times a week | 1% | 1% | 1% | 1% | 0% |
| Once a week | 6% | 9% | 10% | 9% | 5% |
| Once every two weeks | 19% | 19% | 23% | 23% | 15% |
| Once a month | 29% | 30% | 33% | 31% | 30% |
| Every 3 or 4 months | 22% | 20% | 20% | 20% | 24% |
| Once or twice a year | 12% | 9% | 7% | 8% | 14% |
| I have not rented movies in Cinépolis KLIC | 10% | 11% | 5% | 7% | 12% |
| Sample size | 3,096 | 2,861 | 2,432 | 2,032 | 1,913 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Frequency with which I buy movies in Cinépolis KLIC (assisted, only one answer)** | **Circumstantial** | **Nesting** | **Graduate** | **Trainee** | **Self-indulgent** |
| Every day | 0% | 0% | 0% | 0% | 0% |
| 3 or 4 times a week | 0% | 0% | 0% | 0% | 0% |
| Once a week | 0% | 1% | 1% | 1% | 1% |
| Once every two weeks | 1% | 1% | 1% | 1% | 1% |
| Once a month | 3% | 4% | 5% | 4% | 3% |

exhibit 6 (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Every 3 or 4 months | 3% | 4% | 4% | 4% | 4% |
| Once or twice a year | 8% | 8% | 8% | 8% | 6% |
| I have not bought movies in Cinépolis KLIC | 85% | 82% | 81% | 82% | 85% |
| Sample size | 2,937 | 2,728 | 2,342 | 1,943 | 1,813 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Reasons for subscription**  **(spontaneous answers)** | **Circumstantial** | **Nesting** | **Graduate** | **Trainee** | **Self-indulgent** |
| To watch movies I missed in the cinema | 59% | 65% | 67% | 64% | 57% |
| To rent movies with Club Cinépolis points | 48% | 41% | 53% | 55% | 37% |
| More convenient than a video rental  shop | 37% | 46% | 42% | 40% | 39% |
| I get free rentals with Súper Fanático Club Cinépolis | 43% | 27% | 43% | 44% | 21% |
| It has the movies I want to watch | 25% | 33% | 32% | 35% | 24% |
| I can watch movies with my family | 26% | 33% | 30% | 28% | 27% |
| Affordable prices/rental price is accessible | 20% | 31% | 33% | 33% | 25% |
| Because of the Cinépolis brand | 26% | 27% | 30% | 32% | 18% |
| I saw Cinépolis KLIC app on my personal devices | 21% | 28% | 21% | 19% | 20% |
| An advertisement at the cinema caught my attention | 20% | 20% | 20% | 21% | 16% |
| I saw an ad on the Cinépolis website | 12% | 12% | 13% | 11% | 11% |
| It is the only way to watch recent movie releases | 11% | 20% | 12% | 11% | 11% |
| Total mentions | 11,557 | 12,269 | 10,131 | 8,415 | 6,411 |
| Sample size | 3,096 | 2,861 | 2,432 | 2,032 | 1,913 |
| Mentions per interviewee | 3.73 | 4.29 | 4.17 | 4.14 | 3.35 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **I have not rented movies in Cinépolis KLIC because…**  **(spontaneous, multiple answers)** | **Circumstantial** | **Nesting** | **Graduate** | **Trainee** | **Self-indulgent** |
| I have no time | 26% | 26% | 38% | 37% | 28% |
| I would rather go to the cinema | 12% | 7% | 17% | 16% | 7% |
| There are no movies I like | 11% | 11% | 11% | 8% | 13% |
| Prices are too high | 14% | 15% | 3% | 3% | 11% |
| Prefer Netflix/Blim/Claro Video/pay TV | 5% | 7% | 4% | 5% | 9% |
| Problems with the movie: language /subtitles/cannot watch the movie/audio problems | 5% | 6% | 4% | 7% | 5% |
| I do not have the necessary points | 6% | 5% | 5% | 5% | 6% |
| The service does not adapt to my device | 4% | 7% | 5% | 4% | 4% |
| I am not interested | 4% | 4% | 3% | 3% | 4% |
| I have no money | 5% | 3% | 3% | 2% | 3% |
| Not enough premieres | 3% | 5% | 2% | 2% | 4% |
| The user has problems: access/app management/payments/e-mail management/TV | 3% | 3% | 3% | 4% | 3% |
| Slow movie download | 2% | 3% | 2% | 4% | 2% |
| I do not have free rentals/coupons | 2% | 2% | 2% | 1% | 2% |

exhibit 6 (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| I cannot pay (debit/credit card/points) | 2% | 2% | 2% | 1% | 1% |
| You are only given 24/48 hours to watch the movie | 2% | 2% | 0% | 0% | 3% |
| Internet service | 1% | 1% | 2% | 2% | 1% |
| The movie is only for sale | 2% | 1% | 1% | 1% | 1% |
| I do not know the Cinépolis catalogue | 1% | 2% | 1% | 2% | 3% |
| Problems with coupons/promo codes/points/cards | 2% | 1% | 1% | 2% | 1% |
| I prefer other services | 1% | 1% | 1% | 2% | 1% |
| The movies have low quality (definition) | 1% | 1% | 1% | 1% | 1% |
| Total mentions | 1,408 | 1,238 | 1,006 | 845 | 975 |
| Sample size | 1,166 | 1,003 | 873 | 733 | 822 |
| Mentions per interviewee | 1.21 | 1.23 | 1.15 | 1.15 | 1.19 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **How willing are you to keep renting movies in Cinépolis KLIC? (assisted, only one answer)** | **Circumstantial** | **Nesting** | **Graduate** | **Trainee** | **Self-indulgent** |
| Totally willing | 20% | 24% | 31% | 33% | 19% |
| Willing | 50% | 48% | 54% | 50% | 53% |
| Not sure | 24% | 22% | 12% | 13% | 21% |
| Not willing | 3% | 3% | 1% | 2% | 4% |
| Totally not willing | 3% | 3% | 2% | 2% | 3% |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **How willing are you to keep buying movies in Cinépolis KLIC? (assisted, only one answer)** | **Circumstantial** | **Nesting** | **Graduate** | **Trainee** | **Self-indulgent** |
| Totally willing | 20% | 24% | 31% | 33% | 19% |
| Willing | 50% | 48% | 54% | 50% | 53% |
| Not sure | 24% | 22% | 12% | 13% | 21% |
| Not willing | 3% | 3% | 1% | 2% | 4% |
| Totally not willing | 3% | 3% | 2% | 2% | 3% |

Source: Company documents.

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2. Cinépolis Fact Sheet. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. Alejandro Guzman, “Cinépolis y sus 7 innovaciones en la experiencia del cine,” Milenio, October 7, 2015,  
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5. Mex$ = MXN = Mexican peso; Mex$1 = US$0.0509 on December 31, 2017. [↑](#footnote-ref-5)
6. Tamayo, op. cit. [↑](#footnote-ref-6)
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   [www.elfinanciero.com.mx/empresas/cinepolis-compra-empresa-de-cine-en-india.html](http://www.elfinanciero.com.mx/empresas/cinepolis-compra-empresa-de-cine-en-india.html). [↑](#footnote-ref-7)
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10. This data is from the Competitive Intelligence Unit, reported in “Netflix pierde participación de mercado ante Claro Video y Blim,” *Expansión*, August 14, 2017, accessed January 2019, http://expansion.mx/empresas/2017/08/14/claro-video-y-blim-le-quitan-clientes-a-netflix-en-mexico. [↑](#footnote-ref-10)
11. Ibid. [↑](#footnote-ref-11)
12. José Roberto Arteaga, “La estrategia de Cinépolis Klic para vencer a Netflix,” *Forbes*, January 2, 2014, accessed January 2019, [www.forbes.com.mx/la-estrategia-de-cinepolis-klic-para-vencer-a-netflix/](https://www.forbes.com.mx/la-estrategia-de-cinepolis-klic-para-vencer-a-netflix/). [↑](#footnote-ref-12)
13. Trefis Team, op. cit. [↑](#footnote-ref-13)