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Jordan Lunsford

University of Montana, jordan.lunsford@umontana.edu

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University of Montana

iPic: A Business Model Analysis

Jordan Lunsford

Department of Marketing and Management

Faculty Mentor: Michael Braun

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Introduction

More and more movie theater seats are left empty each year, with attendance steadily declining for more than a decade. Last year resulted in the worst numbers the industry has seen in twenty years. Meanwhile, Netflix has acquired more than 50 million subscribers worldwide. In order to compete with online streaming and other movie viewing formats, the theater industry needed a change. This is where iPic came in, as everything a traditional theater is not. With industry veteran Hamid Hashemi as the founder, iPic has turned the movie going experience upside down. Since iPic opened in 2007 in Wisconsin, gone are the days of overpriced theater snacks that grow stale behind the counter. Hashemi has started a trend of theaters not only serving gourmet food, but making the entire theater experience one of luxury and leisure. From its reclining chairs to its full service bars, iPic has been slowly spreading its experience all across the United States. In this paper, I will discuss iPic's business model in three parts. First, I will dissect iPic's Blue Ocean Strategy, detailing its value proposition and customer segments along the way. Second, I will discuss iPic's activity map, and compare and contrast it with Carmike Cinemas'. Finally, I will explain iPic's ability to scale and the potential Achilles heel of its business model.

Blue Ocean Strategy

There are two oceans in the business world: red and blue. The red ocean includes all of the industries present today. Blue ocean territory is the unknown. In the red ocean, the boundaries and rules of the game are widely known and accepted. But blue ocean territory explores the vast potential of unknown market space and allows for business models unlike any before.

In the movie theater industry, this is iPic. This company changed the movie theater game, leaving red ocean chains like Carmike Cinemas far behind. iPic has differentiated itself by completely overhauling the customer experience. With iPic, a night at the movies includes hours of entertainment, with the average customer visit lasting 4.5 hours. It does not confine customers to a small theater, but rather a spacious complex that has everything they need for a night out.

Red ocean companies have tried to differentiate themselves by updating their venues with bigger and better screens, including 3D options, and more comfortable seating. However, this lack of innovation has only led to an increase in ticket prices. Like most red ocean companies, they have been held back by the theater industry's structural conditions and market boundaries. They are afraid to change the rules of the game. iPic has been able to recognize the values that matter to consumers, and arguably even more important, those that are not.

For comparison in my blue ocean strategy canvas, I used Carmike Cinemas, which has 278 locations in the United States, as the differentiator. It is a traditional theater, but with some upgrades that put it at a higher price point. I chose Starplex Dollar Theaters, which has 9 locations across the United States, as my cost leader. It were the clear choice, with prices and amenities much lower than industry averages. Through the following five customer values I have identified, I will discuss how iPic compares to Carmike Cinemas and Starplex Dollar Theaters (see Exhibit 1.1).

The first value that movie theaters compete on is price. Carmike Cinemas is on the upper end of what the average movie goer pays in the United States, at \$12 per person. On the other end of the spectrum Starplex Cinemas' tickets run at a whopping \$2. iPic definitely hits the upper end of the range, charging \$17.50 for a standard seat and \$25 for a premium plus eat. This

was bold move, as one of the major complaints potential movie goers have is high prices. However, as will be detailed in the discussion of the remaining values, iPic has proven to customers that it is well worth the money.

A major reason for this is how iPic compares when it comes to the value of comfort. Carmike is doing its best in red ocean territory, but even their newer, plush seats come with a straight, stiff back. They do have more leg room and an overall less worn feel which makes their customers feel more comfortable. For the Dollar Theaters, comfort is understandably not in their top priorities. Tattered seats are unlikely to be replaced quickly and sticky floors are part of the bargain. On the other hand, iPic wants nothing more than for its customers to be comfortable. With a premium plus ticket, in addition to the standard comfy leather chair, customers are able to cover themselves with a blanket, recline, and relax. There is also the added benefit of a wait staff during the first 20 minutes of the movie, negating the need to go back to concessions after forgetting a snack. Customers can remain cozy in their chairs, all while never having to worry about a sticky floor.

Another value for movie theater customers is accessibility. This refers to the number of actual theater seats in the city of choice. For this value, Carmike sits at the top, with the most theater locations by far, as well as screens per theater and seats available for each movie. Starplex only has nine locations, each with a limited number of rooms and therefore seats. iPic falls firmly in the middle of this category. iPic has only 12 locations, and to make room for its deluxe seating, it has far fewer seats than most theaters. But what it lacks in seating, it makes up for in superior entertainment.

Blockbuster offerings can be an important value for customers. Carmike is at the top of this category, with all of the newest releases in high demand. Starplex only has films six months

to a year past their release date. However for iPic, blockbuster offerings are not the focus. The movie almost takes a backseat—not that customers are complaining.

The final value customers consider is stress, or rather, lack thereof. In a recent promotional YouTube video, iPic emphasizes the fact that going to an iPic movie is a “no stress” process. Traditional theaters often have customers shuffling around in the dark trying to find a seat. iPic not only allows customers to purchase tickets ahead of time, but to pick an exact seat. This enables larger parties to arrive at their leisure, and still be able to sit together. Furthermore, customers can wait to purchase at the theater and not wait in long lines, but instead use of the speedy ticket kiosks. iPic also takes away the concern of making it to the movie on time after dinner, or even eating at all before attending. iPic’s amenities allows it to rank much lower than Carmike or Starplex when it comes to stress. It truly is a carefree night on the town.

After reviewing these customer values, it becomes clear how iPic applied the four actions framework. iPic reduced accessibility. Its assigned seating makes it easier to get a ticket, but with so few locations, it is unlikely to be accessible to most customers. They also reduced blockbuster offerings. They do not have as many movies to choose from as Carmike does, but iPic took advantage of the fact that this is not a primary value for many people on a night out. iPic saw both of these values as less important than traditional movie theaters did. These were not the main reasons why customers chose to go to the movies.

iPic raised the level of comfort. iPic enabled customers to have the kind of entertainment experience they were craving in a comfortable environment, even rivaling staying at home. In turn, iPic also raised the price value. This makes sense when the amount of services provided and the degree to which iPic increased and comfort are considered.

iPic was able to fully eliminate the stress factor. By letting people know they have seats together and dinner ready by the start of the movie, the company took away all of the excuses people have for not going to the movies.

iPic was able to tap into Blue Ocean territory by creating two values. The first is luxury. This completely change the way customers generalize movie theaters. Theaters are not often thought of as luxurious. With a concierge desk and gourmet food delivered to leather armchairs, customers forget that they ever went to theaters with crying children and sticky floors. This leads into the second value iPic created: exclusivity. iPic provides memberships for elite customers, with even more perks, including discounted tickets. With only a few locations, customers feel hip and trendy just by attending. Since prices are higher, people are less likely to bring the whole family, giving it an even more exclusive vibe. In fact, those under 21 are not even allowed in movies past 7pm, giving a movie a much more adult like, exclusive atmosphere.

Litmus Test and Value Proposition

iPic fits all three parts of the Blue Ocean Strategy Litmus Test. First, its value curve provides a distinct focus. For the less important values, iPic stays in the midrange, not focusing on them, but not forgetting about them either. However, the bulk of iPic's energy is put into what they consider the most important values: entertainment, comfort, luxury, exclusivity, and the customer experience. Second, iPic's value curve also remains very different from its red ocean competitors throughout. Not once does it match up with either the differentiator or the cost leader on any of the values. Finally, iPic's value curve mapped out a clear value proposition for the company. For affluent adults, iPic delivers high quality options for dinner, drinks, and a movie all in one location through a luxurious, exclusive, and stress-free atmosphere.

Customer Segments

Through this value proposition, iPic targets two main customer segments. The first are couples, who range in age from 30 to 45. These couples are most likely married with kids and looking for a night away together. They are from one of iPic's small locations, like the suburbs surrounding Boca Raton, Florida. This couple likes to feel like they are doing something special. They don't often get time away from the kids, so when they do, they don't feel it is worth is to pay \$12 for a plain old movie. The second customer segment is young, working singles between the ages of 25 and 35. They are in one of iPic's major metropolitan areas like Los Angeles. They are looking either for somewhere to blow off steam, but still in a classy atmosphere, or for somewhere fancy to take a date. Both of iPic's primary customer segments previously preferred Netflix to a movie theater, not wanting to waste a night out on the town on a boring movie.

iPic is an ideal example of a Blue Ocean Strategy. It broke out from traditional movie theaters by eliminating, raising, reducing, and most importantly, creating the right factors. With the new values of luxury, customer experience, and exclusivity, iPic was able to create a value proposition that appealed to previously untapped segments.

iPic's Activity Map

What does iPic need to do to bring this customer experience alive? This is best illustrated through an activity map (Exhibit 1.2). The first key activity is the excellent restaurant service. iPic's staff, in both the restaurant and the theater, treats customers as high-profile guests. Touchscreen menus allow customers to receive their food through the invisible service of "ninja waiters" dressed all in black. The second is the concierge service desk. Walking into the iPic lobby, customers feel as if they are entering "an upscale country club," as CEO Hamid Hashemi put it. Thorough training of employees allows both of these key activities to make customers feel

luxurious. The seats themselves, made of comfortable leather and with the ability to recline, are key resources. Partnerships with suppliers provide these luxurious seats that lend to the overall upscale atmosphere.

The second value is exclusivity, which is aided by two activities. Their membership program allows customers to feel special; with perks like discounts and ticket purchase priority, they are the elite of an already exclusive club. Another key activity is iPic's ban on people under 21 after 7pm. This gives iPic an exclusive, adults-only feel, backed up by the fact that less than 3% of its customers are under 21. A key resource is iPic's limited number of locations. With only 12 locations, iPic is not accessible to most of the U.S. This promotes iPic as a well-kept secret. Key partners on this include local contractors who build and renovate the theaters.

iPic's third value is providing a one-stop entertainment shop. Through partnering with local restaurants, they are able to provide the key resource of gourmet food. Similarly, they must also work with suppliers and obtain a liquor license. The movies themselves are a key resource for iPic, provided through partnerships with production companies.

Finally, iPic provides the comforts of home. At home, a movie viewer would never find themselves without a seat, and iPic's key resource of seat reservations makes that possible. By partnering with an online reservation system, iPic ensures that no one is left without a seat. Other key resources are the blanket and pillows provided. Partnerships with suppliers and dry cleaners ensure that customers are as comfortable as they would be at home. A key activity for this value is housekeeping. A common complaint of traditional theaters is of sticky floors and dirty seats. iPic provides customers with clean options that are likely even better than home.

Carmike Cinemas' Activity Map

Carmike Cinemas' activity map (Exhibit 1.3) tells a different tale. Its value proposition is: for customers of all ages, Carmike Cinemas delivers a wide variety of movies and show times in a traditional movie theater setting for small cities across the country. Carmike's first value is fun for the whole family. This is promoted by two activities. Matinee times are kid-friendly; parents are more likely to bring their children during the day, especially for a discount price. Similarly, providing regular children's tickets at discount pricing welcomes families with kids. Kid-friendly movies are also a resource that supports this value. Through partnerships with production companies, many Carmikes provide special kids' series for free.

Another important value for Carmike is consistency. The key resource that most strongly supports this is décor. Partnerships with suppliers of the seats and overall minimalistic decorations in the theaters ensure a very consistent look. This is also supported by the consistency of the layout for each location. Customers can expect that the ticket booth is in front, concessions are next, and employee will be directing them to the correct theater. Free-for-all seating is another key activity. Consistent with the traditional movie-going experience, customers do not have to make reservations in advance just to make sure their party sits together.

Carmike's third value is an unpretentious atmosphere. This starts with the activity of targeting small cities. Carmike locations steer clear of metro areas, targeting suburban customers who aren't looking for luxury. Carmike has a traditional menu of candy, popcorn, and junk food, nothing gourmet. Finally, Carmike's employees support its unpretentious vibe. Employees just do their jobs; they stay in the background and do not go above and beyond for customers.

Carmike's last value is accessibility. This includes two key resources. Carmike's huge number of locations, supported by local contractors, makes attending one of its theaters relatively

easy. With 278 locations, chances are customers have a Carmike in their state, if not in their city. The large quantity of screens makes going to a movie much more accessible. It also related to one of Carmike's key activities of having a wide variety of movies and show times. This helps customers avoid the situation of movies being sold out, or not shown at their nearest theater.

The key difference in the two companies' business models is the customers. With higher ticket prices and gourmet food, it makes sense that iPic attracts more affluent adults. iPic is not a place to take the whole family. Online reviews show customers warning others not to bring their kids and "ruin" the experience. iPic's customer segments are couples looking for a date night away from the kids, or young professionals on a night out. Carmike's main customer segment is exactly what iPic does not want: families with kids. Discount pricing and specials makes it more affordable for families to attend a movie together. Unlike iPic, Carmike's traditional settings is also appeals to older generations, because of its familiar feel.

Looking at the activity map shows that iPic's key resources that are most costly are mainly human and physical. Employees cost iPic a lot of money because there are so many of them, each needing specialized training. iPic also spends a lot on their physical locations. With room for a theater, restaurant, and bar, their venues require a lot of capital to build. Renovations will also be a necessity in the future, as outdated décor does not fit their value proposition. Problem-solving encompasses iPic's most expensive key activities. Whether it is the membership program or concierge service, a lot of time and thought is put into solving customers' problems in a unique way.

Carmike's costs for key resources are physical and intellectual. With hundreds of locations, lots of money goes into opening theaters. Carmike Cinema's trademark is also a crucial cost. This name draws in customers, and lets them know something familiar is in store.

Carmike's most important key activities are in production. A wide variety of movies and show times is part of the value proposition, so acquiring movies and arranging show times all across the country is a huge cost. With so many locations, Carmike definitely has higher fixed costs. With all of its amenities, like gourmet food, and drinks, iPic is likely to have much higher variable costs proportionally.

Scaling and Achilles Heel

If iPic attempted to scale to 20 times its annual sales, it would be detrimental to its value proposition for several reasons. First, this would likely mean opening more locations. While iPic has seen success by carefully selecting new locations, a huge expansion project would take away its exclusivity. iPic becomes a mainstream activity, not a special night out. If iPic tried to gain 20 times the annual sales with its existing locations (or just adding a few more), I am still skeptical it would work. iPic only provides limited show times, mostly at night. It is not a daytime activity, as expanding hours would take away the allure of a luxurious night out. Renovating to put in more seats is also not an option. Part of the luxury of its value proposition is that the seats are large and spread apart for maximum comfort. If exclusivity or luxury is reduced, iPic's young customers are likely to turn to online streaming as a more affordable alternative.

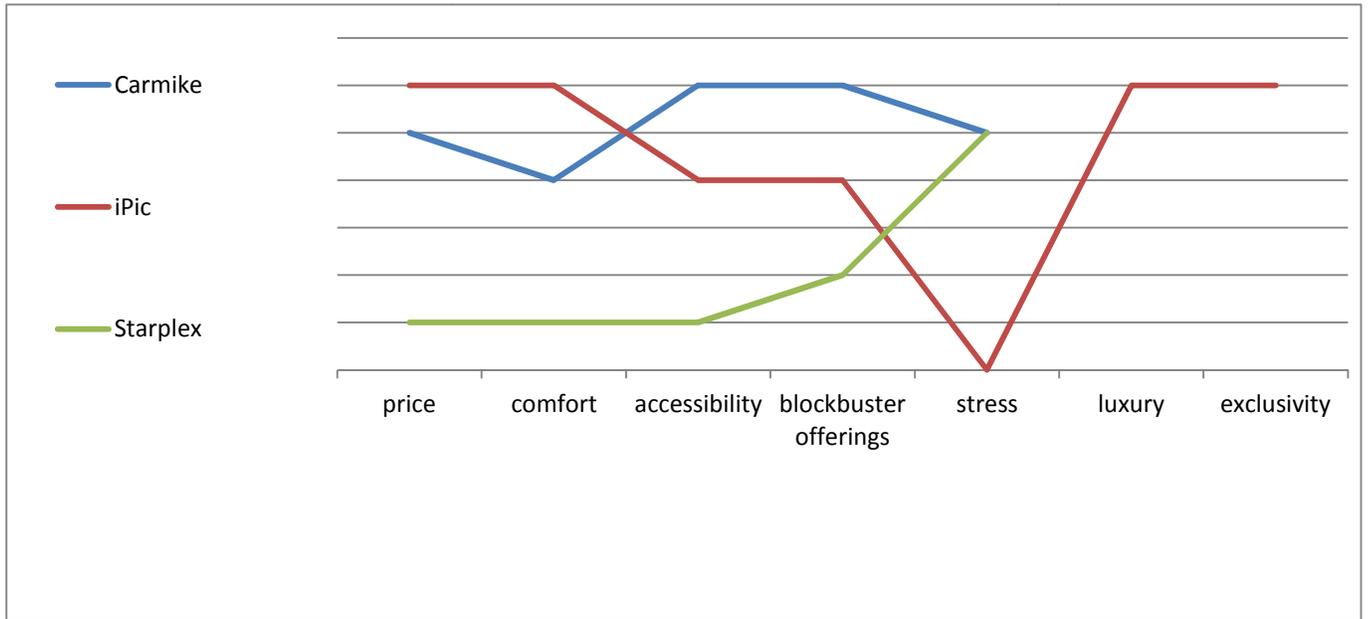
iPic could expand sales in its restaurants and bars. If iPic focuses are drawing people to those, even if they are not interested in a movie, this might be a successful way to scale up. However, iPic must be careful to not detract from the one-stop entertainment part of its value proposition. This is a potential threat if the restaurants or bars become singular attractions. This is iPic's Achilles heel. If customers start coming to singular attractions, iPic loses the ability to hold their attention for more than four hours. Without this, iPic's business model is lost and sales dramatically decrease.

Conclusion

There are other companies attempting to break into Blue Ocean territory, but none have been able to create the necessary values and copy the success iPic has enjoyed. However, iPic's business model is not perfect. The company will need to make changes to ensure it continues to successfully target its primary customers segments, who are just waiting to be lured in for hours on end. Everything iPic has, the comforts, the luxury, the exclusivity, all combine to make it an all in one entertainment source. This is the most important part of iPic's value proposition. iPic will have to work hard to balance all of the values it has to offer if scaling up in size is in the forecast any time soon.

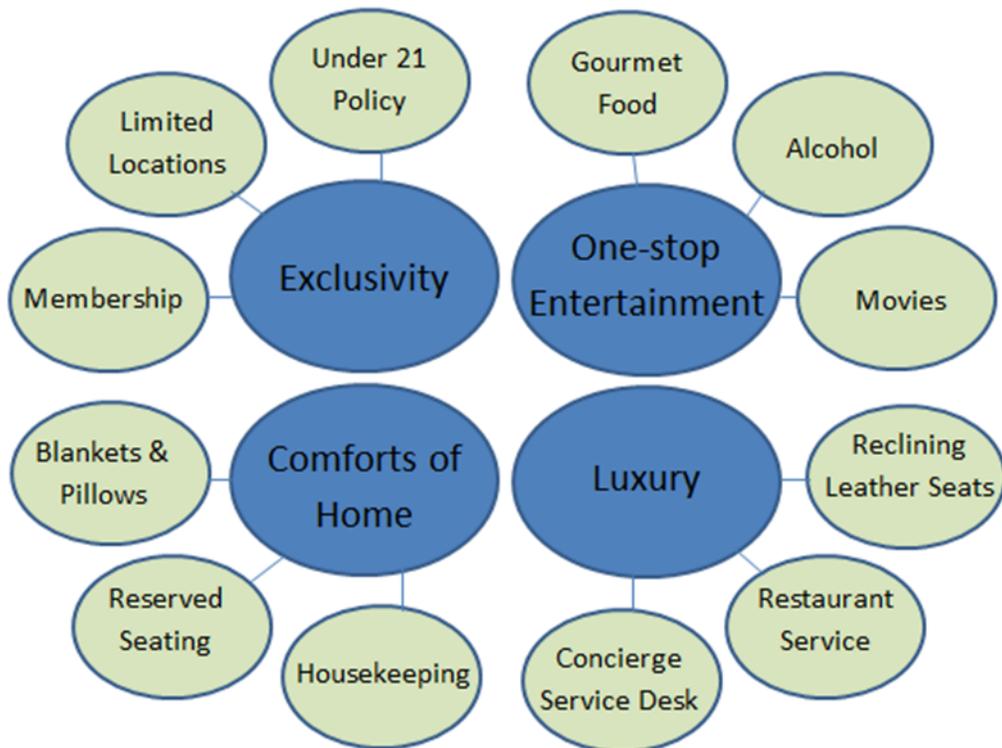
Blue Ocean Strategy Canvas

Exhibit 1.1



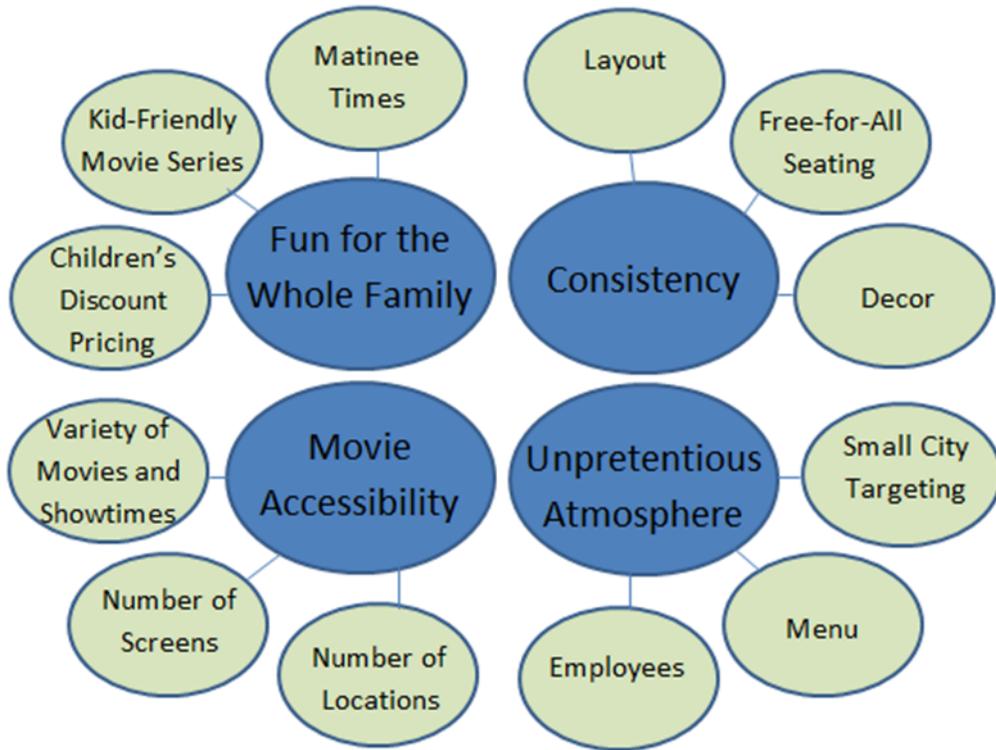
iPic Activity Map

Exhibit 1.2



Carmike Activity Map

Exhibit 1.3



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