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# INDEPENDENT CINEMA IN THE DIGITAL AGE: IS DIGITAL TRANSFORMATION THE ONLY WAY TO SURVIVAL?

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**ABSTRACT:** *Development of digital technologies has resulted in the creative and cultural industries having to adapt business models in light of evolving consumer preferences. This paper aims to examine how independent cinemas can transform their delivery in light of the challenges posed by digital disruption, and more specifically, whether this has to focus entirely on digital transformation. This conceptual paper examines one independent cinema in Scotland, concluding that digitalisation should be used to complement existing activities, along with exploring other innovative business models. It is crucial to understand that the old-time patterns of running a business have irrevocably changed.*

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**Key words:** *video on demand, film industry, digital disruption, digital innovation, business model, consumer preferences, independent cinema*

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**JEL classification:** M15

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## 1 INTRODUCTION

The rapid development of technology has had a massive impact on the creative and cultural industries. The Internet has altered the business landscape in all industries, and is unlikely to slow in progress, hence the so-called Fourth Industrial Revolution (Ismail, Khater & Zaki, 2017; Vey et al., 2017). The Internet has created both opportunities and challenges for the film industry (Re, 2018; Teece, 2010), moreover, new and increasingly more sophisticated technologies (such as home cinema systems) are putting pressure on independent cinemas (Dunn, 2018; Wroot & Willis, 2017a), which is the focus of this article.

The traditional model of film festivals and home theatres as the gate-keepers for the distribution of independent films is losing relevance in the age of digital disruption (Fisher, 2012). Disruption has been defined as “an event in which an agent must redesign its strategy

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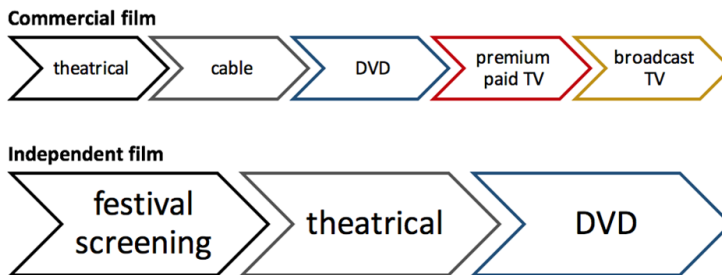
to survive a change in the environment”, affecting the ecosystem as a whole (Kilkki et al., 2018: 275). Hence, we consider digital disruption to mean the rapid and unpredictable development of technology (the event) which is pushing the whole film industry (the ecosystem, including the independent cinema as one agent) into the digital sphere. Media content used to be selectively circulated (Curtin et al., 2014), yet in recent years the rise of new film distribution business models has been based on the simple and accessible flow of video materials online; this has resulted in the emergence of numerous Video on Demand (VOD) giants. This change has stripped power from those institutions based on older models, deconstructing what is known about film distribution and exhibition. It is the continually-running artistic cinemas that have to reconsider their future as the number of people watching independent movies in the theatres connected to or run by festivals has been slowly falling, worsening the financial situation of independent cultural institutions (Peranson, 2008). In the modern digital era, many art-house institutions have noticed the extent of this shift and are slowly developing new ways to comply with the demands of emerging preferences to watch titles online. Indeed, digital transformation is seen as key to survival, with only those companies able to adapt to digital changes succeeding (Ismail et al., 2017).

The aim of this conceptual paper is to examine how independent cinemas can transform their delivery in light of the challenges posed by digital disruption, and more specifically, whether this has to focus entirely on digitalisation. The paper builds on an unpublished dissertation study by Sadłowska (2017), identifying a sustainable business model for independent film cultural institutions. Sadłowska’s proposed business model is further conceptualised with the use of one independent cinema in Scotland, the Glasgow Film Theatre (GFT).

## 2 LITERATURE REVIEW

Dynamic digital expansion is increasingly becoming one of the major themes in the academic and industry talks about the future of film distribution. The rapid rise of interest in film distribution has become more pronounced in recent years, typically focusing on exhibition, moviegoing, cultural geography, and audience studies (Adamczak & Klejsa, 2015; Aveyard & Moran, 2013; Smits, 2017).

The traditional business model of film distribution is based on the accumulation of power and controlling the scarcity of film availability (Elkington, 2017; Fisher, 2012). Known as the ‘windowing’ model (see Figure 1), it involves a step-by-step movement of a film through numerous release windows (Lobato, 2012; Smits, 2017; Wroot & Willis, 2017a). Karaganis (2011) explains that the windowing model traditionally insulated the theatrical release of films from the home video market by providing exclusive access to films for many months. However, once the DVD market became profitable, studios began experimenting with different ways of narrowing the theatrical window to maximise revenue (Re, 2018).

Figure 1: *The windowing model of distribution*

Source: Lobato, 2012.

Karaganis explains that film piracy has been the driver behind low-cost, on-demand models (2011). With the development of technology and emergence of VOD models, traditional frameworks are starting to lose their relevance at an alarmingly fast pace. Currently, digital distribution has already been marked as one of the main threats by the festival circles (De Valck, 2012), with release models increasingly tailored to online audiences (Smits, 2017). However, despite all of the extremely important changes, there has been relatively little literature on this particular aspect of the film business (Curtin et al., 2014), inviting further research.

## 2.1 Video on Demand models

VOD has impacted decisions concerning the timing of releases, given the capacity for VOD to satisfy consumer convenience (Ulin, 2009). VOD models are currently the most popular digital solution, constantly increasing the number of its users (Smits, 2017). In Poland, for instance, online viewers rose from 67.9% in 2009 to 78.2% in 2014 (Franek, 2015). Elsewhere in Europe, Re's (2018) case study of the Italian film market credits the introduction of Netflix to recent growth. In the UK, while revenues from VOD models are increasing, so too are revenues from film on television and from theatrical distribution. In 2016, theatrical revenues were still the most significant component of the film value chain in the UK (British Film Institute, 2017).

Although one can differentiate many different VOD models, the majority of the online distribution market seem to fall into three main categories described by Anderson (2007): *Streaming or Subscription Video on Demand (SVOD)*; *Transactional Video on Demand (TVOD)*; and *Ad-Based Video on Demand (AVOD)*. What they all have in common is common to all subscription models – greater consumption associated with greater value for money.

The SVOD model has been named as the most successful one, with Netflix at the forefront – in March 2016, Netflix represented over 35% of Internet traffic in North America (Spangler, 2016). The transactional model (TVOD) is based on the premises of a user visiting a specific site, setting up an account, registering one's credit card, and then being able to either download or stream the requested movie after making a payment (Lobato, 2012). YouTube, the main representative of the ad-supported (AVOD) category, at its initial stages of existence was merely an up-root initiative not making any huge profits, allowing for the audio-visual materials posted there to be freely accessible by everyone; a video-content version of social media. This changed when Google bought the service in 2006 and introduced commercials. The SVOD giant, Netflix, entered the race for market control somewhat in the shadow of the great battle with YouTube (Jajko, 2015), which allowed it to quickly develop undisturbed. In the case of film piracy, hundreds of millions of dollars are generated in advertising revenue from illegal online sources to access films (see Digital Citizens Alliance, 2015; Incopro, 2015). Film piracy of course does not return profits to rightsholders, but can provide other useful outcomes for the industry including knowledge of how many people have viewed a title across different distribution channels (Lobato, 2010).

One of the biggest competitive advantages of VOD systems is their simplicity. Finding a desired film title and accessing it requires only a couple of clicks on consumers' TV or computer screens. It also gives them the ability to control the screening by being able to pause, rewind, and fast-forward at any given point in time (Rizzuto & Wirth, 2002). And, thanks to the recent technological advancements, VOD providers are able to continually widen the range of titles as they become available. The volume of web pages dedicated to facilitating circumvention of territorial barriers demonstrates how attractive it is for consumers to have access to a variety of titles.

## 2.2 The independent film market

Each year independent distributors release as many new films as the big Hollywood studios, but their cost is significantly lower. The advantages of choosing their services over big commercial distribution companies include: more time to spare for each of the titles; less bureaucracy; bigger willingness to cooperate with the producers; and a more open-minded approach towards the non-commercial values of the film (Goodell, 2003). Anderson (2007) names low prices, broad availability, easy and intuitive search strategies, and a great match between supply and demand as factors contributing to the success of independent film offering derived from harvesting new digital opportunities.

Another competitive advantage of independent cultural institutions has been observed – film festivals are able to offer the audience an *experience* that cannot be replicated online, and therefore, have the unique edge that can help them survive in the long-term. However, the question of whether film festivals can be included in the mainstream distribution model or at the core of an alternative one is being carefully considered (De Valck, 2007; Iordanova

& Rhyne, 2009; Smits, 2016). Problems are evident, especially when following the view that film distribution is a continuous, strictly-commercial process led with only one goal in mind – to deliver the film to as many people as possible. Film festivals are infrequent events, calendar-bound and limited by time. The implications of this predicament can be (and are being) reduced in two ways: taking the film to many festivals across the world to introduce it to numerous diverse audiences; and secondly, by seeking alternative methods of film exhibition (Adamczak & Klejsa, 2015).

Still, the notion of the authentic cinema experience is at the heart of the prominent anti-piracy advertisement ‘The Last Cinema’ (Myung, 2011), which suggests that film piracy will directly result in the closure of cinemas. Yet, while the consumption of digital films has increased, following on from the argument of the cinema *experience*, there has been a rise in the trend of ‘experiential cinema’ which refers to live and immersive film-based events, with interactive elements resulting in a change in the practice of film consumption (Nikdel, 2017).

Considering that the immense power of big global productions has been possible until now as a result of extensive distribution networks, it ought to be noted that online distribution is causing much havoc in the film industry. Using the Internet for film distribution is now the easiest task for producers of content that have no other links to physical distributors – the independent cinema segment (Cunningham & Silver, 2012). Therefore, it is vital for them not to underestimate the potential of this current situation and take advantage of it as long as the online distribution world is still less accessible to global distribution giants.

### 2.3 The emergence of new media audiences

Digital innovations, defined as “the concerted orchestration of new products, new processes, new services, new platforms, or even new business models in a given context” (Hinings, Gegenhuber & Greenwood, 2018: 52), such as technological changes, are leading the modern audience evolution and media consumption (Napoli, 2011). One can differentiate between two main phenomena produced by those changes: audience fragmentation and audience autonomy (Napoli, 2003). The fragmentation of the contemporary media environment is ever-growing, both in the portfolio of content options and in the increase in distribution platforms (Neuman, 1991; Turow, 1997, Smits, 2017; Wroot & Willis, 2017a). As a result of the Internet and spread of portable devices, the capacity to deliver content expands dramatically along with the ways to reach the continually increasing numbers of audiences. The key implication of the described situation is the extent to which the traditional approaches to conceptualising media audiences are being undermined (Napoli, 2011).

In the digital age, when people are faced with unrivalled choice, a shift in the types of consumers has occurred; going from ‘push’ to ‘pull’, people are now responsible for creating their own digital watching experience. This transition challenges the old-time model

of distribution, threatening the existence of non-profit cultural institutions (De Valck, 2012) by putting emphasis on quantity of distributed films. While theatrical distribution is still dominating the film industry, other forms of distribution release platforms are used in a complementary manner to maximise profits (Wroot & Willis, 2017a). The process of making cinema increasingly more portable has been developing almost since its emergence; first through television, then with VHS, DVD, Blu-Ray and now with the Internet (Smits, 2017). This expansion has been interchangeably linked with the increasing mobility and fluidity of audiences that are connected through virtual clusters, such as groups or communities online (Trowbridge, 2013). However, as Schwartz (2004) observes, consumers are increasingly less satisfied with their choice when the selection is greater, and this is supported by Hope (2012, cited in Elkington, 2017: 93), who noted that “we live in the time of grand abundance of content, total access to content and rampant distraction from content”. This observation has far-reaching implications, suggesting that limiting the offering can in fact increase consumers’ satisfaction levels, and hence independent film distributors with a limited number of new releases might have a big potential for retaining their audiences.

VOD platforms have started changing their content catalogues, though this is not specifically in response to audience dissatisfaction due to overwhelming choice. According to Napoli (2016), Netflix has reduced its digital content in the US, by going from 11,000 titles in 2012 to only about 5,300 titles in 2016, which represents more than a 50% decline in titles in a matter of years. Strategically, the company’s focus switched to being less focused on quantity. The predictors of whether a film ends up on Netflix include its age and box office grosses, with newer and higher grossing films more likely to be available. In effect, Netflix, while initially being influential in eradicating the traditional video rental stores, has now moved in a similar direction in terms of strategy, except for being an online provider. While quantity over quality was perhaps characteristic of companies like Amazon and Netflix when they initially focused their efforts on making large libraries of books and videos available in digital form (Anderson, 2006, cited in Napoli, 2016), this is no longer the case, and a key reason cited for this is the cost of licencing which effectively works against providing large quantities of low-popularity content. Hence, even companies like Netflix are now far more selective in terms of the content they provide.

#### **2.4 Implications of the audience evolution**

Both content production and distribution have been undergoing the process of de-institutionalisation with audiences being in the centre of this change, playing a more prominent and active role in facilitating it (Napoli, 2011). As Uricchio (2004) observes, it is possible that in this rapidly changing environment even the very definition of the creative and cultural industries might require reconceptualisation. What might be just a natural process caused by the changes in the technological developments is summarised by Freidson (1953: 316), who suggests that “the audience changes as we change our perspective”. Due to the ongoing process of audience autonomy and fragmentation, mere exposure has been enriched by other factors influencing the evolved institutionalised

consumers, including engagement, response, appreciation, and interest. The technological advancements that are the root cause of the emergence of user-generated content might also aid in developing alternative forms of traditional media content, as the degree to which they engage with the content is continually expanding (Napoli, 2011). It might be the case that online viewing platforms are actually facilitating not only promotion of the offering but also an increase in the quality of the narrative in terms of complexity and innovation (Ross, 2008).

## 2.5 The need for a new business model

As shown, the literature portrays digital distribution as a disruptive innovation in the world of media management (Kolb, 2005). It points out two ways in which it disturbs the established model of activities: (a) by introducing new product categories or market segments (Smith & Tushman, 2005); and (b) by completely changing the model of a company by forcing it to revise their markets, strategy, product portfolio, and business model (Küng, 2008). This is essentially what Hinings et al. (2018: 53) refer to as digital transformation: “The combined effects of several digital innovations bringing about novel actors (and actor constellations), structures, practices, values, and beliefs that change, threaten, replace or complement existing rules of the game within organizations, ecosystems, industries or fields”.

According to Vey et al. (2017) we live in a ‘platform economy’ where digital disruptors create digital platforms in which they exploit already existing infrastructure, products, services and content, which allows faster growth than traditional business models based on physical goods. This leads to a situation where it is crucial for existing businesses to innovate. At the same time, customer behaviours have changed in that their expectations towards businesses has increased, e.g. wanting more individualised services and unique customer experiences. Therefore, businesses, in trying to achieve competitive advantage, must create operating models that meet the value expectations of modern customers, by taking advantage of technology. However, when considering going down the digital transformation path, businesses need to think about how far they should go down this path.

As noted by Christensen (2013), it is extremely challenging for companies to capitalise on a disruptive technology as its commercialisation requires a new tailored business model. The only way for existing cultural institutions to avoid market failure in this case is to create a new organisational space for managing this disruptive technology (Küng, 2008). The term first used by Burgelman (1983), ‘internal corporate venturing’, describes this process. To achieve innovation, and hence success in the long run, an organisation has to be *ambidextrous*, combining explorative and exploitative practices (O’Reilly & Tushman, 1997). The explorative tasks involve experimenting with new services, products, and technologies in a highly independent, entrepreneurial-like climate, whereas the exploitative



function is to “maximise the performance of existing products, driving out variations and maximising efficiency” (Küng, 2008: 142).

The concept of a business model has gradually evolved from a vague term to a key concept in management, although its definition is still widely debated (Massa, Tucci & Afuah, 2017; Massa, Viscusi & Tucci, 2018; McGrath, 2010). In basic terms, a business model is a “description of an organisation and how that organisation functions in achieving its goals” (Massa, Tucci & Afuah, 2017: 3). Importantly, it is a system level concept, focusing on the whole rather than isolated parts of the organisation (Massa, Viscusi & Tucci, 2018). All organisations have a business model, whether it is explicit or implicit. It is concerned with articulating all the core processes and functions of a company: essentially, how an organisation is creating and delivering value to its customers as well as outlining the architecture of revenues, costs, and profits involved in this process. A business model must be focused to meet particular customer needs and to some extent it must be non-imitable (Savič, Ograjenšek & Rejc Buhovac, 2016; Teece, 2010; Watson, 2005).

The dynamic aspects of business models have become important (Teece, 2010) as the only way of surviving is to continuously renew, amend, and redesign the operations of creating and capturing value (Achtenhagen et al., 2013). Cultural institutions have to change the way of managing their core processes and develop a set of new practices to find their relevance in the digital era, and some of this could involve undergoing changes leading to a digital transformation. However, many organisations fail to recognise the potential impact of far ranging digitisation, and many have failed to address this at a strategic level by failing to consider the real impact of the new digital landscape (Vey et al., 2017). According to Heaving and Power (2018), organisations need to include appropriate digital transformation as part of their core strategy in order to survive, and this involves having a deep understanding of customer needs and technology possibilities.

One of the possible directions the media business models can go in is the ‘branded pre-selector’ model described by Aris and Bughin (2005). Due to the constantly expanding amounts of content, the audience are becoming increasingly confused. Organisations that have a relationship with their consumers that is based on trust could become their trusted guides in this new world of overproduction, selecting only the best quality content, and therefore saving the audience’s time. This would be possible through mass individually-tailored programmes, in which Aris and Bughin explain that situation revenues can be made via subscription, advertising, or transactional payments.

Sadlowska (2017) investigates contemporary film-watching behaviours, both in movie theatres and online (including via subscription services) and assesses the industry perspective on contemporary challenges facing independent film cultural institutions, with an emphasis on digital distribution practices. The ideas presented in Sadlowska’s (2017) dissertation are considered of great importance and worthy of further investigation,

particularly given the relatively small sample utilised. Thus, the current work builds on prior research, developing the ideas further.

Sadlowska (2017) finds that on average, consumers tend to watch one to two films online per week and visit movie theatres the same amount across the span of a month. Independent film audiences tend to treat online platforms (followed by movie theatres) as their main point of contact with art-house cinema, as expected. The majority of respondents said that they would watch independent cinema more often if it was easily available online. Furthermore, the majority of respondents described themselves as watching independent cinema, with online viewing being the most popular platform. Nearly half of the sample indicated SVOD as the online watching model of their choice, as expected.

The principal challenge posed by the evolution of digital technologies found in Sadlowska's (2017) research is keeping audiences *engaged*. Their increasing fragmentation and rising levels of autonomy suggested by literature (Napoli, 2003) comply with Sadlowska's (2017) findings. Currently, the links of the industry to the younger audiences are not strong enough to retain them in the long term (Team Slated, 2016), and as such, Sadlowska (2017) argues that more effort should be put in appealing to younger audiences. As noted by Schwartz (2004), and confirmed by Sadlowska (2017), consumer satisfaction is diminishing when faced with an overwhelming choice offered by the digital world; this should be capitalised on, which SVOD platforms, such as MUBI (online art-house cinema), have already done. MUBI (2018) releases one film every day, but it is time-limited, so the viewer has exactly 30 days to watch it, and once it is gone, it is gone. Sadlowska's (2017) findings identify potential for growth of the independent cinema industry with the usage of VOD platforms. All consumer preferences, industry experts' opinions, and public data show a constantly increasing interest in this form of movie-watching (Netflix, 2016). As highlighted in the example of the European Parliament, public institutions also support this development (European Parliament, 2016). However, this opportunity cannot be harvested without an adequate digital equivalent of the independent distributors' technique of creating a locally-tailored demand for films. Additionally, there is a lack of trust in the digital platforms among the independent cultural institutions, which makes it more difficult to initiate the process of incorporating online aspects into their offering (Sadlowska, 2017).

Sadlowska's (2017) findings indicate that there is a need for further investment in the preservation of independent movie theatres due to their unique added value, confirming observations made by De Valck (2012). One of Sadlowska's (2017) participants (the CEO and founder of the biggest privately-owned chain of cinemas in Poland) noted that the movie theatre is "the most important element that makes people want to watch films in the first place". Moreover, her interviewees have no doubt that it is possible for traditional cinemas and digital platforms to co-exist in the future. This is similar to what happened in the music industry where artists have several business models at their disposal to create revenue, including live productions, movies, sale of physical CDs through stores and sale of digital content online (Teece, 2010). In order to survive this digital disruption, independent institutions have to evolve into local cultural hubs with a consequent

independent-focused repertoire, and concentrate on creating a welcoming, engaging, intellectually-stimulating platform (Gonzales, 2016; Salson & Arnal, 2016). Since the mere existence of VOD platforms is not able to create a local demand for films, it is vital for local cultural institutions to prevail. Cinemas and film festivals are vital for the promotion of independent film and the development of digital promotion of independent cinema should progress in a way that would incorporate a cooperation of those two outlets. As the representative of the biggest independent distribution company in Poland noted, the end goal is “to come up with a new formula that would make people less alienated in movie theatres. To think of a model that would transform cinemas and make them offer a promise of abandoning one’s anonymity and meeting new people with similar tastes in return” (Sadłowska, 2017).

The most popular VOD model identified by Sadłowska’s (2017) sample as a whole is a subscription-based one. The main disadvantage connected to this business model, identified by both literature (Neuman, 1991; Schwartz, 2004; Turow, 1997), and her interviewees, is the extremely extensive offering, making choosing a film more daunting. As Shirky explains, “surplus means that previously valuable things stop being valuable” (2011: 4). As a solution, decreasing the number of available titles in order to emphasise the important titles and encouraging people to watch them is suggested. This could involve a personalised ‘taste-making’ component, with information gathered from digital behaviour, as is the case with music subscription services such as Spotify, with personalised playlists created for individual subscribers (see Prey, 2016). Again, MUBI is an example of SVOD, where content is limited, but as the company boasts, “our curators scour film festivals for the most exciting and original new films...there are always 30 hand-picked films to watch or download. From forgotten gems to festival-fresh cinema. From cult classics to award-winning masterpieces” (MUBI, 2018).

When consumers are overwhelmed by choice, the so-called ‘paradox of choice’ occurs (see Dobelli, 2013), found to occur in the case of digital music subscription services; with consumers opting to stick with the familiar (Bylin, 2014; Luck, 2016; Nordgård, 2016). In the case of music, technology has freed up the opportunity to listen to a wide variety of music (Waldfogel, 2014). Yet, Ward et al. (2014) find that although consumers state a preference to listen to unfamiliar music, it is familiarity with that music that positively predicts preference for songs, playlists, and radio stations. Ward et al. (2014) argue that the need for familiarity is motivated by a desire for low levels of stimulation; this is certainly plausible, given music listening via mobile devices or on computers would be expected to be an accompaniment to other activities. This may also be the case with viewing films online, as the medium of delivery is not designed solely for watching films. Aiken, a cyberpsychologist, explains that “the Internet is like a catalog of desire begging people to flip through it” (2016: 39). The Internet is designed to interrupt (Carr, 2010). This poses obvious problems for the film industry as it has been established that the only way for cultural institution to survive and retain their audiences in the digital age is to harvest the opportunities of new technologies (Kolb, 2005; Küng, 2008), by engaging in internal corporate venturing (Burgelman, 1983), and combining both explorative and exploitative

practices (O'Reilly & Tushman, 1997). It has been clearly stated that capitalising on digital developments is extremely difficult and requires a flexible tailored business model (Christensen, 2013).

### 3 CONCEPTUALISING A BUSINESS MODEL FOR INDEPENDENT FILM INSTITUTIONS

The most suitable direction which would address market needs seems to be the 'brand pre-selector' option, as described by Aris and Burghin (2005). It is based on a mutual trust between the institution and its consumers, which allows the firm to act as a selector of a limited number of high quality titles for their audiences (instead of giving them access to thousands of films). Two main objectives to be met by the new generation of independent institutions are identified by Sadlowska (2017) as focusing on engaging young audiences and discovering a solution to overcome the lack of locally-tailored marketing programmes on online platforms.

Sadlowska (2017) proposes that independent movie theatres are transformed into local cultural hubs. This should be done by promoting the institution in relation to its specific location and incorporating it to the picture of a local community. The independent cultural institution of the digital era should incorporate more than just movie screenings; it ought to offer different types of socially-based activities, such as a café, a bookstore, a gallery for local artists, etc. In this way, it is possible for the institution to become an inseparable part of the community and a place linked with social activities and an alternative to the mainstream culture. Through building such a relationship, the lack of extensive and costly local promotion can be avoided and achieving the status of a 'brand pre-selector' is feasible. Bearing in mind all of the complexities of distribution agreements, the digital offering of such institutions should be based around the social aspect as well. This could centre around 'taste-makers', and it has been shown that tweets from individuals on Twitter expressing a desire to watch a certain movie can influence sales; this is pronounced amongst those with more followers (Rui et al., 2013).

In order to be able to compete with digital distribution giants (e.g., Netflix or Amazon Prime), the competitive advantage should be based on a more interactive model. One of the possible suggestions is to create some sort of a discussion platform for the audiences that would offer only a couple of titles a month (for example all connected by a common theme), along with some engaging added value, such as discussions or panels on the movies shown online, based in cultural institutions and venues. In this way the business model of those institutions would be self-complementary, based on both traditional and digital screenings with the same audience base, and complying with the assumptions made by O'Reilly and Tushman (1997). Moreover, as Sadlowska's (2017) study shows, the digital practice should be modelled on SVOD. This solution has numerous advantages (including retaining a customer base, allowing for a different number of movies online across time without changing the price, becoming an extra source of a constant revenue for the

institution) and seems to be the most sustainable option in the long term for independent cultural centres.

Sadlowska's (2017) study defines an urgent demand for engaging with audiences more, concentrating on younger viewers, and building a community around them. Her research has confirmed both the growing importance of digital platforms and the need for preserving independent cultural institutions, suggesting that the co-existence of both (though seemingly contradictory) is indeed possible. Moreover, the SVOD model is identified as the most sustainable solution for online platforms in the long term. Reflecting on services such as Findanyfilm.com, Parkes (2013) highlights the ongoing efforts of the film industry to satisfy the demand for online access to films – this must continue.

Figure 2 below shows the business model proposed by Sadlowska (2017) for the new generation of independent film cultural institutions. It is based on the Business Model Canvas (Osterwalder, 2004; Osterwalder & Pigneur, 2009), which synthesises the already existing scientific approaches and puts forward a new approach to business model creation. It is based on nine building blocks belonging to four core pillars that respond to key areas of all businesses: product, customer interface, infrastructure management, and financial aspects. Those elements act as an overview and synthesis of the literature on the topic, incorporating a company's approach to distribution, value proposition, partnerships, cost structure, revenue, and target customer. At the heart of this proposition is the notion to divide all its business activities into three main divisions: movie theatre; VOD platform; and retail/community building activities. Elements placed on the model have been colour-coded to emphasise the possible three-dimensional design of an independent film institution of a new generation: movie theatre (green/white); VOD/digital (blue); and retail/community (red).

Figure 2: *The independent film institutions' business model*

Key partners	Key activities	Value proposition	Customer relationship	Customer segments
Independent film distributors	Independent film exhibitors	Access to the latest indie films	Customer base	Locals in search of leisure
Digital platform IT provider	Independent film distribution	Online access to the good quality independent films	Trust - good quality offering	Interested independent film audiences
Concession goods suppliers	Cultural hub activities	Additional benefits: e.g. easy access, lower cost, guidelines	Branded pre-selector	Young urban population
		Cultural events moderator	Providing an inclusive, independent atmosphere	Local community
	<b>Key resources</b>	Community creation (social benefits for the audience)	<b>Channels</b>	Local artists
	Traditional cinema facilities		Traditional cinema facilities	
	SVOD platform		SVOD platform	
	Cultural venue (e.g. café)		Cultural venue (e.g. café)	
			Social events (festivals / exhibition)	
<b>Cost structure</b>		<b>Revenue stream</b>		
Traditional cinema cost structure	Café / bookstore / gallery suppliers	Film tickets and concession goods	Advertisements	
Digital platform IT provider	Venue maintenance	Online subscription	Café profits and rental for external events	

Source: Sadlowska, 2017.

This business model figure acts as a graphical representation of different aspects and building blocks for an independent film institution. By incorporating the three components, an institution has a chance to transform into an independent culture hub fitting the needs of the new audience. It is important to accept however that a business model is nearly always provisional, as learning and adjustments will need to take place and eventually the model will be replaced by something new or improved, taking account of further technological innovations (Savič et al., 2016; Teece, 2010). The findings by Sadłowska (2017) are supported by the market need emphasised in the literature (Aris & Burghin, 2005; Burgelman, 1983; O'Reilly & Tushman, 1997; Perren, 2013) for independent cultural institutions to engage in a form of flexible internal corporate venturing necessary to survive in the world dominated by such a disruptive technology that is VOD.

### 3.1 The business model of the Glasgow Film Theatre

Next, the proposed business model is discussed in the context of the GFT, as a way of further developing the conceptualisation of a business model for independent film institutions. As the paper is of a conceptual nature, it does not rely on empirical data. Instead, it makes use of observations and secondary data available in the public domain, including annual reports and newspaper articles, as a way of developing a picture of one independent cinema and the business model it has implemented during the digital age.

According to Dunn (2018), "Scotland's independent art houses continue to provide some of the most illuminating and vibrant film programming in the UK in the face of competition from home viewing and other commercial forces". However, keeping the attention of audiences in this digital age is far from easy. In Glasgow, the independent cinema called the Glasgow Film Theatre (GFT) opened in 1939 as the second purpose-built art house in the UK. It is perhaps significant that the word 'Glasgow' is in the title of the cinema, with recent efforts to restore the building to its original presentation capturing the affections of locals who donated money to the cause. The GFT is notably situated in an area of the city known for its architectural history, with surrounding buildings designed by celebrated Glasgow-born architect and designer Charles Rennie Mackintosh. The GFT routinely emphasises that it is a charity. Independent cinemas operating as non-profit organisations gives rise to additional challenges, for example, what funding sources to pursue. The GFT currently gets the majority of its income from donations and legacies, followed by charitable activities (OSCR, 2017). The GFT thrives with a prominent film festival in the first quarter of the calendar year, along with many smaller events throughout the calendar year. Its film festival is now in the top 3 in the UK, having grown from 6,000 attendances in 2005, when it started, to over 42,000 attendances in 2017 (GFT, 2016; 2017; 2018). According to the GFT's Programme Director, summer is the time for blockbusters but these are not the type of independent and foreign language films that audiences in the GFT like, so in the summer of 2018 they presented old blockbusters (the Indiana Jones trilogy), which proved very popular. The GFT also tries to be timely, e.g., it presented films set in Berlin, which cleverly coincided with Glasgow and Berlin co-hosting the first European Sports Championships in August 2018 (Capaldi, 2018).

The GFT is a good example of all three components of Sadlowska's (2017) business model (movie theatre, VOD platform, and retail/community building activities) proposition in practice. As a movie theatre, the GFT boasts three screens – all of which can be hired for events. As well as screening new releases, the GFT curates themed festivals throughout the calendar year, in addition to the flagship Glasgow Film Festival, where many films are premiered. The Glasgow Film Festival is famed for its 'Fright Fest' series, screening the latest in horror, as well as special events often hosted outside of the confines of the cinema itself – in 2017, for instance, 'The Thing' (Foster & Turman, 1982) was screened in an indoor snow sport resort. The setting of the screening matched the setting of the film, and the partnership with the resort encompassed other optional activities such as skiing. A quiz dedicated to the film was also hosted. In 2018, 'Die Hard' (Gordon & Silver, 1988) was screened in an abandoned high-rise building in Glasgow city centre, mocked up to look like the setting of the film. This exemplifies what Nikdel (2017) discusses in the context of cult fandom and experiential cinema which seems to be a growing trend. "From abandoned warehouses to disused urban spaces, experiential cinema escapes the boundaries of traditional film exhibition by transforming the somewhat banal into a temporary space for creative expression and social cohesion" (Nikdel, 2017: 112), the suggestion being that community, public performance and social cohesion are important aspects in fighting against a claimed decline in cinema attendance (Wroot & Willis, 2017b). Linked to this is the annual showing of the classic 'It's a Wonderful Life' (Capra, 1946), which can be viewed at the GFT throughout December. This is a film that can easily be viewed from one's home, for free (it is likely to show around Christmas time on different TV channels). Still, hordes of people descend upon the GFT to take in this viewing experience, often in groups of friends or families, all gathered together demonstrating the need for social cohesion in taking in this experience. Therefore, the GFT appears to be doing well in regard to the cinema aspect, with its many differentiated activities as part of the 'movie theatre'.

The GFT also has its own VOD platform called the GFT Player (an example of SVOD). Launched in 2013, the project was a result of the partnership between Glasgow-based VOD platform Distrify and both the GFT and the Filmhouse in Edinburgh. The GFT Player received a £90,000 grant from Nesta, the sponsor. The GFT Player allows anyone to embed it on social media, which supports the idea of 'taste-makers' on social media (Rui et al., 2013). Moreover, since 2017 the GFT has partnered with curated online cinema MUBI (SVOD). Customers who purchase GFT's CineCard get a free (time-limited) subscription to the streaming service offered by MUBI. Interestingly, MUBI allows access to any film for only 30 days after being released on the platform, which models the pattern of traditional cinema of a time-limited viewing experience. As found by Albanese (2016, cited in Napoli, 2016), offering limited amounts of contents on a rotating basis has been a recipe for success in the case of e-books, suggesting this can result in success also in the film world. This membership perk provides an additional incentive to take out the CineCard membership, therefore supporting both the digital and the movie theatre revenue streams. Yet again, the GFT has differentiated its activities within one stream, the 'VOD/digital' element, meaning that it is not solely reliant on the success of a single digital platform.



In terms of retail, the theatre includes a licensed café, with events throughout the year, including regular movie-themed quizzes. Plans to expand the café to make it more accessible are in motion, ultimately providing pedestrians with more reasons to step into the premises than to watch a film.

In terms of community building activities, the GFT includes learning programmes to enable the GFT to investigate and develop cultural engagement with individuals and communities in a range of contexts. For instance, local scholars deliver courses on film studies, discussing new releases weekly, after screenings. A dedicated project room is used for such activities. Themed festivals such as the 'Scottish Queer International Film Festival' invite cinemagoers from the LGBTQIA community. Furthermore, the growing international community of students spread across the five Higher Education institutions in Glasgow is well catered for (as are those simply interested in world cinema). Of the 676 titles screened between 2015 and 2016, 55 countries were represented (Glasgow Film Theatre, 2016) and in the 2016-2017 period, the top releases across a four-month period were non-English speaking titles (Glasgow Film Theatre, 2017).

Another way of grabbing audiences' attention and luring them out of their 'home cinema setup' is the inclusion of expert introductions, post film discussions and Q&A in the GFT programme. Q&As are seemingly becoming more popular in independent cinemas, and this does not need to be in a face-to-face setting as successfully tested via satellite in the GFT during a sold-out screening of the 'BlacKkKlansman' (Blum et al., 2018; Dunn, 2018).

Perhaps the most significant investment in community building is also the one most closely matching the findings of Sadlowska's (2017) study – an emphasis on young people: a dedicated Glasgow Youth Film Festival, award-winning autism-friendly screenings, low ticket prices for anyone aged 15-25 (rather than 'student tickets'), family-friendly movies, and dedicated Schools programme, including not only films but also talks and events throughout the year, mean that young people are regular visitors to the GFT. This is highlighted by Dunn (2018) as a way of ensuring the sustainability of independent cinemas, and for example, the GFT's Programme Director stressed the importance of marketing to younger audiences who might not be aware of the type of titles shown at the GFT. This is the reason why the GFT promotes their membership card for 15 to 25-year-olds in conjunction with the titles that might appeal more to younger audiences. Consider this in relation to recent trends in youth behaviour, with young people less likely to be drinking alcohol in licensed premises such as pubs. At the same time, young people are willing to pay for experiences, and this is where the 'experiential cinema' and other independent cinema experiences are well placed to be competitive. Undoubtedly then, the GFT's activities around the 'retail/community' element is increasingly diversified.

## 5 DISCUSSION

Scholars of film studies may be well-positioned to facilitate enhancing the profile of independent cinemas as cultural hubs, with film studies being largely the result of the advent of home video (Altman, 2014). Scholars from academic institutions in the city where the GFT is located have long been involved in designing and running a 'Contemporary Cinema Course', with discussions of new releases occurring weekly, between screenings of new titles. Similar outreach could help other independent cinemas thrive as cultural hubs, performing a valuable public service in the name of educational outreach. Experimental work finds that when the proceeds from the legal sales of films go to a good cause, willingness to obtain copies illegally drops (Ćwiakowski et al., 2016). Perhaps incorporating a fundraising component to themed events to raise money for particular groups in the local community, may inspire a different attitude towards watching films in independent cinemas. An emerging pressure on the modern day consumer is to be an ethical consumer. This will surely increase, as widespread inequality becomes the norm in the developed world. To go to the cinema at all is a reminder that you are, as a cinemagoer, in a privileged position.

Much has been said about the music industry as an effort to draw parallels between different industries affected by similar technological changes and the consequent digital transformation. Current digital trends appear to have successfully dissuaded digital music piracy. This is directly as a result of having adopted subscription models, with Wikström and DeFillip (2016) noting that subscription models have been popular with film and TV for quite some time. Now TV, operated by broadcasting corporation Sky, adopts the subscription approach, where it appears motivated to provide consumers with sought-after convenience and flexibility. Remarkably, Sky has recently adopted an approach clearly modelled on Netflix, wherein shows in a series queue up episodes to watch back-to-back, encouraging the so-called 'binge-watching'. Some series have even been released with all episodes available to download immediately. Much has been said about Netflix' success earlier, and of course successful models will lead to imitators. Netflix has reduced its content over the years, though its focus has been on the content with high popularity, as opposed to the type of content independent cinemas would target, although, if using a VOD platform or providing digital content in other ways, the learning of Netflix should be capitalised on by focusing on providing a narrower selection of content. Furthermore, as has been noted before, business models are successful only as long as they remain non-imitable (Teece, 2010). To this effect, independent cinemas, particularly if rooted in the local community, should have a competitive advantage over mainstream cinemas, as the local community programmes may be difficult to imitate, or other cinemas may be unwilling to imitate.

The research findings identified the needs and problems of independent film cultural institutions, and the paper further conceptualises a proposed business model for independent film cultural institutions. The discussion focused on how a cultural institution can manage its disruptive environment and future development. The main

recommendation of this research is introducing a new business model (or evolving the existing one) based on co-operation of three components: (a) a traditional movie theatre, which can incorporate non-traditional settings for screenings; (b) a digital SVOD platform as a solo venture and/or via partnerships; and (c) retail/community activities which should cater for local communities, fostering the notion of a cultural hub and focusing primarily on building deeper connections with younger people to introduce independent cinema to them as a target audience. The key to introducing this business model, based in part on digital transformation, is the strategic consideration of digitisation and its effects on the business.

By focusing on a single organisation, the GFT, the research offers up potential solutions for other independent cinemas to adopt in the face of changing consumer film consumption practices. Perhaps surprisingly, this includes embracing digital solutions. Less surprisingly, this also includes embracing varied sources of income, with the income of cinemas long being sustained from sales of popcorn and other snacks. Large chain cinemas, such as Odeon and Cineworld, now dabble in the VIP experience which is built around packages of food and drink.

## 6 FUTURE RESEARCH AND LIMITATIONS

A concrete suggestion for future research would be to utilise consensus methodology (Waggoner et al., 2016) with one specific target audience, indicated as important by this paper – young people – to better define what it is that appeals to them. By doing so, products and services can be designed with them in mind. From a theoretical perspective, uses and gratifications theory (Katz et al., 1973; Katz et al., 1974) may be a relevant theory to guide future research in this area. Uses and gratifications theory is a framework used to study how people select and use new media (Stafford et al., 2004), working from the assumption that people distinguish between different types based on the needs they satisfy as a result of media use (Katz et al., 1973). In the case of film, research utilising this framework would unpack what drives Netflix subscriptions, cinema visits, etc. Different ways of engaging with film would be expected to satisfy different needs, hence why people mix and match between them; Netflix has not substituted cinema attendance, as findings by the British Film Institute (2017) suggest. Research in this vein would shed light on what defines different types of consumers. Film critic Mark Kermode (2011) has long supported the simultaneous release of films in cinemas, on home video and in downloadable or streamable formats; filmmaker George Lucas has also lent support for this proposition, arguing that it would satisfy the needs of different types of consumers, which is now seemingly occurring much more frequently (Smits, 2017). More knowledge of this would aid marketing, and the theory noted above would help achieve this in a systematic way. There is much to be learned from adopting a broader perspective on the creative and cultural industries. For example, in the music world, music is now released globally on Fridays. Introduced in 2015 and championed by the International Federation of the Phonographic Industry, this decision was made in an effort to minimise piracy resulting from lags in releases. The same problems are evident – helping people find new content

and finding ways to make them pay for it. Lobato's (2010) case study on 'Nollywood' (Nigeria) explains that the primary location for consumption of film is in fact in the home, though this conflicts with findings in the UK (British Film Institute, 2017). However, it is worth considering how consumer behaviours differ in a variety of territories, as this will have an impact on the number of people going to independent cinemas. Therefore, any future research into the effects of the digital age on independent cinemas should include cinemas in different countries for a broader picture. Absent in this work is a consideration of the role independent filmmakers themselves now play. Meißner (2015) explains that the Internet enables independent filmmakers to develop personal audiences and to some extent replace conventional opinion leaders. Accordingly, learning more about what filmmakers are saying to their audiences (i.e., recommended movie theatres) would be worthy of further investigation.

The present conceptual study is not without limitations, including utilising a suggested business model that has been created with a small sample size. Specific suggestions for future research have been put forward, and it is expected that the business model (Sadłowska, 2017) further conceptualised in this study will help guide future works in this field. More specifically, the model should be applied more widely than to just one organisation, and importantly, it should be investigated empirically.

## 7 CONCLUSIONS

Returning to the aim of this conceptual paper, it is possible (and necessary) for independent cinemas to transform their delivery in light of the challenges posed by digital disruption. However, the transformation does not need to be entirely digital and in fact it would be advisable not to go down this route, as it would severely affect the characteristic nature of independent cinemas, instead, digital transformation should be used as a way to complement existing activities, along with utilising other business model innovations. Viewers still want the experience of cinema going. Nonetheless, it is vital for independent cultural institutions to realise that the old-time patterns of running a business have irrevocably changed. The digital era has brought, along with the more demanding customers, new challenges, realities and customer needs that have to be answered in order to survive in the world dominated by the Internet.

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