

# Strategic and financial analysis of v and y productions

Business



**ASSIGN  
BUSTER**

Productions Limited (WAP), established in October 2004, is an independent TV production company based in the I-J that makes programmer for a variety of TV broadcast organizations. It is founded by Steve Voodoo and John Young, who were programmer directors worked in TV broadcast companies. WAP is not listed on either a main stock exchange or the alternative investment market.

It has a market share of 1. 4% and generated total revenue of EYE. 6 million in YAW 2011, almost 39% growth in total revenues from the previous year.

Company Analysis WAP produces 4 programmer genres, including documentaries, drama series, scripted comedy programmer and general entertainment programmer. It has won several TV awards in the past few years. Wop's revenue comes from the commission fee paid by the TV broadcast companies and international sales of programmer.

WAP currently employs 60 people directly and outsourcer much of the routine TV production work to other small specialized companies.

SOOT Porter's Five Forces Competitive Rivalry within Industry: High The industry refers to third party content providers or independent TV production companies. This industry is characterized by monopolistic competition where there is a large number of firms producing similar products (television shows) but are not perfectly substitutable due to differentiation between the different ideas and contents created. Bargaining power of suppliers: Medium Suppliers include artists, actors, presenters, outsourcing companies and freelance individuals involved with the programmer.

While basic videoing and editing crew may be easily sourced, when it comes to the engagement of famous actors or the expertise of freelance individuals or small specialized companies in programmer- asking, the bargaining power of these suppliers is relatively higher. Bargaining power of customers: High Customers refer to TV broadcast organizations like BBC, ' TV, Channel 4, Channel 5 and Sky in the I-J and other commercial broadcast organizations in other European large number of independent TV production companies.

In addition, many broadcasters are not obligated to purchase Indies productions. In Bib's case, even though it has an obligation to commission a minimum percentage of its programmer from independent production companies, it has currently already exceeded it, hence increasing its bargaining power. Threat of new entrants: High There exist low barriers to entry. Firms can enter the independent production company industry easily without a need for large amounts of upfront capital investment. Threat of substitute products: High Substitutes include " in-house" productions and " acquired" programmer.

For the former, broadcasters are able to produce their own programmer with their own production teams that substitutes for the need to purchase programmer from independent production companies.

For " acquired" programmer originally created for another broadcaster, it is highly likely that there already exists a huge following or such shows in the UK or has been well received in its country of source. This meaner that these shows can gain an apprehend on programmer produced by independent production companies that are not tried and tested.

Assessment of Financial Ratios Financial Ratios 2011 2010 Return on Equity (ROE) 20. 85% 14. 83% Net Operating Profit Margin 7.

29% 7. 19% Times Interest Earned (TIE) 2. 33221 2. 33176 A quick look shows that generally the financial ratios improved across the board from 2010 to 2011, suggesting continued (albeit slow) growth for WAP. The increase in ROE is due more to a growth in income despite a constant equity base than optimal UAPITA budgeting by the company – it shows growth in the business of WAP as a whole.

However, the NONFAT margin remained low with only a minimal increase. This reflects the harsh business environment that WAP operates in – a business with high costs and low profits. This reflects a real possible danger to cash flows due to the high costs and the uncertainty in the nature of the work – some of these risks are mitigated by WAP only accepting projects with up-front payments. Though a lack of information prevents us from finding out other solvency ratios, the calculation of TIE fleets that WAP is indeed able to pay off its interest expenses.

However, the ratio is not very large, suggesting that any major shakes to the market may result in insolvency issues for WAP. Personalization WAP is currently facing five major issues.

However, given that WAP is a rather small company with only 60 employees and limited resources, the amount of attention (be we see a need to prioritize the five issues before giving separate recommendation proposals to

each of them – the issues with a lower priority will obviously receive less attention and less detailed recommendations.

Ethical Issue Glancing through the issues, we notice that the last issue about the accident is one that cannot be ignored. Aside from possible repercussions to Wop's reputation if not handled well or promptly, the issue also highlights an undesirable attitude currently present in management – that because set builders are 'cheap' they should be squeezed for their maximum usefulness even if it means longer and anti-social hours.

While financial considerations are important, these mindsets are dangerous as they do not promote cooperation or good relations between WAP and set builders – in fact they pose the danger of causing more accidents in the future and potential lawsuits. Hence, the accident issue should be the first consideration for Wop's top management.

Criteria For the remaining four issues, there was a need to look at the criteria used to assess its ranking in priorities. This is because although the financial factor is very important, it cannot be the sole criterion the decision is based upon.

We feel that aside from the financial (measured by a quick comparison between the net profit margin of the issue and current profit margins of WAP as well as actual potential profits), other key factors to be included in the decision making process are reputation (how Wop's reputation and branding can be potentially affected by the issue), strategic impact (whether the issue

pertains to Wop's core business or not), and window of action (the duration which WAP has before it has to act).

Ranking Ranking Issue Financial (PM) Financial (Potential Profit) Reputation Impact Strategic Impact Window of Action 1 Children's Programmer Between loss (negative PM) of 24. 3% and PM of 19.

5% Between loss of 1. Bin and gain of 11. Bin Low Low to Moderate Indeterminate 2 Documentary Either breakable or loss of 9. % Either O or loss of ask High High Short 3 Drama Series Between 5% and 14. % Between kick and swallow High Moderate 4 Corporate Advertisement A loss of 4. 1% for first video and PM of 11.

5% for future videos Loss of 700 for first video and gain of 2. K for future videos Low Low Indeterminate \*Note: PM for company 7. 29% for PAYOFF and 7. 19% for PAYOFF. MOM 11.

82% for PAYOFF and 12. 14% for PAYOFF. Dividend payout of E. Mm is 9% of issued share capital at par.

Children's Programmer While financial factors are not the only ones being considered as criteria, for the issue regarding the children's programmer the potential returns are so high that they manage to outrank all other factors for this issue to become the highest priority – most attention should be devoted to it to ascertain whether such profits can really be merchandising rights, WAP will be paid less by the broadcaster for the actual programmer; if the programmer is not well received WAP would not be able to effectively use its merchandising rights to make any profits.

However, this particular risk is quite low as the pilot programmer was extremely well received.

Furthermore, children's programmer is not part of Wop's current core businesses, there are many transferable skills that WAP possess in terms of making children's programmer – this could result in a shift of Wop's core businesses (hence the possibility of strategic impact). Documentary The monetary factors for the documentary are not as large (both as actual profit or loss sums and as profit margin figures) as the drama series, however the other relevant factors make it a higher priority than the drama series.

The documentary has a high potential impact on Wop's reputation, as if WAP decides to cut out the CGI and computer graphics it may result in a negative reputation for WAP due to incomplete and less presentable work.

Furthermore, given that documentaries form a core party of WAP business, strategic impact is considered to be pretty high. Lastly, since the project is still underway, it is most likely that management would not have much time to consider all options before having to come to a decision on it – this implies that sufficient attention needs to be devoted to it to ensure that options are explored adequately and assessed accurately.

Drama Series Re-commissioning The drama series re-run is not very high on the priority list simply because we feel that given how the industry is like and the type of power relationship between BBC and WAP, it is unlikely that WAP would be able to convince BBC to relinquish the 10% discount. Nonetheless, the potential PM and actual profits are still rather attractive, and if WAP succeeds it has major implications on future dealings with BBC and related

companies, hence some attention should be divided to the issue to explore options.

**Corporate Advertising Videos** The issue regarding expanding into the corporate advertising videos market has been classified as having the lowest priority simply because firstly, it is not Wop's core business (and not even really related in that the direct consumers are not television broadcasters and hence are completely different), and secondly because of the poor prospective PM and actual gains (after having to suffer initial losses to boot). The best potential PM of 11.1% is only a few percentage points above the company overall MOM and PM, and ranks the lowest amongst options that have positive Iris (excluding the documentary because it is more of a crisis than an opportunity); the rent foreseeable profits of two thousand is paltry compared to the sums that WAP is usually involved in – hence least attention needs to be paid to this for now, and whatever attention that is used for this issue should be focused on looking at the industry to ascertain whether it is a good industry to break into.

In considering whether merchandising should be, broadly, a step that WAP should be taking, we found industry figures showing a move away from primary broadcasted programmer as primary source of revenue and an increase in other forms of revenue (see Appendix 3); hence WAP should follow its competitors and diversify into other treats of income (such as merchandising) so that it can price its core programmer lower.

Furthermore, we looked at the levels of sales required to break even with the original broadcasting fee provided.



Break-even sales level=(Difference in Broadcasting Fees)/ (Profit margin of merchandising sales) Though both broad industry trends and breakable values dictate that WAP should move into merchandising, we feel that breakable values do not take into consideration the time value of money, and hence performed a scenario analysis and made some calculations about Wop's future cash flows should it decide upon taking n merchandising (reflected in Appendix 4); the assumptions we made in coming to our figures are listed in Appendix 5.

Summary results from our figures are presented below. Scenarios Net Present Value (NP)Probability Best Case Scenario E Moderate Case Scenario E 3, 439, 469 worst case scenario E (1? 09, 163) Overall Expected NP E 6, 288, 649 We note that the probabilities attached to each scenario are arbitrary and skewed because the case described the pilot programmer as having “ rave reviews from critics and [viewers] alike”; hence we would expect higher weight for the best case scenario than the other two scenarios.

Using the current probability weight, the overall expected NP is higher than the expected NP of IEEE, 837 if WAP decides not to embark on merchandising (see Appendix 9). We also note that even if we were conservative and did not skew the probabilities and instead evened them out amongst the three scenarios, we would still end up with an overall expected NP of E, 439, 469, which is still much higher than the expected NP of not merchandising.

Therefore, we would always recommend WAP to take the merchandising option, though risks such as outsourcing risks and market risks should be managed and considered by the management. Corporate advertising is not Wop's core business, but it could very well be the next big market that WAP can consider diversifying into. In fact, corporate media activities have shown substantial growth over the past few years, increasing more than 350% between 2007 and 2010 (see Appendix 8).

Looking at the financial figures, this corporate advertising video has a 40% chance of a \$500 profit and 60% probability for a \$1 500 loss, resulting in an expected loss of \$700 in the first year. Given a 15% reduction in costs in the second year, there is an expected profit of \$1955, resulting other programmer.

Given that the worst case scenario would be a \$1 500 loss in only the first year, it is highly recommended for WAP to diversify into this corporate advertising project and ride on the wave of this growing potential market.

We assume Bib's announcement last week of its wish to re-commission was not public. Since WAP has struggled to realize the full amount of savings typically deemed likely, it will suffer lower operating margins of only 5% if it agrees to the \$mm contract after the 10% discount (\$5. Mom before discount, being also the revenue from the first series). WAP is unlikely able to convince BBC in negotiations to dispel the yet of re-commissioned programmer being significantly cheaper to make.

Any re-commissioning is also complicated by the 10-month contract of John Strong till end-Jan 2013, leaving only 2 months for the filming before the desired 1 Par 2013 broadcast, less than the 4 months required to plan and shoot.

While personal service contracts may be negotiable such as through a release clause perhaps with a fee, such release attempts may be unsuccessful and sour relations with EGG, a competing TV production company, and even if successful likely come at a cost that further depresses the already low 5% margin.

The absence of John Strong would reduce the value of the programmer since he is one-quarter of the four main actors, and group identity of the four rows continuing from the first series is crucial. “ Banks – Friend or foe? ” – A new documentary by WAP Continue this Project with necessary interview and Computer Graphics Interface (CGI) (Plano LOSS of E, OHO Revenue IEEE, OHO cost ?–320, 000 Continue with Project with no more interviews and cut back CGI (Plan) Breakable cost of IEEE, OHO Continuing this project with Plan will deliver a high-quality programmer but incur a loss of EYE, OHO.

However, even if WAP carries out Plan, it will not be able to achieve the expected profit of EYE, OHO, but only breakable. Thus, there is definitely a negative impact on Wop's profit margin.

However, compare the loss of EYE, OHO to last year total operating profit from documentaries, it accounts for only 4. 5%. The negative impact is not very significant. Thus, In this case, we should also take into consideration of

other factors to make final decision. Sarah Runner, the project director for this programmer, sees this video potentially worthy of an award.

Though this may be a biased opinion as she has obvious vested interests in the project, her experience in the industry reflects that there should be some measure of truth behind her words.

Also, as documentaries form a core part of Wop's business, the documentary has a high potential impact on Wop's reputation. If WAP decides to cut out the CGI and number of interviews, it may result in a negative this documentary covers one of the hottest topics, the reasons behind 2008 financial crisis.

It is reasonable to expect that this programmer will be well received by the viewing public. Due to the above reasons, this programmer is essential in maintaining or building up Wop's reputation. This outweighs the negative monetary impact. Thus, it is highly advisable for WAP to carry out this project.

Several problems were identified with regards to this ethical issue which needs to be resolved immediately: A) Overworking of builders The set builders worked long hours with limited breaks, and they had to eat and drink on the go.

This resulted in the accident where the reason was put down to lack of concentration and tiredness which is clearly a result of being overworked.

Solution: More builders should be hired, with the working hours shortened.

This means that costs of hiring builders will not increase significantly, while

more workers can increase efficiency. Shorter working hours mean that workers will less likely buffer from exhaustion as a result of overworking. B) Poor planning The set builders were required to overwork due to a limited amount of time to set up the studio before filming.

This was caused in part by poor planning. Solution: Studios should be booked sufficiently early before filming begins so that workers need not be rushed to set up the studios. A longer preparation time translates to shorter working hours per day. C) Wrong mindset of producers One of Wop's producers was quoted as saying that set builders are "cheap", insinuating that they should be squeezed for their maximum usefulness with minimal consideration for their welfare. This perception is harmful and could do harm to Wop's reputation in the long run.

Solution: Producers should be educated that such mindsets are dangerous and undesirable.

Firstly, overworking set builders could lead to more accidents in the future, and the frequent occurrence of such accidents could flout labor rules on the provision of safe working environments, inviting potential fines or lawsuits. Secondly, poor working conditions affect the working relationship between WAP and the set builders, and this may result in poor quality of work done by the set builders.