

Business essays - london cinema plan



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West London Gold Class

Cinema Business Plan.

Executive Summary

Negotiations have been undertaken to purchase the West London cinema in Hammersmith. This is a small, family run cinema which has been having trouble competing since a new multiplex cinema opened in the new shopping centre in Shepherd's Bush.

The purpose of this business plan is to seek funding for the purchase of the West London cinema and for the transformation of part of it into a Gold Class or VIP type cinema. This transformation will involve the renovation of one of the screens, decoration in a classy, movie theme style and the building of a kitchen and bar area.

Gold Class will give patrons the opportunity to watch blockbuster movies from the comfort of luxurious, reclining lounge chairs while enjoying food and drinks brought directly to them. If this concept works, then the prospective owners intend to repeat their success in other run down cinemas across the country.

Business Summary

The business objectives are to develop one of the current cinemas (which has capacity for 250 patrons) into three Gold Class cinemas each having seating for 30 patrons, decorate the lobby area in a movie theme style and build a kitchen and bar area. Once the necessary renovations have been

completed, the owners will need to obtain the necessary licensing permissions, hire staff and market the concept.

Current Situation and Background

At present West London Cinema is a small, three-screen, family run cinema in West London. While it has seating capacity for 750 patrons, the run down nature of the cinema means that on most nights it fails to realise its potential.

The cinema has had a relatively steady customer base, but the recent opening of a multiplex cinema complex in Shepherd's Bush has meant that patron numbers have been down.

Even before the opening of the new multiplex cinema, the cinema had already been suffering a downturn since its heyday in the mid-1980s due to external factors. These have included a rise in property prices slowly changing the demographics of the people who live in the area, shifting customer entertainment habits (people have many more entertainment options available to them today) and the fact that the window between a release in the cinema and subsequently on DVD has been shrinking and movie piracy issues. While these issues have affected the cinema in a negative way, these are also the issues on which the prospective owners believe they can capitalise.

This downturn in patron numbers has meant that the cinema is unlikely to make a profit this year and with the current owners not having the funds to

invest into upgrading the cinema, it is likely that the this year will be only the start of a downward earnings trend for them.

In light of this, the current owners have decided to sell the cinema while it is still showing some profit. This has created the opportunity which is set out in this business plan.

Financial Situation and Legal Requirements

West London Cinema has been owned by the same family since 1975. It has always prided itself on its friendly atmosphere and reasonable prices.

Unfortunately, the owners have not always ploughed the cinema's profits back into the business and as such, it has become a little run down with increasing numbers of complaints about uncomfortable seating, poor screen resolution and a unimpressive sound system.

The owners wish to borrow £250, 000 pounds to achieve their business objectives.

With respect to legal requirements, the owners will need a liquor licence, building approval from their local authority, a hygiene inspection of their kitchen and advice from a solicitor as to whether or not they are able to trademark the Gold Class name.

Industry Analysis

Industry Description

The cinema industry as a whole is facing challenges from many sides.

Consolidation within the UK market means that four groups (Terra Firma,

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Blackstone, Vue and National Amusements) now own over 70% of UK screens. This consolidation means that the larger cinemas are better placed to meet the challenges of a quickly changing marketplace. Unfortunately, the losers in this consolidation of the marketplace and the emerging challenges to the cinema have been the small, family run cinemas.

Industry Growth

Across the industry, revenue growth has been quite strong with exhibitor revenue rising by 59% from 1998 to 2004 to over £900 million (made up of £650 million net box office sales, £204 million net concession revenue and £63 million cinema advertising). Most of this revenue growth was in the multiplex part of the market where it was noted that the four leading cinema groups had been able to raise their prices even in the face of declining DVD prices. This shows that demand for the cinema experience is more than just the watching of a movie and that a market does potentially exist which the larger multiplexes fail to cater for and that can be exploited by the more agile, smaller cinemas.

Future Industry Developments

The increase in other entertainment options, for instance computer games, pubs, home cinemas and the ever shrinking window between the release of a movie in the cinema and then onto DVD means that the future of the cinema industry is uncertain. The trend towards consolidation will no doubt continue, but it is interesting to note that the number of multiplexes opening has plateaued, with an average of 25 a year opening between 1998 and 2002,

only 6 were opened in 2004. This perhaps signals that the multiplex market has reached its full potential and that the marketplace is stabilising.

However, the stabilisation of the market at the top end does not as yet seem to have filtered down to the smaller cinemas and as such, many continue having trouble turning a profit. It is the owners' belief that the current market is ideal for the development of a new concept which gives movie patrons an entirely unique cinema experience - Gold Class.

Market Summary

Market Analysis

The four possible ways in which the market can be defined are: multiplex cinemas; all cinemas; all ways of watching films (including cinemas, DVDs and pay-television); and all ways of using discretionary spend (including films, going to pubs, clubs or other ways of spending time and money in or out of the home).

As noted above, it is the prospective owners' view that cinemas can no longer focus on the narrow definition of the market. Some guidance can be taken from the multiplexes which offer patrons an experience. Often these cinemas are attached to shopping centres and as such going to the cinema is simply part of a persons shopping day. Multiplexes, like the shopping centres to which they are appended, rely on the principle that if something is large and loud, no one will dare to think that it is anything but the best and it must be said that they do this well. Teenagers are particularly impressed by this logic.

However, to the same extent that teenagers are drawn to large and loud multiplexes, older patrons are repelled by them.

Market Segmentation

Cinema patrons generally fall within the 15-24 year age group with over 53% of people surveyed in this age group having attended the cinema once a month or more. This declines within the 25-34 year old age group to 34% and further within the 35+ age group to 16%.

These figures reflect perhaps the fact that older cinema patrons who do not enjoy the nature of multiplexes have limited options with respect to indulging in a cinema experience. Furthermore, along with work and family commitments, older cinema patrons have less free time available to them and more options with respect to how to spend that time. This means that they are more likely to want to spend more money when they do go out to make sure that they utilise their time optimally.

Market Research

The purpose of the market research undertaken was to determine whether the Gold Class concept has been successful elsewhere, to gauge whether or not Hammersmith is the best location for a Gold Class cinema and to establish a price point for Gold Class tickets, food and drinks.

The market research allowed the prospective owners to establish that the Gold Class concept has proven successful in Australia. While it was not possible to obtain financial figures, the prospective owners were able to determine that the concept has been around for several years and they were

able to test it for themselves (a sample menu from an Australian Gold Class cinema is attached at Appendix A and can also be found here: <http://www.greaterunion.com.au/goldclass/moviemenu.asp>).

In order to determine whether or not Hammersmith was a reasonable location for a Gold Class cinema, the prospective owners researched the demographic trends and the types of new businesses that were opening in the area. They found that many new business were opening and established businesses were being renovated to meet the tastes of the new residents moving into the area. As such, it was concluded that Hammersmith was a suitable location for a Gold Class cinema.

Establishing price points for Gold Class tickets, food and drinks was quite difficult as the measures against which these price points can be determined are not perfect substitutes for each other (ie does a portion of fish and chips in a Gold Class cinema equate to the same meal in a pub?). It was decided that the only feasible approach was to go for higher price points, but offer various promotions which would mean that most people would not end up paying the full advertised price.

Competition Analysis

As noted, the market is extremely concentrated with the multiplexes taking a lion's share of box office receipts. At the other end of the cinema market, are small, family run cinemas which are often seen by the public as being run down and in need of renovation, but priced competitively. There is little between these two extremes.

However, while the multiplexes offer a certain type of experience, the prospective owners' believe that there is still a potential untapped niche which small cinemas can exploit and which the multiplexes would have trouble competing with in the short term. Other potential competitors are similar niche cinemas which focus on selling a lifestyle (eg cinemas which only screen independent movies).

Taking a broader view of the market in which cinemas compete, the market would be the entertainment market generally. People have a limited amount of disposable income and a limited amount of time which can be spent on entertainment. As such, cinemas are also competing with bars, sporting events, home cinemas, travel and restaurants. It is submitted that Gold Class cinemas would be a strong competitor in the general entertainment market at a niche level.

Competition Strengths

The main competitor for the proposed Gold Class cinema is the multiplex cinema in Shepherd's Bush. The multiplexes strength lies in its buying power and the cinema chain's ability to obtain the latest blockbusters at the earliest possible opportunity. Due to the multiplexes size, it has the flexibility to offer promotions and tie-ins beyond anything that a small cinema can offer.

In the broader sense, the cinema's other competition comes from the various restaurants and pubs found in the surrounding vicinity. However, they are not necessarily direct competitors and are not mutually exclusive unlike the multiplex (ie a person may go to Gold Class and then a pub, but they are

unlikely to go to the multiplex and then Gold Class). That said, the fact that Gold Class will offer food and alcohol means that competition between the cinema and restaurants and pubs in the vicinity will increase.

Competition Weaknesses

The multiplexes main weakness is that it does not cater particularly well to the older market of cinema patron. Furthermore, at present it does not offer a Gold Class experience and due to its business model of trying to fill large cinemas, it is unlikely that it would move towards a model which relied on creating smaller, more intimate cinemas.

Likewise, it is difficult to imagine restaurants and pubs being able to compete directly with a cinema. They both offer sufficiently different experiences to customers and it is more difficult for restaurants and pubs to add on a movie-like equivalent than it is for a cinema to offer food and alcohol.

Development and Production

Sales and Marketing

Unique selling point

At present cinemas in the UK do not offer a dedicated Gold Class or VIP cinema going experience. In cases in which such an offering has been tried in the UK, for example, the UGC chain, the idea has met with problems due to the fact that a single cinema isn't dedicated to the Gold Class experience, rather, premium seating is attached to the back section of a standard

cinema. In this case, the intention is for the West London cinema to have three cinema screens dedicated for premium customers.

The prospective owners recognise the demographic shift in the area around the cinema. With house prices steadily rising, the area around Hammersmith has transformed into a hub for city working people with large amounts of disposable income. This change has been mirrored in the types of new shops and eateries opening up to cater to them. These new residents are willing to spend money for a premium and individual experience.

Media and promotion strategy

The intention would be to choose high headline price points but at the same time offer promotional offers which would ensure that most customers never pay the full rate. The media and promotion strategy would focus on teaming up with local businesses and newspapers to offer special promotional packages (for example, the local florist could offer a two for one deal with each bunch of roses sold).

Advertising campaign

The advertising campaign would be highly targeted and local. It is assumed that people are unlikely to travel a long way to attend a cinema (especially if they have a local one close by). As such, the goal would be to focus on local customers and to ensure that they remained regulars.

Budget

A large marketing budget would not be necessary as the focus would be on offering promotions such as half price tickets during the day and/or two for the price of one deals. These can be offered in conjunction with various local business/newspapers reducing marketing costs substantially. As the Gold Class cinema experience is unique, and marketed as an indulgence, it is suggested that many local businesses would be willing to be involved in such promotional activities.

While actual advertising costs will be low, printing and distribution costs will still need to be considered.

Management

The prospective owners of the cinema are the brothers James and Jack West. James West has recently completed his MBA and is working for one of the UK's largest cinema distribution companies. Jack West currently works as an advertising executive. In anticipation of a sale, the current owners have taken the last three months to show James and Jack the operational side to running a cinema. Both Jack and James intend to invest £250, 000 of their own money and take on this project full-time.

In addition, James and Jack have already approached a friend who runs a small restaurant to assist them with the preparation of a suitable menu and have had plans for the refurbishment prepared.

It is intended that James manage the operational side of the cinema while Jack concentrate on the marketing.

Projected sales and pricing strategy

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Pricing strategy

A regular ticket at West London cinema is currently £4 during the day and £6 in the evening for an adult. Gold class tickets will be priced at £8 during the day and £12 in the evening. In addition patrons will be able to buy food and drinks which will be brought into them while the movie is playing. The average price of food items and alcoholic drinks will be approximately £5 - £10.

Financial Considerations

The current owners hold a long-term leasehold interest over the premises at which the cinema is located.

The main costs incurred by a cinema relate to the percentage of box office takings that go to the film distribution companies. The intention behind the Gold Class concept, along with offering patrons the ultimate cinema experience, is to try to increase revenue from those areas of the business which are not subject to distribution company payments (ie food and alcohol).

Projected Sales

At present West London cinema's three screens have box office sales of £174, 000 to which can be added sales from the kiosk and advertising, taking annual turnover for the cinemas to £228, 000. 25% to 50% of the box office takings go to the film distribution companies. Along with running costs and wages, gross profits for the cinema last financial year were £56, 000.

As one cinema will be converted into three Gold Class each having 50 seats, projected box office receipts are expected to remain the same or rise slightly (less seats at a higher price) but more income is expected to be generated from food and alcohol sales. It is anticipated that food and alcohol sales will add £25, 000 to the cinema's turnover with £10, 000 of this going on higher staff wages meaning that gross profit will be an extra £15, 000 per annum.

Appendix 1 - Three Years profit and loss accounts

	2008	2009	2010
Sales	300, 000	500, 000	1, 000, 000
<u>Costs of Sales</u>	<u>(112, 500)</u>	<u>(187, 500)</u>	<u>(375, 000)</u>
Gross Profit	187, 500	312, 500	625, 000
Expenses:			
Advertising	25, 000	15, 000	10, 000
Bank Charges	100	100	100
Insurance	1, 000	1, 000	1, 000
Interest	20, 000	20, 000	20, 000

Legal & Accounting	3, 000	1, 000	1, 000
Office Expenses	500	500	500
Postage	250	250	250
Rent	15000	15000	15000
Wages	60, 000	60, 000	60, 000
Telephone	1, 000	1, 000	1, 000
Utilities	1, 000	1, 000	1, 000
Total Expenses	<u>126, 850</u>	<u>114, 850</u>	<u>109, 850</u>
Net Income	<u>60, 650</u>	<u>197, 650</u>	<u>515, 150</u>

Appendix 2 – Three years Balance Sheets

Assets	2008	2009	2010
Current Assets:			
Cash	675, 000	870, 000	1, 365, 000
Inventory	15, 000	15, 000	15, 000
Other Current	10, 000	10, 000	10, 000

Assets			
Total Current Assets	700, 000	895, 000	1, 390, 000
Long Term Assets	20, 000	20, 000	20, 000
Fixed Assets	50, 000	50, 000	50, 000
Property, plant and equipment	25, 000	25, 000	25, 000
Accumulated Depreciation	5, 000	10, 000	15, 000
Total Assets	<u>800, 000</u>	<u>1, 000, 000</u>	<u>1, 500, 000</u>
Liabilities and Stockholders' Equity			
Current Liabilities:			
Accounts Payable	112, 500	187, 500	375, 000
Current Borrowing	250, 000	200, 000	150, 000

Other Current Liabilities	126, 850	114, 850	109, 850
Total Current Liabilities	489, 350	502, 350	634, 850
Long Term Liabilities	60, 650	60, 650	60, 650
Total Liabilities	550, 000	563, 000	695, 500
Total Equity	250, 000	463, 000	804, 500
Total Liabilities and Stockholders' Equity	<u>800, 000</u>	<u>1, 000, 000</u>	<u>1, 500, 000</u>

Appendix 3- SWOT Analysis of Business

Strengths:

1. The obtaining of a liquor licence gives the cinema a competitive advantage which is sustainable to a degree.

2. It is unlikely that planning permission for a new cinema would be given by the local Council. As such, as far as cinemas go, a customer's only option is to either attend this cinema or the multiplex.

Weaknesses:

1. It is not possible to protect the intellectual property behind the concept of a Gold Class cinema.
2. Patrons are only likely to pay a premium price for a movie when blockbuster movies are released. A lack of hit movies could make it difficult to sell tickets.

Opportunities:

1. There are plenty of small, family run cinemas which are currently struggling. The depressed market and the Gold Class concept give the owners the opportunity to purchase cinemas at a reasonable price and turn them back into profitable enterprises.

Threats:

1. The Gold Class concept relies on people willing to spend a little more to enjoy a more luxurious cinema experience. If the economy was to falter, value added businesses like Gold Class cinemas would be the hardest hit.
2. If the concept proved to be a success, there is nothing stopping the multiplexes from offering a similar service.
3. There is a threat that by offering alcohol in the cinema, the problems associated with anti-social behaviour could follow.

Appendix 4 – Market Segments

When assessing the market segments, it is important not to focus too narrowly. While the Gold Class cinema concept may seem to appeal to only a niche market, the fact that most, if not all, adults in the country have been at some point in their lives been to a cinema to see a movie means that those potential customers already share a common conceptual language making it much easier to appeal to them. It is much more difficult to appeal to someone and have them try something they have never done before.

As noted above, the percentage of people who often go to the cinema drops off sharply from the age of twenty five. One of the reasons for this is that the choices of entertainment available as people become older increases and the impression of cinemas is that it is the haunt of teenagers who aren't old enough to get into bars.

However, this is the segment of the market with the most disposable income, who have happy recollections of going to the cinema as youths and are now expect a more grown up experience when going to the cinema. This is the market segment to which Gold Class aims to appeal.

BIBLIOGRAPHY

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