**Case Study Prompt Sheet (with *suggested* structure/ideas)**

Your client is a **global** cinema chain with an opportunity to **buy a UK cinema chain** (30 cinemas) – they want you to determine whether or not this is **attractive,** particularly in **size and growth** of revenue.

1. What is the **annual revenue** for the cinema chain?
2. What revenue improvement **opportunities or risks** exist?

What are some key questions to think about?

* Supply? – how and what sort of scale?
* Demand?
* Risks?

Issue tree

* Suggested structure:

Analyse:

Revenue per screen per day – what assumptions do we have to make?

* Ticket price – say £10?
* Number of seats in a cinema – say 250?
* Occupancy rate – say 40%?
* Number of sessions per day – say 10
* Refreshments – average of £5 spent per purchase, with 40% of cinema-goers making a purchase
* Advertising – a % of other revenue, say 40%

🡪 when making these assumptions use your past experiences to make educated guesses – make sure you talk them through!

total revenue per day = ticket sales + refreshments + advertising

= (£10 x 400) + (£5 x 40% of 100) + (10% of other revenue)

= £4,000 + £200 + (10% of £4,200)

= 4,200 + £420

= £4,620

approx. – £4,500

Original question: total revenue of cinema chain?

~4,500 per screen per day – BUT cinema not open every day of the year, say 350 days

total revenue = revenue per screen x 300 screens x 350 days

= 4,500 x 300 x 350

= 472.5m

* Potential questions you might be asked:
* How **confident** are you about your current revenues?

1. What are the 1-2 assumptions you’d most like to **check**?
2. Can you think of a **different approach** that would enable you to ‘triangulate’ your answer?

* What are the likely **improvement opportunities and risks** to revenues?

1. Which **market dynamics** will most affect revenues?
2. Where should the **CEO’s focus be for improving the revenue** of the cinema chain?
3. Testing assumptions – important to test those assumptions that are **both critical** to the final answer and also **difficult to guess** without concrete data, e.g.

* occupancy rate – might fluctuate depending on day of week/time of day/time of year - test by doing physical audit
* average no. of cinemas in complex – some complexes may be bigger than others – test using company data or by conducting management interviews
* cinema size – some cinemas may be bigger/smaller – again test using company data or by conducting management interviews

1. Different approach – we used BOTTOM UP approach i.e. starting w/small numbers & building up

* Could also use TOP DOWN approach i.e. starting with large numbers & narrowing down e.g. total population of UK (60m) x average no. of cinema visits

1. Market dynamics & future revenues

Possible drivers that could change are:

* Occupancy
* Sessions per day

🡪 i.e. *future popularity* of cinema-going, which in turn is affected by factors such as quality of films, time of year (e.g. more in winter, less in summer) etc.

* % of people who buy refreshments
* average spend
* other new revenue sources

🡪 i.e. the ability to *extract additional spend* from cinema-goers

* price per ticket
* market share

🡪 i.e. *competition*, both from competitors as well as substitutes

1. Revenue enhancement opportunities

Could separate into **internal** and **external** drivers

* **External –** would be *difficult* for the client CEO to change these
  + size of market – could be stable or declining
  + market share – difficult but not impossible to change
* **Internal** factors – *easier* for CEO to influence
  + Increase revenues from ‘up-selling’ snacks
  + Offering more expensive tickets (e.g. premium seating)
  + Increasing price of advertising

Could suggest a rough magnitude of changes e.g. if you could increase no. of customers buying refreshments to 60%, it would increase revenue by £100 per screen per showing